
Versatile Systems Inc.
Consolidated Financial Statements
(unaudited - prepared by management)
September 30, 2007

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Versatile Systems Inc.
Consolidated Balance Sheets

Expressed in U.S. dollars

	<u>September 30, 2007</u> (unaudited)	<u>June 30, 2007</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,564,539	\$ 3,369,087
Accounts receivable (note 3)	10,344,063	15,200,919
Current portion of deferred contract costs	4,742,381	4,489,111
Work in progress	58,762	41,705
Prepaid expenses	437,183	347,023
Inventory	1,379,417	1,268,682
Future income tax benefits (note 8)	1,207,100	1,094,579
	<u>23,733,445</u>	<u>25,811,106</u>
Long term accounts receivable (note 3)	676,668	812,000
Deferred contract costs	579,294	396,423
Capital Assets	622,416	492,979
Intangible assets	1,146,857	1,335,877
Future income tax benefits (note 8)	4,486,938	4,326,136
Goodwill	9,914,350	9,914,350
	<u>\$ 41,159,968</u>	<u>\$ 43,088,871</u>
LIABILITIES		
Current Liabilities		
Line of credit	\$ -	\$ 3,383
Bank overdraft	533,874	170,422
Accounts payable and accrued liabilities	10,624,740	13,720,928
Current portion of deferred revenue	6,663,521	6,299,863
Current portion of bank term loan (note 4)	2,749,263	2,749,263
Term loan	-	175,000
Current portion of capital lease obligations	2,010	4,748
	<u>20,573,408</u>	<u>23,123,607</u>
Deferred Revenue	680,085	487,416
	<u>21,253,493</u>	<u>23,611,023</u>
SHAREHOLDERS' EQUITY		
Share Capital (note 5)	52,108,484	51,643,963
Warrants (note 6)	327,965	382,650
Contributed surplus	3,031,015	2,998,798
Deficit	(35,319,730)	(35,263,226)
Foreign currency translation adjustment	(241,259)	(284,337)
	<u>19,906,475</u>	<u>19,477,848</u>
	<u>\$ 41,159,968</u>	<u>\$ 43,088,871</u>

Subsequent Event (note 10)

APPROVED BY THE DIRECTORS:

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

See Notes to Consolidated Financial Statements

Versatile Systems Inc.
Consolidated Statements of Operations and Deficit
(Unaudited - Prepared by Management)

Expressed in U.S. dollars

	Three months ended September 30	
	2007	2006
	(unaudited)	
SALES	\$ 12,615,506	\$ 14,504,692
COST OF SALES	9,535,389	11,526,009
	<u>3,080,117</u>	<u>2,978,683</u>
EXPENSES		
General and administrative	1,103,886	983,869
Selling and marketing	1,531,330	1,528,090
Research and development	408,259	212,021
Stock-based compensation	25,851	26,061
	<u>3,069,326</u>	<u>2,750,041</u>
Earnings before interest, taxes and amortization	10,791	228,642
Amortization of capital assets	57,174	48,924
Amortization of intangible assets	188,862	271,825
Interest	35,475	94,454
	<u>(270,720)</u>	<u>(186,561)</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	(270,720)	(186,561)
Current income tax expense	(9,586)	(800)
Future income tax benefit	223,802	324,941
	<u>(56,504)</u>	<u>137,580</u>
NET EARNINGS (LOSS) FOR THE PERIOD	(56,504)	137,580
DEFICIT, BEGINNING OF PERIOD	(35,263,226)	(36,642,671)
DEFICIT, END OF PERIOD	<u>(35,319,730)</u>	<u>(36,505,091)</u>
EARNINGS (LOSS) PER SHARE (basic and fully diluted):	<u>\$0.00</u>	<u>\$0.00</u>

See Notes to Consolidated Financial Statements

Versatile Systems Inc.
Consolidated Statements of Cash Flows

(Unaudited - Prepared by Management)

Expressed in U.S. dollars

	Three months ended September 30	
	2007	2006
	(unaudited)	
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net earnings (loss) for the period	\$ (56,504)	\$ 137,580
Items not affecting cash		
Amortization of capital and intangible assets	246,036	320,749
Loss on disposal of capital assets	212	-
Stock-based compensation	25,851	26,061
Foreign exchange loss	8,967	
Future income tax benefit	(223,802)	(324,941)
Cash flow from operations before other items	760	159,449
Net change in non-cash working capital items	1,823,917	1,623,563
	<u>1,824,677</u>	<u>1,783,012</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Proceeds from disposition of capital assets	1,867	1,540
Additions to capital and intangible assets	(186,547)	(96,111)
	<u>(184,680)</u>	<u>(94,571)</u>
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Proceeds from issuance of shares	416,202	165,059
Repayment of the line of credit	(3,383)	(370,760)
Increase (decrease) in the bank overdraft	363,452	(643,273)
Repayment of the Term Loan	(175,000)	-
Repayment of capital lease obligations	(2,738)	(1,532)
	<u>598,533</u>	<u>(850,506)</u>
Effect of foreign exchange rate on cash	(43,078)	(1,220)
Increase in cash and cash equivalents	2,195,452	836,715
CASH and cash equivalents, beginning of period	3,369,087	99,010
CASH and cash equivalents, end of period	<u>\$ 5,564,539</u>	<u>\$ 935,725</u>
Supplementary information		
Cash paid for interest expense	71,104	\$ 79,017
Cash paid for income taxes	9,586	41,813

See Notes to Consolidated Financial Statements

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended September 30, 2007

(Unaudited - Prepared by Management)

1. Consolidated financial statement presentation:

These unaudited interim consolidated financial statements at September 30, 2007 and the consolidated statements of operations and deficit and cash flows for the three months ended September 30, 2007 and 2006, have been prepared in accordance with Canadian generally accepted accounting principles. These unaudited interim financial statements do not include all the disclosures required for annual financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements and notes therein for the year ended June 30, 2007.

The results of operations for the period ended September 30, 2007 are not necessarily indicative of the results for the full year ending June 30, 2008. All amounts herein, including the comparative figures, have been expressed in United States dollars unless otherwise noted.

2. Accounting Changes:

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

Change in functional and reporting currency:

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

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

3. Accounts receivable

Included with accounts receivable is an amount that the Company has with a customer providing for monthly payments of \$45,111, which commenced on January 31, 2007 and is supported by a Promissory Note and a security agreement. The total amount of the receivable is \$1,218,000 of which \$541,332 has been classified as current.

4. Bank term loan

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

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended September 30, 2007

(Unaudited - Prepared by Management)

5. Common Shares

Authorized
 Unlimited common shares without par value

Issued and outstanding

	Number	Amount
Issued and outstanding - June 30, 2007	120,377,943	\$ 51,643,963
Shares issued for exercised stock options	27,200	6,382
Shares issued for exercised warrants	1,446,000	409,820
Warrant cost for exercised warrants		48,040
Contributed surplus related to the exercised stock options		279
Issued and outstanding - September 30, 2007	121,851,143	\$ 52,108,484

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

6. Warrants

Issued and outstanding:

Expiry date	Exercise Price CDN\$	Number of Warrants	Cost
March 31, 2009	\$ 0.38	1,411,808	107,627
March 31, 2009	\$ 0.414	1,411,808	75,971
March 31, 2011	\$ 0.569	1,411,808	63,309
April 16, 2011	\$ 0.6636	583,770	81,058
Balance - September 30, 2007		4,819,194	\$ 327,965

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

7. Stock Options

	Number of Shares	Weighted average exercise price CDN\$
Balance - June 30, 2007	9,293,900	\$ 0.57
Granted during the period	-	\$ -
Forfeited during the period	-	\$ -
Exercised during the period	(27,200)	\$ 0.25
Balance - September 30, 2007	9,266,700	\$ 0.57

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8. Income taxes

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

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

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

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

	<u>September 30, 2007</u> (unaudited)	<u>June 30, 2007</u>
Future income tax assets		
Tax losses and deductions	\$ 9,431,595	\$ 9,161,889
Capital assets	449,788	437,557
Share issuance costs	512,473	653,200
Other	99,913	99,913
	<hr/>	<hr/>
Future income tax assets	10,493,769	10,352,559
Valuation allowance	(4,018,966)	(4,200,345)
	<hr/>	<hr/>
Net Future income tax asset	6,474,803	6,152,214
Future income tax liabilities - Goodwill	(780,765)	(731,499)
	<hr/>	<hr/>
Net Future income tax asset	5,694,038	5,420,715
Less current portion	(1,207,100)	(1,094,579)
	<hr/>	<hr/>
Non-current portion of net future income tax asset	4,486,938	4,326,136

During the three months ended September 30, 2007 the Company recorded a \$223,802 (September 30, 2006 - \$324,941) non-cash income tax benefit related to the recognition of future income tax assets.

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended September 30, 2007
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9. Segmented Information

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

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

	September 30 2007	June 30 2007	Three months ended September 30	
	Capital assets, intangible assets and goodwill	Capital assets, intangible assets and goodwill	Revenue	Revenue
			2007	2006
<i>U.S. companies</i>				
United States	\$ 11,664,292	\$ 11,722,692	\$ 12,342,059	\$ 14,221,770
Canada	-	-	102,388	37,329
Netherlands	-	-	14,900	129,665
France	-	-	35,449	17,659
United Kingdom	-	-	7,000	-
Spain	-	-	-	20,000
<i>UK and Canadian companies</i>				
United Kingdom	15,989	16,678	113,710	78,269
Canada	3,342	3,836	-	-
	<u>11,683,623</u>	<u>11,743,206</u>	<u>12,615,506</u>	<u>14,504,692</u>

During the three months ended September 30, 2007 the company generated revenue of \$2,145,443 from Comcast Cable representing 17.0% of the revenue for the period.

During the three months ended September 30, 2007 the company purchased products and services from one vendor for \$5,942,014 representing 62.3% of the cost of sales.

10. Subsequent Event

On October 6, 2007 the Commerce Bank agreed, subject to the completion of documentation, to transfer the amount owing under the Term Loan of \$2,749,263 into the Line of Credit with an increase in the line of credit from \$3 million to \$5.8 million.