



INFORMATION CIRCULAR

for the

ANNUAL AND SPECIAL GENERAL MEETING

of

VERSATILE SYSTEMS INC.

to be held on

Tuesday, December 15, 2009

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 15, 2009 in the Board Room at Fasken Martineau DuMoulin LLP located at 2900 – 550 Burrard Street, Vancouver, British Columbia, Canada at the hour of 10:00 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, 2009;
2. To set the number of directors for the ensuing year at six;
3. To elect six directors for the ensuing year;
4. To appoint Deloitte & Touche LLP as the Company's auditor for the ensuing fiscal year; and
5. To approve an Amended and Restated Stock Option Plan.

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, 2009.

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 9th Floor, Toronto, Ontario, M5J 2Y1, not less than 48 hours (excluding Saturdays, Sundays and holidays) before the Meeting.

DATED at Vancouver, British Columbia, this 5th day of November, 2009.

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

"John Hardy"

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 5, 2009 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 15, 2009 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 9th 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 118,285,643 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 5, 2009 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.

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 six 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.

Name, Province or State, Country of Residence and Position(s) with Company⁽¹⁾	Principal Occupation, Business or Employment⁽¹⁾	Date(s) Served as a Director	Common Shares Held⁽¹⁾
John Hardy British Columbia, Canada <i>Chairman, Chief Executive</i>	Chairman of the Company since December 1996; Chief Executive Officer of the Company since January 1997;	Since October 1996	4,036,890

Name, Province or State, Country of Residence and Position(s) with Company ⁽¹⁾	Principal Occupation, Business or Employment ⁽¹⁾	Date(s) Served as a Director	Common Shares Held ⁽¹⁾
<i>Officer and Director</i>	President of the Company from January 1997 to May 2000 and reappointed in May 2001 to October 2002.		
Alessandro Benedetti Lugano, Switzerland <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
Malcolm F. Clay ⁽²⁾⁽³⁾ 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
Fraser Atkinson 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 partner at KPMG, LLP for over 14 years, having left there in September 2002.	Since November 2003	4,053,500
Kais Laouiti ⁽²⁾ Tunis, Tunisia <i>Director</i>	Managing director of NewInvest from 2008 to the present. 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 ⁽⁴⁾
Bertrand des Pallieres Rome, Italy <i>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.	Since December 2008	10,009,500

- (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, chief executive officer or chief financial 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, chief executive officer or chief financial officer ceased to be a director, chief executive officer or chief financial 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

No proposed director of the Company has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority or been subject to any other penalties or sanctions imposed by a court, or regulatory body that would likely be considered important to a reasonable securityholder in deciding to vote for a proposed director.

APPOINTMENT OF AUDITOR

Shareholders will be asked to approve the re-appointment of Deloitte & Touche LLP, Chartered Accountants, as the auditor of the Company to hold office until the next annual general meeting of the shareholders. The auditor was first appointed on December 15, 2008.

STATEMENT OF EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The Board of Directors of the Company (the “**Board**” or the “**Board of Directors**”) oversees the Company’s compensation arrangements, including the administration of its stock option plan. The Board meets at least once a year to review compensation policies relating to the Company and its subsidiaries and to approve specific compensation awards and benefits. The Board monitors levels of executive remuneration to ensure overall compensation reflects the Company’s objectives and philosophies and meets the Company’s desired relative compensation position. The key components comprising the Company’s executive officer compensation are base salary and annual bonus (short-term incentives) and participation in the Company’s stock option plan (long-term incentives). The Company has established these components for its executive compensation package because it believes that a competitive base salary and opportunity for annual cash bonuses are required to retain key executives and participation in the Company’s stock option plan enables the Company’s executive officers to participate in the long-term success of the Company and aligns their interests with those of the Company’s shareholders.

Base Salary

The base salaries of the Company’s executive officers are set by the Board. Executive officers who are also directors of the Company abstain from voting on their proposed base salaries. Base salaries of the Company’s executive officers are determined through the annual assessment of each individual’s performance and other factors the Board considers to be relevant, including prevailing industry demand for personnel having comparable skills and performing similar duties, and the Company’s ability to pay.

Annual Performance Bonus

Annual bonuses may be awarded at the sole discretion of the Board for individual achievements, contributions or efforts that the Board has determined can reasonably be expected to have a positive impact on the value of the Company to shareholders. Executive officers who are also directors of the Company abstain from voting on their proposed bonuses, if any.

The decision to award bonuses is primarily based on defined performance criteria, which included achieving revenue, EBITDA or pre-tax earnings targets for specific elements of the business. For the Company’s most recently completed financial year, the Company’s executive officers were eligible to earn cash bonuses ranging from Nil to up to 30% of their respective base salaries.

Stock Options

The Company provides long-term incentives to its executive officers by way of stock option grants. Stock options are granted to reward individuals for current performance, expected future performance and to align the long-term interest of the Company’s executive officers with those of the Company’s shareholders. The Company’s stock option plan (summarized under the heading “*Incentive Plan Awards – Stock Option Plan*” below) is designed to give to directors, officers, employees and consultants of the Company, as additional compensation, the opportunity to participate in the profitability of the Company by granting to such individuals options to buy shares of the Company. The stock option plan also enables the Company to attract and retain individuals with experience and ability, and to reward such individuals for current performance and expected future performance. The Board of Directors considers the amount and terms of previously granted stock options when reviewing executive officer compensation packages as a whole and determining any new stock option grants. Executive officers who are also directors of the Company abstain from voting on their proposed stock option grants. Stock options are generally awarded to executive officers at the commencement of employment and periodically thereafter.

The Board of Directors, or a committee appointed by the Board, determines the key employees and service providers to whom grants are to be made and determines the terms and conditions of the options forming part of

such grants. Individual grants are determined by an assessment of an individual's current and expected future performance, level of responsibilities and the importance of the position to the Company.

The number of stock options granted to executive officers for the Company's most recently completed financial year was based on the individual's performance and the number and exercise price of options previously issued to the individual.

The Black-Scholes method has been used to value stock options.

Other Long-term Incentives

The Company currently does not provide a pension plan to its executive officers, nor does it have any other long-term incentives.

Chief Executive Officer Compensation

The compensation of the Chief Executive Officer consists of an annual base salary and incentive stock options determined in the manner described in the above discussion of compensation for all executive officers. The Chief Executive Officer is also entitled to receive bonuses at the discretion of the Board.

The Chief Executive Officer participates in discussions or reviews relating to executive compensation for other executive officers, but does not participate in the discussions and reviews relating to his own compensation.

Summary Compensation Table

The following table provides a summary of compensation paid, directly or indirectly, to the following persons (collectively, the "Named Executive Officers" or "NEOs") for services provided during the Company's most recently completed financial year:

- (a) the Chief Executive Officer ("CEO"),
- (b) the Chief Financial Officer ("CFO"),
- (c) each of the Company's three most highly compensated executive officers, other than the CEO and CFO, who were serving as executive officers or acting in a similar capacity and whose total compensation, individually, was in excess of \$150,000 as at the end of the most recently completed financial year; and
- (d) each individual for whom disclosure would have been provided under (c) but for the fact that the individual was neither serving as an executive officer of the Company, nor acting in a similar capacity, at the end of the most recently completed financial year.

As at June 30, 2009, the end of the most recently completed fiscal year of the Company, the Company had five Named Executive Officers: John Hardy, Chairman, Chief Executive Officer and a director of the Company; Robert Joyce, President and a director of the Company; Fraser Atkinson, Chief Financial Officer, Corporate Secretary and a director of the Company; Andrew Lynch, Executive Vice President; and Oliver Poppenberg, Jr., Executive Vice President of Sales.

Name and Principal Position	Fiscal Year	Salary (\$)	Share-based awards (\$)	Option-based awards (\$) ⁽¹⁾	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation (\$)	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans			
John Hardy	2009	\$300,000	Nil	\$42,075	Nil	Nil	Nil	Nil	\$342,075

Name and Principal Position	Fiscal Year	Salary (\$)	Share-based awards (\$)	Option-based awards (\$) ⁽¹⁾	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation (\$)	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans			
<i>Chairman & Chief Executive Officer</i>									
Robert Joyce <i>President</i>	2009	\$293,391	Nil	\$5,625	Nil	Nil	Nil	Nil	\$299,016
Fraser Atkinson <i>Chief Financial Officer & Corporate Secretary</i>	2009	\$200,000	Nil	\$27,075	Nil	Nil	Nil	Nil	\$227,075
Andrew Lynch <i>Executive Vice President</i>	2009	\$279,867	Nil	Nil	Nil	Nil	Nil	Nil	\$279,867
Oliver Poppenberg, Jr. <i>Executive Vice President of Sales</i>	2009	\$275,054	Nil	\$5,625	\$35,458	Nil	Nil	Nil	\$316,137

Notes:

- (1) The fair value of each option is estimated as at the date of grant using the most widely accepted option pricing model, Black-Scholes. The weighted average option pricing assumptions and the resultant fair values are as follows: expected average option term of 1.11 years; a 0.00% dividend yield; an expected volatility of 74.8%; and, a risk-free interest rate of 3.0%.

Incentive Plan Awards

Stock Option Plan

The Company's Stock Option Plan (the "**Plan**") was originally approved by shareholders on November 27, 2001. The Plan was subsequently amended by shareholders on February 14, 2005, October 28, 2005 and December 21, 2006.

The purpose of the Plan is to provide the Company with a share-related mechanism to attract, retain and motivate qualified directors, officers, employees and consultants of the Company, to incent such individuals to contribute toward the long term goals of the Company, and to encourage such individuals to acquire Common shares of the Company as long term investments. The Board, or a committee of the Board appointed in accordance with the Plan (the "**Committee**"), shall, from time to time and in its sole discretion, determine those directors, officers, employees and consultants of the Company, if any, to whom options are to be awarded.

The Plan is a "fixed plan" and the maximum number of Common shares available for purchase pursuant to options granted pursuant to the Plan is 10,800,000 Common shares. If any option expires or otherwise terminates for any reason without having been exercised in full, the number of Common shares in respect of such expired or terminated option shall again be available for the purposes of granting options pursuant to the Plan. The maximum number of Common shares which may be reserved for issuance pursuant to options that are intended to qualify as Incentive Stock Options ("**ISO**") (as that term is defined in Section 422 of the United States Internal Revenue Code of 1986, as amended), is 6,000,000.

Pursuant to the Plan, in no case will an option holder be granted an option where the number of Common shares that may be purchased pursuant to that option exceed, when added to the number of Common shares reserved for

issuance pursuant to options previously granted to the option holder, 5% of the number of Common shares that are outstanding (on a non-diluted basis) immediately prior to the time of grant, excluding Common shares issued pursuant to the Company's other share compensation arrangements over the preceding one year period (the "**Outstanding Issue**"). Furthermore, the grant of options under the Plan is subject to certain restrictions which include the following:

- (a) the maximum number of Common shares which may be reserved for issuance to insiders pursuant to options under the Plan shall be 10% of the Outstanding Issue;
- (b) the maximum number of Common shares which may be issuable to insiders under the Plan within any 12 month period shall be 10% of the Outstanding Issue;
- (c) the maximum number of Common shares which may be issuable to any one insider under the Plan within any 12 month period shall be 5% of the Outstanding Issue;
- (d) the maximum number of Common shares which may be issuable to any one consultant within any 12 month period shall be 2% of the Outstanding Issue; and
- (e) the maximum number of Common shares which may be issuable to any employee or consultant conducting investor relations activities within any 12 month period shall be 2% of the Outstanding Issue, unless otherwise permitted by the TSX Venture Exchange.

Under the Plan, the grant date and the expiry date of an option shall be fixed by the Committee, provided that the expiry date shall be no later than the tenth anniversary of the grant date; and provided further that in no case shall an option that is intended to qualify as an ISO and that is granted to an option holder who, at the time of grant owns Common shares representing more than 10% of the voting power of all classes of voting securities of the Company or any subsidiary or parent of the Company, be exercisable later than the fifth anniversary of the grant date of the option.

The price at which an option holder may purchase a Common share upon the exercise of an option shall be determined by the Committee and in any event shall not be less than the Market Value of the Common shares as of the grant date. While the Company's primary organized trading facility is the TSX Venture Exchange, the "Market Value" for a particular grant date is the closing trading price of the Common shares on the day immediately preceding the grant date; provided, however, that in the case of an option intended to qualify as an ISO, the exercise price per of the ISO shall be not less than 100% of the Market Value of the Common shares as of the grant date, or, in the case of an ISO granted to an option holder who, at the time of the grant of such ISO owns Common shares representing more than 10% of the voting power of all classes of voting securities of the Company or any subsidiary or parent of the Company, not less than 110% of the Market Value of the Common shares as of the grant date.

The vesting schedule for an option, if any, shall be determined by the Committee. The Committee may elect, at any time, to accelerate the vesting schedule of one or more options including, without limitation, on a change of control.

In the event that an option holder holds his or her option as a director and such option holder ceases to be a director other than by reason of death or disability, and the option holder has no continuing business relationship with the Company as an employee or consultant, the expiry date of the Option shall be, unless otherwise specified by the Committee, the 30th day following the date the option holder ceases to be a director unless the option holder ceases to be a director as a result of: (i) ceasing to meet the qualifications set forth in the corporate legislation applicable to the Company; (ii) a special resolution having been passed by the shareholders of the Company removing the option holder as a director of the Company or any subsidiary; or (iii) an order made by any regulatory authority having jurisdiction to so order; in which case the expiry date shall be the date the option holder ceases to be a director. In the event that the option holder holds his or her option as an employee or consultant and such option holder ceases to be an employee or consultant other than by reason of death or disability, the expiry date of the option shall be, unless otherwise specified by the Committee, the 30th day following the date the option holder ceases to be an

employee or consultant, unless the option holder ceases to be an Employee or Consultant as a result of: (i) termination for cause; (ii) resigning his or her position; (iii) an order made by any regulatory authority having jurisdiction to so order; in which case the expiry date shall be the date the option holder ceases to be an employee or consultant. Notwithstanding the foregoing, in no case will an option be exercisable later than the expiry date of the option.

Other than in the case of the death or disability of an option holder, options are non-assignable and non-transferable.

If the employment or engagement of an option holder as an employee or consultant or the position of an option holder as a director or officer of the Company terminates as a result of (a) such option holder's death, any options held by such option holder shall pass to the personal representative of the option holder and shall be exercisable by the personal representative on or before the date which is the earlier of six months following the date of death and the applicable expiry date; or (b) such option holder's disability, any options held by such option holder shall be exercisable by such option holder or by the personal representative on or before the date which is the earlier of six months following the termination of employment or engagement of such option holder and the applicable expiry date.

Subject to any required regulatory approvals, the Committee may from time to time amend any option or the Plan and the terms and conditions of any option thereafter to be granted, provided that the Committee must also obtain the written consent of the option holder where such amendment: (a) materially decreases the rights or benefits accruing to the option holder; or (b) materially increases the obligations of the option holder. Subject to any necessary regulatory approvals, the Committee may also terminate or suspend the Plan.

Furthermore, subject to any necessary regulatory approvals, the Committee may cause all or a portion of all or any of the options granted under the Plan to terminate upon the occurrence of certain "Triggering Events" without the consent of the option holders. In such case, the Committee shall give notice to the option holders and, subject to any necessary regulatory approvals, all options granted under the Plan shall become immediately exercisable notwithstanding any contingent vesting provision to which such options may have otherwise been subject. Such Triggering Events include:

- (a) the proposed dissolution or liquidation of the Company;
- (b) a proposed merger, amalgamation, arrangement or reorganization of the Company with one or more corporations as a result of which, immediately following such event, the shareholders of the Company as a group, as they were individually prior to such event, will hold less than a majority of the outstanding capital stock of the surviving corporation;
- (c) the proposed acquisition of all or substantially all of the issued and outstanding shares of the Company by one or more other persons (meaning a natural person, corporation, government, or political subdivision or agency of a government; and where two or more persons act as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding or disposing of securities of an issuer, such syndicate or group shall be deemed to be a person);
- (d) the proposed sale or other disposition of all or substantially all of the assets of the Company; or
- (e) a proposed material change in the capital structure of the Company that is deemed to be a Triggering Event in accordance with the Plan.

Outstanding Share-Based Awards and Option-Based Awards

Share-based awards and option-based awards for NEOs outstanding at the end of the Company's most recently completed financial year are set out in the following table:

Name	Option-based Awards				Share-based Awards	
	Number of Securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$) ⁽¹⁾	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)
John Hardy	1,683,000	\$0.10	17/06/13	\$33,600	Nil	Nil
	765,000	\$0.96	03/11/10	Nil	Nil	Nil
	880,000	\$0.92	22/09/10	Nil	Nil	Nil
Robert Joyce	225,000	\$0.10	17/06/13	\$4,500	Nil	Nil
	125,000	\$0.96	03/11/10	Nil	Nil	Nil
Fraser Atkinson	1,083,000	\$0.10	17/06/13	\$21,660	Nil	Nil
	595,000	\$0.96	03/11/10	Nil	Nil	Nil
	400,000	\$0.92	22/09/10	Nil	Nil	Nil
Andrew Lynch	125,000	\$0.30	22/01/12	Nil	Nil	Nil
Oliver Poppenberg, Jr.	225,000	\$0.10	17/06/13	\$4,500	Nil	Nil
	600,000	\$0.30	28/08/09	Nil	Nil	Nil

Notes:

(1) The closing price of the Common Shares on the TSX Venture Exchange on the last trading day for the Company's most recently completed financial year was \$0.12.

Incentive Plan Awards – Value Vested or Earned During the Year

The following table discloses incentive plan awards – value vested or earned for each NEO for the most recently completed financial year:

Name	Option-based awards – Value vested during the year (\$)	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
John Hardy	Nil	Nil	Nil
Robert Joyce	Nil	Nil	Nil
Fraser Atkinson	Nil	Nil	Nil
Andrew Lynch	Nil	Nil	Nil
Oliver Poppenberg, Jr.	Nil	Nil	Nil

Pension Plan Benefits

The Company does not have defined benefit or defined contribution plans.

Termination of Employment, Change in Responsibilities and Employment Contracts

Other than as described below, the Company has no contracts, agreements, plans or arrangements that provide for payments to an NEO at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, change of control or change in an NEO's responsibilities.

John Hardy – Chairman of the Board and Chief Executive Officer

The Company entered into a consulting agreement with John Hardy and Hardy & Company, a sole proprietorship beneficially owned and controlled by John Hardy, on January 1, 1999 pursuant to which Mr. Hardy provides 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, 2009. For the 2010 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. If such a scenario took place on the last business day of the Company's most recently completed financial year, Mr. Hardy would be entitled to receive CDN\$150,000.

Robert Joyce – President

Pursuant to an employment agreement entered into on June 10, 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\$261,184 for the fiscal year ended June 30, 2009. For the 2010 fiscal year the Company has agreed to pay Mr. Joyce U.S. \$252,000 per annum and he is eligible to participate in any executive bonus plan established by the Company.

Fraser Atkinson – Chief Financial Officer and Corporate Secretary

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, 2009. For the 2010 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. one months' remuneration for each full or partial year of service under the agreement, including any bonuses earned to the date of termination. If such a scenario took place on the last business day of the Company's most recently completed financial year, Mr. Atkinson would be entitled to receive CDN\$105,555.

Andrew Lynch – Executive Vice President

Pursuant to an employment agreement amended as of July 1, 2008 and as amended from time to time, between Andrew Lynch and the Company, Mr. Lynch was retained to act as Vice President of Versatile Mobile Systems, Inc. (VMS). Pursuant to the foregoing arrangement, the Company paid the sum of US\$239,890 for the fiscal year ended June 30, 2009. For the 2010 fiscal year the Company has agreed to pay Mr. Lynch a base salary of U.S.\$97,000 per annum, sales commission of 3% of the gross profit of VMS and a bonus of up to U.S.\$75,000 for achieving certain targets of Earnings before interest, amortization and taxes for VMS.

Oliver Poppenberg, Jr. – Executive Vice President of Sales

Pursuant to an employment agreement entered into on July 1, 2008, as amended from time to time, between Oliver Poppenberg, Jr. and the Company, Mr. Poppenberg, Jr. was retained to act as Vice President of sales of the Company’s U.S. subsidiaries. Pursuant to the foregoing arrangement, the Company paid the sum of US\$266,168 for the fiscal year ended June 30, 2009. For the 2010 fiscal year the Company has agreed to pay Mr. Poppenberg, Jr. a base salary of U.S.\$236,250 per annum and a bonus of up to U.S.\$70,875 for achieving certain targets for Earnings before interest, amortization and taxes for certain U.S. subsidiaries.

Director Compensation

The non-executive 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.

Directors who also serve as executives of the Company receive no additional consideration for acting as a director. See “*Statement of Executive Compensation – Summary Compensation Table*” above for compensation disclosure for executives who are also members of the Board of Directors.

The following table sets out all amounts of compensation paid to the non-executive directors for their services as directors for the Company’s most recently completed financial year. During the most recently completed fiscal year, the Company did not grant any incentive stock options to any non-executive directors.

Name	Fees earned (\$)	Share-based awards (\$)	Option-based awards (\$)(1)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
Alessandro Benedetti	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Malcolm F. Clay	Nil	Nil	\$8,125	Nil	Nil	Nil	\$8,125
Kais Laouti	Nil	Nil	\$7,500	Nil	Nil	Nil	\$7,500
Bertrand des Pallieres	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Notes:

- (1) The fair value of each option is estimated as at the date of grant using the most widely accepted option pricing model, Black-Scholes. The weighted average option pricing assumptions and the resultant fair values are as follows: expected average option term of 1.11 years; a 0.00% dividend yield; an expected volatility of 74.8%; and, a risk-free interest rate of 3.0%.

Outstanding Share-Based Awards and Option-Based Awards

The following table sets out share-based awards and option-based awards for the non-executive directors of the Company outstanding at the end of the Company’s most recently completed financial year. For similar information relating to the directors who also serve as management of the Company, please see “*Statement of Executive Compensation – Incentive Plan Awards – Outstanding Share-Based Awards and Option-Based Awards*” above.

Name	Option-based Awards				Share-based Awards	
	Number of Securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$) ⁽¹⁾	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)
Alessandro Benedetti	Nil	Nil	Nil	Nil	Nil	Nil
Malcolm F. Clay	325,000	\$0.10	17/06/13	\$6,500	Nil	Nil
	125,000	\$0.96	03/11/10	Nil	Nil	Nil
Kais Laouiti	300,000	\$0.10	17/06/13	\$6,000	Nil	Nil
Bertrand des Pallieres	Nil	Nil	Nil	Nil	Nil	Nil

Notes:

- (1) The closing price of the Common Shares on the TSXV on the last trading day for the Company's most recently completed financial year was \$0.12.

Incentive Plan Awards – Value Vested or Earned During the Year

The following table discloses incentive plan awards – value vested or earned during the Company's most recently completed financial year for the non-executive directors of the Company. For similar information relating to the directors who also serve as management of the Company, please see "Statement of Executive Compensation – Incentive Plan Awards – Incentive Plan Awards – Value Vested or Earned During the Year" above.

Name	Option-based awards – Value vested during the year (\$)	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
Alessandro Benedetti	Nil	Nil	Nil
Malcolm F. Clay	Nil	Nil	Nil
Kais Laouiti	Nil	Nil	Nil
Bertrand des Pallieres	Nil	Nil	Nil

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:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights⁽¹⁾ (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by securityholders	9,160,000	\$0.42	1,640,000
Equity compensation plans not approved by securityholders	N/A	N/A	N/A
Total	9,160,000	\$0.42	1,640,000

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

MANAGEMENT CONTRACTS

Except as disclosed herein, 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.

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 Audit Committee are Malcolm Clay and Kais Laouiti who are considered to be independent and John Hardy. All of the members are financially literate. "Independent" and "financially literate" have the meaning used in NI 52-110 of the Canadian Securities Administrators.

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 publicly listed companies on Canadian and international stock exchanges. Kais Laouiti is the Managing Director of NewInvest, which is a private investment firm and has extensive experience as an investment manager and advisor. John Hardy is the Chairman and CEO of the Company.

Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year was a recommendation of the Audit Committee to nominate or compensate an external auditor (Deloitte & Touche 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 Deloitte & Touche LLP for the year ended June 30, 2009 and PricewaterhouseCoopers LLP for the year ended June 30, 2008 are as follows:

Fiscal Year Ended June 30	2009	2008
Audit Fees (for audit of the Company's annual financial statements for the respective year)	\$110,000	\$117,500
Audit-Related Fees (for accounting consultation)	Nil	36,850
Total Audit and Audit-Related Fees	\$110,000	\$154,350
Tax Fees	\$31,000	\$44,000
All other Fees	\$2,000	\$1,840
Total Fees (CDN\$)	\$143,000	\$200,190

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.

AMENDMENT OF STOCK OPTION PLAN

Shareholders will also be asked at the Meeting to pass an ordinary resolution to approve certain amendments to the Plan as described below (the “**Amended Plan**”). The principal amendments include the following:

- (a) changing the Plan from a “fixed plan” (which currently reserves for issuance 10,800,000 Common shares upon exercise of options granted under the Plan) to a “floating plan” whereby the number of Common shares which would be available for purchase pursuant to options granted under the Plan would be 10% of the Outstanding Issue (representing 11,828,564 Common shares as of the date hereof);
- (b) eliminating the restrictions and limitations placed on TSX Venture Exchange Tier 2 issuers since the TSX Venture Exchange has since eliminated the distinction between Tier 1 and Tier 2 issuers for the purposes of its stock option plan policies (which, in any event, do not currently apply to the Company since the Company is a Tier 1 issuer);
- (c) amending the period in which a director may exercise his or her option upon ceasing to hold such position from 30 days, unless otherwise determined by the Committee, to one year, (except as a result of: (i) ceasing to meet the qualifications set forth in the corporate legislation applicable to the Company; (ii) a special resolution having been passed by the shareholders of the Company removing the option holder as a director of the Company or any subsidiary; or (iii) an order made by any regulatory authority having jurisdiction to so order; in which case the expiry date shall be the date the option holder ceases to be a director; in which case, the expiry date is still the date the option holder ceases to be a director);
- (d) inserting a “black-out” provision whereby if an option expires during a period in which a trading black-out period is imposed by the Company to restrict trades in the Company’s securities, the option will expire ten business days after the black-out period is lifted by the Company (so that a participant’s right to exercise his options is not prejudiced by the imposition of a black-out period by the Company);
- (e) making certain amendments to bring the Amended Plan current with the policies of the TSX Venture Exchange, such as the additional provisions that: (i) the Company must obtain disinterested shareholders approval if the Company proposes to decrease the exercise price of options previously granted to insiders; and (ii) options granted to consultants engaged in investor relations activities must vest no earlier than as to one-quarter upon the grant date, and as to a further one-quarter after each of the following three four-month periods;

- (f) amending the term of the Plan so that it expires ten years after the latest date on which the Amended Plan or any amendment thereto is approved by the shareholders of the Company; and
- (g) making certain administrative, drafting and housekeeping changes to assist in the administration of the Amended Plan.

If the Amended Plan is approved, there will be 8,560,000 options outstanding to purchase shares issued under the Amended Plan and 3,268,564 shares reserved and available for issue under options to be granted under the Amended Plan. The increased number of available options will facilitate the Company's search for and retention of senior management and to provide incentive to the Company's employees, officers and directors.

The full text of the Amended Plan will be available for review at the Meeting or on request from the Company. For a summary of the terms of the current Plan, please refer to the section above entitled "*Statement of Executive Compensation – Incentive Plan Awards – Stock Option Plan*".

Accordingly, at the Meeting, shareholders will be asked to pass an ordinary resolution in the following form:

“BE IT RESOLVED THAT:

1. subject to regulatory approval, the Stock Option Plan, as amended, in the form presented to this Meeting, is hereby approved;
2. the Company is authorized to grant stock options pursuant and subject to the terms and conditions of the Stock Option Plan, as amended, entitling all of the optionholders in aggregate to purchase up to such number of common shares of the Company as is equal to 10% of the number of common shares of the Company issued and outstanding on the applicable grant date;
3. any committee created pursuant to the Stock Option Plan, as amended, is authorized to make such amendments to the Stock Option Plan from time to time as the Board may, in its discretion, consider to be appropriate, provided that such amendments will be subject to the approval of all applicable regulatory authorities and in certain cases, in accordance with the terms of the Stock Option Plan, the shareholders; and
4. the approval of the Stock Option Plan, as amended, by the Board of directors is hereby ratified and any one director of the Company is hereby authorized to execute any other documents as the director deems necessary to give effect to the transactions contemplated in the Stock Option Plan, as amended.”

Management of the Company recommends that shareholders vote in favour of the foregoing resolution, and the persons named in the enclosed form of proxy intend to vote for the approval of the foregoing resolution at the Meeting unless otherwise directed by the shareholders appointing them.

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, Bertrand des Pallieres 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 Abode Mortgage Holdings Corp., Zongshen Pem Power Systems Inc., Minco Gold Corporation and Powertech Uranium Corp. and Fraser Atkinson is a director of 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 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 5th day of November, 2009.

**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

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 fulfillment 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 auditor.

Auditors' report and
Consolidated financial statements of

Versatile Systems Inc.

June 30, 2009 and 2008

Versatile Systems Inc.

June 30, 2009

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Auditors' report

To the Shareholders of
Versatile Systems Inc.

We have audited the consolidated balance sheet of Versatile Systems Inc. as at June 30, 2009 and the consolidated statements of earnings (loss) and deficit, comprehensive (loss) income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at June 30, 2008 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated September 26, 2008.

(Signed) Deloitte & Touche LLP

Chartered Accountants
September 4, 2009

Versatile Systems Inc.

Consolidated Balance Sheets

Expressed in U.S. dollars

June 30, 2009 June 30, 2008

ASSETS

Current Assets

Cash and cash equivalents	\$ 2,002,530	\$ 1,500,005
Accounts receivable (Note 4)	8,408,093	11,842,754
Current portion of deferred contract costs	5,745,493	4,918,704
Work-in-progress	92,145	80,668
Prepaid expenses	286,709	309,061
Inventory	1,376,746	1,944,100
Future income tax benefits (Note 19)	944,843	706,249
	<u>18,856,559</u>	<u>21,301,541</u>

Long-term accounts receivable (Note 4)	112,781	26,522
Deferred contract costs	803,246	1,050,694
Capital Assets (Note 5)	794,008	867,771
Intangible assets (Note 6)	332,953	695,726
Future income tax benefits (Note 19)	5,283,896	4,672,907
Goodwill (Note 7)	9,977,659	9,977,659
	<u>\$ 36,161,102</u>	<u>\$ 38,592,820</u>

LIABILITIES

Current Liabilities

Line of credit (Note 8)	\$ -	\$ 74,942
Bank overdraft (Note 8)	-	127,214
Accounts payable and accrued liabilities (Note 9)	8,530,987	10,704,330
Current portion of deferred revenue	7,755,151	6,582,593
Promissory Notes	-	40,000
	<u>16,286,138</u>	<u>17,529,079</u>

Deferred Revenue

	<u>977,411</u>	<u>1,272,536</u>
	<u>17,263,549</u>	<u>18,801,615</u>

SHAREHOLDERS' EQUITY

Share Capital (Note 10)	50,583,743	51,353,054
Warrants (Note 11)	186,367	369,965
Contributed surplus (Note 12)	4,138,437	3,188,496
Deficit	(35,729,215)	(35,063,096)
Accumulated other comprehensive loss	(281,779)	(57,214)
	<u>18,897,553</u>	<u>19,791,205</u>

	<u>\$ 36,161,102</u>	<u>\$ 38,592,820</u>
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Commitments (Note 18)

APPROVED BY THE DIRECTORS:

DIRECTOR: *John Hardy*

DIRECTOR: *Fraser Atkinson*

See Notes to Consolidated Financial Statements

Versatile Systems Inc.

Consolidated Statements of Earnings (Loss) and Deficit

Expressed in U.S. dollars

	Year ended June 30	
	2009	2008
SALES	\$ 49,118,091	\$ 59,380,354
COST OF SALES	37,006,572	44,527,536
	<u>12,111,519</u>	<u>14,852,818</u>
EXPENSES		
General and administrative	4,649,659	5,090,959
Selling and marketing	6,688,676	6,504,762
Research and development	1,281,109	1,745,569
Non recurring expenses	421,512	-
Foreign exchange (gain) loss	(258,306)	175,627
Stock-based compensation	21,411	46,671
	<u>12,804,061</u>	<u>13,563,588</u>
Earnings (loss) before interest, taxes and amortization	(692,542)	1,289,230
Amortization of capital assets	282,296	256,929
Amortization of intangible assets	362,698	693,748
Interest expense (income)	33,314	(28,212)
	<u>(1,370,850)</u>	<u>366,765</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	(1,370,850)	366,765
Current income tax expense	(144,855)	(65,031)
Future income tax benefit	849,586	(101,604)
	<u>(666,119)</u>	<u>200,130</u>
NET EARNINGS (LOSS)	(666,119)	200,130
DEFICIT, BEGINNING OF YEAR	(35,063,096)	(35,263,226)
	<u>(35,729,215)</u>	<u>(35,063,096)</u>
DEFICIT, END OF YEAR	(35,729,215)	(35,063,096)
EARNINGS (LOSS) PER SHARE (basic and diluted)	<u>(\$0.01)</u>	<u>\$0.00</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	<u>118,676,969</u>	<u>120,991,438</u>

See Notes to Consolidated Financial Statements

Versatile Systems Inc.
Consolidated Statements of Comprehensive (Loss) Income

Expressed in U.S. dollars

	Year ended June 30	
	2009	2008
Net earnings (loss)	(666,119)	200,130
Other comprehensive (loss) income		
Foreign currency translation adjustments	(224,565)	227,123
Comprehensive (loss) income	<u>(890,684)</u>	<u>427,253</u>

See Notes to Consolidated Financial Statements

Versatile Systems Inc.

Consolidated Statements of Cash Flows

Expressed in U.S. dollars

	Year ended June 30	
	2009	2008
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net earnings (loss)	\$ (666,119)	\$ 200,130
Items not affecting cash		
Amortization of capital and intangible assets	704,833	950,677
Loss on disposal of capital assets	234	212
Stock-based compensation	21,411	46,671
Unrealized foreign exchange loss (gain)	(194,359)	153,687
Future income tax expense (benefit)	(849,586)	101,604
Cash flow from (used in) operations before other items	(983,586)	1,452,981
Net change in non-cash working capital items (Note 21)	2,051,380	449,708
	<u>1,067,794</u>	<u>1,902,689</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Cash acquired on acquisition of Sagent Solutions	-	5,081
Proceeds from disposition of capital assets	1,820	1,867
Additions to capital assets	(267,393)	(634,181)
	<u>(265,573)</u>	<u>(627,233)</u>
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Proceeds from issuance of shares, net of costs	-	416,202
Purchase of company shares	(24,379)	(618,780)
Proceeds from (Repayment of) line of credit	(74,942)	71,559
Repayment of bank overdraft	(127,214)	(43,208)
Repayment of the Bank Term Loan	-	(2,749,263)
Repayment of the Term Loan	-	(175,000)
Repayment of Promissory Notes	(40,000)	(40,000)
Repayment of capital lease obligations	-	(4,748)
	<u>(266,535)</u>	<u>(3,143,238)</u>
Effect of foreign exchange rate on cash	(33,161)	(1,300)
Increase (decrease) in cash and cash equivalents	502,525	(1,869,082)
CASH and cash equivalents, beginning of year	1,500,005	3,369,087
CASH and cash equivalents, end of year	<u>\$ 2,002,530</u>	<u>\$ 1,500,005</u>
Supplemental cash flow information (Note 21)		

See Notes to Consolidated Financial Statements

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(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, Mobiquity Systems, Inc., Versatile Investments Limited, 596327 B.C. Ltd. and EvolutionB Information Inc. ("EvolutionB"), are inactive.

2. Significant accounting policies

(a) 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., EvolutionB, Sagent Solutions, Mobiquity Systems, Inc. and Versatile Investments Limited. All intercompany accounts and transactions are eliminated on consolidation.

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

(b) 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.

(c) 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.

(d) 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.

(e) 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 for deferral and amortization under generally accepted accounting principles. The Company has not capitalized any development costs during the year.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

2. Significant accounting policies (continued)

(f) 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

(g) 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	33-1/3% per annum
Customers	20% per annum
Intellectual property	66% per annum
Licences	25% per annum

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.

(h) 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.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

2. Significant accounting policies (continued)

(h) *Income taxes (continued)*

During the current fiscal year, the Company determined that because VSI, POI, VAC and VMS-US were expected to continue to generate sufficient profits that it was more likely than not that the losses would be fully utilized and the deductions attributable to these companies would 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 \$849,586 for the income tax benefit 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, and utilize the tax benefit of the losses, that portion has been classified as current.

(i) *Foreign currency translation*

The U.S. dollar is the reporting and functional currency for the Company.

The functional currency of all self-sustaining subsidiaries is the U.S. dollar and the functional currency of the integrated UK subsidiary is the Pound Sterling.

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.

(j) *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, for 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.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

2. Significant accounting policies (continued)

(j) *Revenue recognition (continued)*

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.

(k) *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.

(l) *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.

(m) *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.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

2. Significant accounting policies (continued)

During the current fiscal year, the Company recognized \$21,411 (2008 - \$46,671) 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 13.

(n) Changes in accounting policies

The Company retroactively adopted, on July 1, 2008, the following new Handbook sections issued by the CICA:

(i) General standards on financial statement presentation

In June 2007, the CICA amended Section 1400, *General Standards on Financial Statement Presentation*. The new section is applicable to financial statements relating to fiscal years beginning on or after January 1, 2008. The amended section includes requirements to assess and disclose a company's ability to continue as a going concern.

(ii) Inventories

The Company adopted the recommendations of CICA Handbook Section 3031 on inventories which provides guidance on the determination of cost of inventories and its subsequent recognition as an expense, and includes additional disclosure requirements. The new section also requires the Company to account for the reversal of write-downs previously recognized when there is a subsequent increase in the value of inventories. This accounting policy was applied retroactively; the retroactive application did not have an impact on the comparative financial statements presented. There was no effect as of June 30, 2009 or for the year then ended.

(iii) Financial instrument disclosures

On July 1, 2008, the Company adopted three new CICA Handbook sections: Section 1535, *Capital Disclosures*; Section 3862, *Financial Instruments - Disclosures*; and Section 3863, *Financial Instruments - Presentation*. Prior year financial statements have not been restated. These sections relate to disclosure and presentation only and have no additional impact on the consolidated financial results.

Section 1535 requires disclosure of an entity's objectives, policies, and processes for managing capital; information about what the entity regards as capital; whether the Company has complied with any external capital requirements; and the consequences of not complying with these capital requirements.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*. Section 3863 carries forward unchanged the presentation requirements of Section 3861 while Section 3862 requires enhanced financial instrument disclosures focusing on disclosures related to the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

2. Significant accounting policies (continued)

(o) *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:

(i) 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. In February 2007, the CICA amended Section 1000, *Financial Statement Concepts*, to clarify the criteria for the recognition of an asset. The amended section is applicable to all entities and is effective for interim and annual 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. The Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

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 Solutions 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 the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

3. Acquisition of Sagent Solutions business (continued)

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	(9,250)
Fair value of net assets acquired	122,000
Total consideration comprises	
Promissory notes	80,000
Value assigned to the Versatile warrants	42,000
Total consideration as at the date of acquisition	122,000

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 customers providing for monthly payments over a three year term. The total amount of the receivable is carried at amortized cost of \$196,410, of which \$83,629 has been classified as current.

5. Capital assets

	2009		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Automobiles	10,005	5,169	4,836
Computer and office equipment	2,610,605	2,041,144	569,461
Kiosk equipment	249,655	60,873	188,782
Demonstration equipment	104,339	104,339	-
Computer software	106,084	100,844	5,240
Tenant improvements	120,569	94,880	25,689
	3,201,257	2,407,249	794,008

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

5. Capital assets (continued)

As at June 30, 2009, equipment held for leasing purposes with a cost of \$249,355 (2008 - \$39,544) and accumulated amortization of \$60,873 (2008 - \$1,034) is included in capital assets.

			2008
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
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
	2,995,668	2,127,897	867,771

6. Intangible assets

The carrying amounts of the amortized intangible assets as at June 30, 2009 and 2008 are as follows:

			2009
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Customers	1,813,509	1,481,298	332,211
Purchased technology	1,211,969	1,211,969	-
Intellectual property	451,250	451,250	-
Other intangibles	4,056	3,314	742
Licences	522,402	522,402	-
	4,003,186	3,670,233	332,953

			2008
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
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	-
	4,002,921	3,307,195	695,726

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

7. Goodwill

The carrying amounts of the goodwill for the years ended June 30, 2009 and 2008 are as follows:

	2009		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
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
	18,134,571	8,156,912	9,977,659

	2008		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
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
	18,134,571	8,156,912	9,977,659

No amortization for goodwill has been recorded for 2009 or 2008. During the current fiscal year ended June 30, 2009, 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. Management concluded that no impairment charge was required for the year ended June 30, 2009.

8. Line of credit and bank overdraft

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, 2009, the Company had drawings of \$Nil (2008 - \$74,942) under its line of credit and had a bank overdraft of \$Nil (2008 - \$127,214). During the current fiscal year, the interest on the line of credit amounted to \$1,445 (2008 - \$4,224).

During the year ended June 30, 2008, the Company repaid a term loan in the amount of \$2,749,263 from the same U.S. based financial institution and the interest on the term loan amounted to \$161,538.

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, 2009, 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.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

9. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is \$2,943,223 (2008 - \$2,740,373) owing to a major supplier.

10. Share capital

Authorized

Unlimited common shares without par value

Issued and outstanding

	Number of shares	Amount \$
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
Issued and outstanding at June 30, 2008	121,148,643	51,808,079
Less: Shares repurchased and cancelled	(2,863,000)	(1,224,336)
Balance, June 30, 2009	118,285,643	50,583,743

During the current fiscal year, the Company acquired 304,000 common shares at a cost of \$24,379. On June 17, 2009, the Company cancelled 304,000 shares and on July 14, 2008 cancelled 2,559,000 shares that had been held in Treasury at the previous year end.

During the year ended June 30, 2008, the Company acquired 3,261,500 common shares at a cost of \$618,780. On January 30, 2008, the Company cancelled 702,500 shares.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

11. Warrants

The following warrants were outstanding:

Expiry date	Exercise price	Number of warrants				Amount
		Balance, June 30, 2008	Expired	Issued	Balance, June 30, 2009	
	Cdn\$					\$
March 31, 2009	0.3800	1,411,808	(1,411,808)	-	-	-
March 31, 2009	0.4140	1,411,808	(1,411,808)	-	-	-
March 31, 2011	0.5690	1,411,808	-	-	1,411,808	63,309
April 6, 2011	0.6636	583,770	-	-	583,770	81,058
January 22, 2012	0.3000	600,000	-	-	600,000	42,000
		5,419,194	(2,823,616)	-	2,595,578	186,367

During the current fiscal year, 2,823,616 warrants expired.

Expiry date	Exercise price	Number of warrants				Amount
		Balance, June 30, 2007	Expired or exercised	Issued	Balance, June 30, 2008	
	Cdn\$					\$
August 10, 2007	0.3000	1,646,000	(1,646,000)	-	-	-
March 31, 2009	0.3800	1,411,808	-	-	1,411,808	107,627
March 31, 2009	0.4140	1,411,808	-	-	1,411,808	75,971
March 31, 2011	0.5690	1,411,808	-	-	1,411,808	63,309
April 6, 2011	0.6636	583,770	-	-	583,770	81,058
January 22, 2012	0.3000	-	-	600,000	600,000	42,000
		6,465,194	(1,646,000)	600,000	5,419,194	369,965

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.

12. Contributed surplus

Contributed surplus consists of the following:

	\$
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	(279)
Balance, June 30, 2008	3,188,496
Shares repurchased and cancelled	744,932
Expiration of warrants	183,598
Stock-based compensation	21,411
Balance, June 30, 2009	4,138,437

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

12. Contributed surplus (continued)

During the year ended June 30, 2009, 2,823,616 (2008 - 200,000) warrants expired, resulting in their ascribed value of \$183,598 (2008 - \$6,645) being recorded as contributed surplus.

13. 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 (2008 - 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.

A summary of stock option activity for the years ended June 30, 2009 and 2008 is presented below:

	2009		2008	
	Number of shares	Weighted average exercise price Cdn\$	Number of shares	Weighted average exercise price Cdn\$
Outstanding, beginning of year	8,768,200	0.53	9,293,900	0.57
Granted	4,241,000	0.10	605,000	0.30
Exercised	-	-	(27,200)	0.25
Forfeited	(179,200)	0.75	(1,018,500)	0.79
Expired	(3,670,000)	0.30	(85,000)	0.32
Outstanding, end of year	9,160,000	0.42	8,768,200	0.53
Exercisable, end of year	4,717,333	0.72	8,116,533	0.55

The following table summarizes information about stock options outstanding at June 30, 2009:

Exercise price Cdn\$	Options outstanding			Options exercisable	
	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price Cdn\$	Number of options exercisable	Weighted average exercise price Cdn\$
0.10	4,241,000	3.97		-	
0.25	579,000	0.47		579,000	
0.30	1,205,000	1.36		1,003,333	
0.92	1,525,000	1.23		1,525,000	
0.96	1,610,000	1.35		1,610,000	
	9,160,000		0.42	4,717,333	0.72

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

13. Stock options (continued)

During the year ended June 30, 2009, all of the stock options were granted at an exercise price above the market price of a common share. The options granted in 2009 had an exercise price of Cdn\$0.10 (2008 - Cdn\$0.30) and a weighted average fair value of Cdn\$0.025 (2008 - Cdn\$0.038).

For the year ended June 30, 2009, the Company has recognized \$21,411 (2008 - \$46,671) in stock-based compensation for stock options granted to employees. There were no options granted to non-employees during the years ended June 30, 2009 and 2008. 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:

Expected dividend yield	0.00%
Expected volatility	74.8%
Risk-free interest rate	3.0%
Expected average option term (years)	1.11

14. Financial instruments

(a) Interest rate risk exposure

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

(b) Fair values

The fair values of the Company's cash and cash equivalents, accounts receivable, long-term receivables, deferred revenue, and accounts payable approximate their carrying values because of the short-term maturity of those instruments.

15. Financial risk management

This section provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk and interest rate risk, and how the Company manages those risks.

(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.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

15. Financial risk management (continued)

(a) *Credit risk exposure (continued)*

Accounts receivable as at June 30 are summarized as follows:

	2009	2008
	\$	\$
Current	7,313,889	8,752,020
Overdue		
1 - 30 days	949,134	1,701,614
31 - 60 days	166,257	1,026,105
61 - 90 days	25,773	231,756
Over 90 days	19,308	346,794
<u>Less allowance for doubtful accounts</u>	<u>(66,268)</u>	<u>(215,535)</u>
	8,408,093	11,842,754

In establishing the appropriate provisions for accounts receivables, assumptions are made with respect to the future collectibility of the receivables. Assumptions are based on an individual assessment of a customer's credit quality as well as subjective factors and trends. The following table reflects the movement in the allowance for doubtful accounts:

	2009	2008
	\$	\$
Opening balance	215,535	65,000
Change in the provision	(141,887)	165,380
<u>Less receivable write-offs</u>	<u>(7,380)</u>	<u>(14,845)</u>
<u>Closing balance</u>	<u>66,268</u>	<u>215,535</u>

(b) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective of managing liquidity risk is to maintain sufficient resources to pursue its growth strategy. The Company manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions outside of the ordinary course of business including proposals on major investments. The Company's financial liabilities are comprised primarily of accounts payable. The Company generates cash from its operations and maintains available credit facilities to support the liquidity requirements of the business.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

15. Financial risk management (continued)

(c) Foreign currency risk

The Company's functional and reporting currency is the U.S. dollar. Foreign currency risk is primarily related to the Company's operations in Canada and the UK. The Company's UK operations are conducted primarily in pound Sterling and the Canadian operations in Canadian dollars. The operations of the wholly-owned subsidiaries are consolidated in U.S. dollars. For the Company's foreign currency transactions, fluctuations in the respective exchange rates relative to the U.S. dollar will create volatility in the Company's cash flows and the reported amounts of sales, cost of goods sold and general and administrative expenses on a period-to-period basis and compared with operating budgets and forecasts. Additional earnings variability arises from the translation of monetary assets and liabilities denominated in foreign currencies at the rates of exchange at each balance sheet date, the impact of which is reported as a foreign exchange gain or loss in the determination of net income (loss) for the period. The Company's sales are primarily transacted in U.S. dollars with some sales in pound Sterling. A 1% change in the Canadian dollar exchange rate would not have a material impact on the net income.

16. Capital disclosures

The Company's objective of managing capital is to ensure sufficient liquidity to pursue its growth strategy. The Company's capital is composed of cash and cash equivalents and shareholders' equity. The Company also has unused credit facilities for up to \$5,800,000. The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures. The Company currently funds these requirements out of the cash flow from operations. The Company monitors its cash flow continuously and is subject to covenants related to its credit facilities. The Company has complied with all covenant requirements without exception.

17. Related party transactions

During the year ended June 30, 2009, the Company granted incentive stock options to directors to acquire 3,616,000 common shares of the Company with an exercise price of Cdn\$0.10 per share.

During the year ended June 30, 2008, an officer and director of the Company exercised 1,000,000 share purchase warrants at an exercise price of Cdn\$0.30 per share.

18. Commitments

As at June 30, 2009, future minimum lease payments for premises and equipment are as follows:

	\$
2010	731,311
2011	489,272
2012	103,455
2013	-
2014	-

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

19. Income taxes

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

	\$
Canada	1,728,420
United Kingdom	10,181,331
United States	14,364,702

Tax losses in Canada expire as follows:

	596327 BC Ltd. Cdn\$	Versatile (Canada) Cdn\$	EvolutionB Information Inc. Cdn\$
2010	24,000	1,551,967	111,948
2015	-	297,373	-
	<u>24,000</u>	<u>1,849,340</u>	<u>111,948</u>

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

	\$
Net operating losses expire as follows:	
2020	-
2021	941,118
2022	1,025,046
2023	477,803
2024	1,045,650
2025	1,265,169
2026	472,150
2028	148,117
2029	3,004,311
Tax deductions which may be taken from 2010 to 2020	<u>5,985,338</u>
	<u>14,364,702</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 2010 to 2020 relate to the 338 election for the acquisition of Perfect Order in 2005 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.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

19. Income taxes (continued)

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:

	2009	2008
	\$	\$
Future income taxes		
Future income tax assets		
Tax losses and deductions	8,378,058	8,201,781
Capital assets	1,134,697	441,178
Share issuance costs	217,338	354,780
Other	392,741	183,861
Future income tax assets	10,122,834	9,181,600
Valuation allowance	(3,138,444)	(3,060,592)
Net future income tax asset	6,984,390	6,121,008
Future income tax liabilities		
Goodwill	(755,651)	(741,852)
Net future income tax asset	6,228,739	5,379,156
Less: Current portion	(944,843)	(706,249)
Non-current portion of net future income tax	5,283,896	4,672,907

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.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

19. Income taxes (continued)

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

	2009	2008
	\$	\$
Tax at the statutory tax rate of 30.25% (2008 - 32.8%)	(414,682)	120,336
Foreign tax rate differential	(245,305)	37,518
Effect of foreign exchange losses	(60,009)	78,580
True up to income tax returns	(275,677)	-
Permanent differences	15,297	39,839
Expiry of previously recognized benefit of prior year losses	457,976	833,972
Use of prior year losses	(260,183)	-
Change in tax rates	-	237,361
Changes in valuation allowance	77,852	(1,139,753)
Other	-	(41,218)
	(704,731)	166,635
Future income tax recovery (expense)	849,586	(101,604)
Current income tax expense	(144,855)	(65,031)
	704,731	(166,635)

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

20. 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.

The Company's Capital assets, intangible assets and goodwill and sales by geographic area are as follows:

	2009		2008	
	Capital assets, intangible assets and goodwill	Revenue	Capital assets, intangible assets and goodwill	Revenue
	\$	\$	\$	\$
U.S. companies				
United States	11,104,620	48,229,701	11,529,258	57,997,937
Canada	-	117,059	-	216,854
Netherlands	-	-	-	14,900
France	-	250,927	-	388,951
United Kingdom	-	31,751	-	94,370
Japan	-	20,448	-	-
Other	-	48,863	-	12,430
UK and Canadian companies				
United Kingdom	3,950	419,342	11,574	654,912
Canada	2,046	-	324	-
	11,110,616	49,118,091	11,541,156	59,380,354

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

During the year ended June 30, 2009, the Company did not have any customers with revenues more than 10% of Sales. During the year ended June 30, 2008, the Company earned revenue of \$7,792,867 from one customer representing 13.1% of revenue.

During the year ended June 30, 2009, the Company purchased products and services from one vendor for \$19,037,053 (2008 - \$19,919,235) and from a second vendor for \$2,096,991 (2008 - \$5,780,900) representing 51.8% (2008 - 44.6%) and 5.7% (2008 - 12.9%), respectively, of the cost of sales.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

21. Supplemental cash flow information

	2009	2008
	\$	\$
Cash paid for taxes	121,327	65,743
Cash paid for interest	139,474	169,600
Non-cash investing and financing activities related to the acquisition of Sagent Solutions		
Promissory notes issued	-	80,000
Warrants issued	-	42,000

The Changes in the Non-cash Working Capital items are as follows:

	2009	2008
	\$	\$
Accounts Receivable	3,434,661	3,358,165
Current portion of deferred contract costs	(826,789)	(429,593)
Work in progress	(11,477)	(38,963)
Prepaid expenses	22,352	37,962
Inventory	567,354	(675,418)
Long term receivable	(86,259)	785,478
Long term portion of Deferred Contract costs	247,448	(654,271)
Accounts payable and accrued liabilities	(2,173,343)	(3,001,502)
Current portion of deferred revenue	1,172,558	282,730
Long term portion of Deferred Revenue	(295,125)	785,120
	2,051,380	449,708

The cash and cash equivalents consists of almost entirely cash.

Versatile Systems Inc.
Management Discussion and Analysis
Year ended June 30, 2009

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 11, 2009 on the consolidated financial statements and notes for the year ended June 30, 2009.

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*TM 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.

Highlights of the Fourth quarter

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

- Cash and cash equivalents at June 30, 2009 was \$2,002,530 compared to \$2,100,645 at March 31, 2009;
- Deferred revenue at June 30, 2009 was \$8,732,562 (of which \$7,755,151 is expected to be recognized in the next four quarters) compared to \$7,515,600 at March 31, 2009, an increase of \$1,216,962;
- Revenue for the three months ended June 30, 2009 was \$11,609,822 compared to \$10,877,354 for the last quarter, an increase of \$732,468;
- EBITDA of \$233,048 for the three months ended June 30, 2009 compared to \$155,206 for the same period last year;
- The Net Earnings for the quarter amounted to \$383,392 (\$0.00 per share) compared to a Net Loss of \$362,043 (\$0.00 per share) for the same period last year, an increase of \$745,435; and
- The research and development expense for the quarter amounted to \$186,568 compared to \$448,260 for the same quarter last year.

Review of the Fourth quarter

Revenue for the three months ended June 30, 2009 was \$11,609,822 compared to \$13,721,812 for the same quarter last year, a decrease of \$2,111,990. While the Company had repeat business from its existing customer base including Comcast, Motorola, PASAP Software, Hershey, Thermo Fisher, Tyco, American Eagle and various retailers, universities and government organizations, the Company has been impacted by the overall macro-economic environment and experienced a slowdown in orders from customers for routine expenditures on infrastructure.

The EBITDA for the quarter was \$233,048 compared to an EBITDA of \$155,206 for the same quarter last year.

During the quarter the Company recognized a reduction of \$110,823 in the non-recurring expenses for the previously recorded provision, including legal costs, for transactions occurring in prior periods.

During the quarter the Company recognized a future income tax benefit of \$360,493 compared to a future income tax expense of \$294,213 for the same quarter last year.

The Net Earnings for the quarter amounted to \$383,392 (\$0.00 per share) compared to a Net Loss of \$362,043 (\$0.00 per share) for the same period last year, an increase of \$745,435.

Cost of sales

Cost of sales for the quarter amounted to \$8,614,785 resulting in a gross profit of \$2,995,037 or 25.8% of sales as compared to \$10,180,648 resulting in a gross profit of \$3,541,164 or 25.8% of sales for the same quarter last year.

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, 2009 the Company had an inventory provision of \$172,569 (June 30, 2008 - \$231,586).

General and administrative

General and administrative expenses for the quarter amounted to \$1,148,758 compared to \$1,529,268 for the same quarter last year, a decrease of \$380,510. As a percentage of sales the general and administrative expenses were 9.9% in the quarter compared to 11.1% in the same quarter last year.

Technology Investment

Over the past ten 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 \$186,568 compared to \$448,260 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 1.6% in the quarter compared to 3.3% in the same quarter last year. The decrease in the overall expenditures on research and development expense can be attributed to the reduction in the number of research and development projects.

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

For the *Mobiquity Route*TM these included the following:

- Upgrading the mobile search capabilities;
- Creating methods for customers to highlight Promotional Items;
- Releasing the Mobile Survey Engine for the Mobile Device; and
- Commencing work on Survey Creation Tools for the Management Console.

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

- Completing the integration with a range of temperature monitoring probes for use in multiple environments;
- Implementing an Enterprise class Data Warehousing solution to manage the information captured by SyncSeer;
- Completing an enterprise visibility module for the large venue and hospitality marketplace; and
- Improving the data maintenance and visibility functionality.

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

- Completing major improvements to the Content Delivery system of the *Mobiquity Kiosk*TM platform, including the implementation of a content plug-in system and a tagging and filtering system;
- Completing Software enhancements to the kiosk tracking and monitoring system, allowing for better reporting and management of kiosks in the field; and
- Completing preliminary screen designs for a credit provider of elective medical procedures.

During the current fiscal year, the Company incurred \$515,548 for research and development activities related to *Mobiquity Route*TM and related mobile software products.

During the current fiscal year, the Company incurred \$693,587 for research and development activities related to *Mobiquity Transaction Engine 3.0*TM, *Mobiquity Kiosk*TM and research on Virtualization.

Selling and marketing expenses

Selling and marketing expense for the quarter amounted to \$1,685,829 compared to \$1,470,184 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 14.5% in the quarter compared to 10.7% in the same quarter last year. As a percentage of gross profit the selling and marketing expenses were 56.2% in the quarter compared to 41.5% 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, 2009 the Company recorded a \$360,493 non-cash future income tax benefit related to the recognition of future income tax assets compared to a future income tax expense of \$294,213 for the same quarter last year. 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 \$177,577 (June 30, 2008 - \$193,655). The purchased technology arising from the acquisition of Perfect Order was fully amortized in the 2008 fiscal year so consequently the amount of amortization of intangible assets is lower in the current fiscal year.

Foreign Exchange Gain (Loss)

The foreign exchange gain for the quarter amounted to \$161,062 compared to a foreign exchange loss of \$1,465 for the same quarter last year. The gain was due to the fluctuation in the U.S. dollar against the Canadian dollar in the quarter.

Review of the operations for the year ended June 30, 2009

Revenue for the year ended June 30, 2009 was \$49,118,091 generating a gross profit of \$12,111,519 or 24.7% of revenue compared to \$59,380,354 generating a gross profit of \$14,852,818 or 25.0% of revenue for the same period last year. The EBITDA loss for the period was \$271,030 excluding the non-recurring expenses of \$421,512 compared to an EBITDA of \$1,289,230 for the same period last year. The Net Loss for the period amounted to \$666,119 (\$0.01 per share) compared to Net Earnings of \$200,130 (\$0.00 per share) for the same period last year.

On January 22, 2009 the Company announced that it had reduced its workforce, focused research and development activities on core products, and redeployed research and development staff to the professional services group resulting in estimated annual savings of approximately \$1,670,000. Since that time the Company has made further reductions in its workforce and other cost reductions bringing the total estimated annual savings to approximately \$2.5 million.

Cost of sales

Cost of sales for the year ended June 30, 2009 amounted to \$37,006,572 resulting in a gross profit of \$12,111,519 or 24.7% of sales as compared to \$44,527,536 resulting in a gross profit of \$14,852,818 or 25.0% of sales for the same period last year.

General and administrative

General and administrative expenses for the year ended June 30, 2009 amounted to \$4,649,659 compared to \$5,090,959 for the same period last year, a decrease of \$441,300. As a percentage of sales the general and administrative expenses were 9.5% in the 2009 fiscal year compared to 8.6% in the same period last year.

Technology Investment

Research and development expense for the year ended June 30, 2009 amounted to \$1,281,109 compared to \$1,745,569 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 2.6% compared to 2.9% in the same period last year.

Selling and marketing expenses

Selling and marketing expense for the year ended June 30, 2009 amounted to \$6,688,676 compared to \$6,504,762 for the same period last year. As a percentage of sales the selling and marketing expenses were 13.6% in the 2009 fiscal year compared to 11.0% in the same period last year.

Amortization

The amortization of capital assets and intangible assets for the year ended June 30, 2009 amounted to \$704,833 (June 30, 2008 - \$950,677) consisting of amortization of \$59,839 included in cost of sales for Kiosks deployed pursuant to various subscription agreements, \$282,296 for amortization of capital assets and \$362,698 for amortization of intangible assets. The purchased technology arising from the acquisition of Perfect Order was fully amortized in the 2008 fiscal year so consequently the amount of amortization of intangible assets is lower in the current fiscal year.

Foreign exchange loss

The foreign exchange gain for the year ended June 30, 2009 was \$258,306 compared to a foreign exchange loss of \$175,627 for the same period last 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 2008 Sept 07	Q2 2008 Dec 07	Q3 2008 Mar 08	Q4 2008 Jun 08	Q1 2009 Sept 08	Q2 2009 Dec 08	Q3 2009 Mar 09	Q4 2009 Jun 09
Revenue	12,615,506	18,523,167	14,519,869	13,721,812	14,303,851	12,327,064	10,877,354	11,609,822
Cost of Sales	9,535,389	13,716,667	11,094,832	10,180,648	10,550,751	9,287,669	8,553,367	8,614,785
Gross Profit	3,080,117	4,806,500	3,425,037	3,541,164	3,753,100	3,039,395	2,323,987	2,995,037
Expenses:								
General and administrative (including foreign exchange)	1,103,886	1,412,063	1,219,904	1,530,733	1,302,708	1,202,013	898,936	987,696
Non recurring expenses	-	-	-	-	-	372,177	160,158	(110,823)
Research and Development	408,259	491,459	397,591	448,260	424,752	391,088	278,701	186,568
Selling and Marketing	1,531,330	1,756,538	1,746,710	1,470,184	1,769,825	1,717,311	1,515,711	1,685,829
Stock-based compensation	25,851	27,452	56,587	(63,219)	3,243	2,753	2,696	12,719
	3,069,326	3,687,512	3,420,792	3,385,958	3,500,528	3,685,342	2,856,202	2,761,989
Earnings (loss) before interest taxes and amortization	10,791	1,118,988	4,245	155,206	252,572	(645,947)	(532,215)	233,048
Amortization	(246,036)	(249,035)	(261,951)	(193,655)	(160,574)	(178,081)	(182,273)	(124,066)
Interest	(35,475)	(26,521)	90,375	(167)	(29,088)	(354)	1,648	(5,520)
Income taxes	214,216	(157,133)	99,709	(323,427)	(6,295)	291,211	139,885	279,930
Net Earnings (loss)	(56,504)	686,299	(67,622)	(362,043)	56,615	(533,171)	(572,955)	383,392
Per share, basic and diluted	(0.00)	0.01	(0.00)	(0.00)	0.00	(0.00)	(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.

Over the past three years the Company has improved its financial position while maintaining selling, marketing, general and administration expenses at relatively the same level as revenue.

Financial position

The working capital as of June 30, 2009 was \$2,570,421, a decrease of \$1,202,041 compared to the working capital of \$3,772,462 at June 30, 2008.

At June 30, 2009 the Company had cash and cash equivalents of \$2,002,530 compared to \$1,500,005 at June 30, 2008, an increase of \$502,525.

The cash flow used in operations, before non-cash working capital items amounted to \$983,586 for the year ended June 30, 2009 compared to cash flow generated from operations of \$1,452,981 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, 2009 the line of credit was Nil (June 30, 2008 - \$74,942) and the Company had a bank overdraft of Nil (June 30, 2008 – \$127,214).

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, 2009 this would have amounted to approximately \$5 million. At June 30, 2009 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 \$2,943,223 owing to a major supplier.

Capital Expenditures

During the three months ended June 30, 2009 the majority of the capital expenditures being \$32,932 relates to the costs of Kiosks that have been deployed under various subscription agreements.

Share Capital

As of September 1, 2009 the Company had 118,589,643 common shares issued and outstanding.

During the year ended June 30, 2009 the Company cancelled 2,863,000 shares that had been purchased pursuant to a Normal Course Issuer Bid to purchase up to 6,000,000 common shares through the facilities of the TSX Venture Exchange.

Stock Options

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

	Number of shares	Weighted average exercise price CDN\$
Outstanding – June 30, 2008	8,768,200	0.53
Granted	4,241,000	0.10
Forfeited	(179,200)	0.75
Expired	(3,670,000)	0.30
Exercised	-	-
Outstanding – June 30, 2009	9,160,000	0.42

For the year ended June 30, 2009, the Company recognized \$21,411 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, 2009 are as follows:

Expiry date	Exercise price Cdn\$	Number of warrants				Amount \$
		Balance, June 30, 2008	Expired	Issued	Balance, June 30, 2009	
March 31, 2009	0.3800	1,411,808	(1,411,808)	-	-	-
March 31, 2009	0.4140	1,411,808	(1,411,808)	-	-	-
March 31, 2011	0.5690	1,411,808	-	-	1,411,808	63,309
April 6, 2011	0.6636	583,770	-	-	583,770	81,058
January 22, 2012	0.3000	600,000	-	-	600,000	42,000
		5,419,194	(2,823,616)	-	2,595,578	186,367

Related Party Transactions

During the current quarter, the Company paid consulting fees and salaries, which are included in the general and administration expense, of \$174,943 (2008 - \$189,109) to Directors and Officers of the Company.

During the current quarter, the Company granted incentive stock options to directors to acquire 3,616,000 common shares of the Company with an exercise price of Cdn\$0.10 per share.

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 Vendors in quarterly amounts, which have been repaid in full and 600,000 share purchase warrants exercisable at CDN \$0.30 per share with a term of four years.

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, Inc. and Versatile Systems, Inc. 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 \$35.7 million to June 30, 2009. Although the Company has decreased its operating expenses and increased its revenues over the past three years the Company cannot be assured that it can consistently maintain profitable operations.

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 stated 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. 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 23% of total assets as at June 30, 2009. 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 4% of total assets as at June 30, 2009. 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 3% of the Company's total assets as at June 30, 2009, 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 17% of the Company's assets as at June 30, 2009, 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 27.7% of the Company's total assets as at June 30, 2009, 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, on July 1, 2008, the following new Handbook sections issued by the CICA:

- (i) General standards on financial statement presentation

In June 2007, the CICA amended Section 1400, *General Standards on Financial Statement Presentation*. The new section is applicable to financial statements relating to fiscal years beginning on or after January 1, 2008. The amended section includes requirements to assess and disclose a company's ability to continue as a going concern.

- (ii) Inventories

The Company adopted the recommendations of CICA Handbook Section 3031 on inventories which provides guidance on the determination of cost of inventories and its subsequent recognition as an expense, and includes additional disclosure requirements. The new section also requires the Company to account for the reversal of write-downs previously recognized when there is a subsequent increase in the value of inventories. This accounting policy was applied retroactively; the retroactive application did not have an impact on the comparative financial statements presented. There was no effect as of June 30, 2009 or for the year then ended.

(iii) Financial instrument disclosures

On July 1, 2008, the Company adopted three new CICA Handbook sections: Section 1535, *Capital Disclosures*; Section 3862, *Financial Instruments - Disclosures*; and Section 3863, *Financial Instruments - Presentation*. Prior year financial statements have not been restated. These sections relate to disclosure and presentation only and have no impact on the consolidated financial results.

Section 1535 requires disclosure of an entity's objectives, policies, and processes for managing capital; information about what the entity regards as capital; whether the Company has complied with any external capital requirements; and the consequences of not complying with these capital requirements.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*. Section 3863 carries forward unchanged the presentation requirements of Section 3861 while Section 3862 requires enhanced financial instrument disclosures focusing on disclosures related to the nature and extent of risks arising from financial instruments and how the entity manages those risks.

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

(i) 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. In February 2007, the CICA amended Section 1000, *Financial Statement Concepts*, to clarify the criteria for the recognition of an asset. The amended section is applicable to all entities and is effective for interim and annual 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. The Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

Key International Financial Reporting Standards (IFRS) conversion dates

According to dates set out by the AcSB, the Company will be required to changeover to IFRS on July 1, 2010 and begin publicly reporting under IFRS in the fiscal year ending June 30, 2012. Because of the need to present comparative financial information, the Company will need to create its first IFRS compliant balance sheet as at July 1, 2010. For the fiscal year ending June 30, 2011, the Company will need to prepare information for financial statements and note disclosures under both Canadian GAAP and IFRS in order to meet Canadian GAAP reporting requirements that year and to allow for comparative information to be presented in 2012.

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

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, 2009, 2008 and 2007:

	2007	2008	2009
(a) Sales	\$62,230,275	\$59,380,354	\$49,118,091
(b) Net Earnings (loss)	1,379,445	200,130	(666,119)
(c) Net Earnings (loss) per share, basic and diluted	0.01	0.00	(0.01)
(d) Total assets	43,088,871	38,592,820	36,161,102
(e) Total long-term financial liabilities	487,416	1,272,536	977,411
(f) Cash Dividends declared per share	N/A	N/A	N/A

Revenue for the year ended June 30, 2009 was \$49,118,091 compared to \$59,380,354 for the prior year, a decrease of \$10,262,263. While the Company had repeat business from its existing customer base including Comcast, Motorola, PASAP Software, Hershey, Thermo Fisher Scientific, Tyco Electronics, Tree of Life and various retailers, universities and government organizations, the Company has been impacted by the overall macro-economic environment and experienced a slowdown in orders from customers for routine expenditures on infrastructure.

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. The Company had repeat business from its existing customer base including Motorola, Fisher Scientific, Respironics, Iron Mountain, Comcast and various retailers, universities and government organizations.

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 Respironics;
- Retail – Albertsons, Toys “R” Us and Sheetz; and
- Others – Comcast, Mine Safety Appliances and Iron Mountain.