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

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Versatile Systems Inc.
Consolidated Balance Sheets

Expressed in U.S. dollars

December 31, 2007 June 30, 2007
(unaudited)
ASSETS

Current Assets

Cash and cash equivalents	\$ 4,906,700	\$ 3,369,087
Accounts receivable (note 3)	11,830,952	15,200,919
Current portion of deferred contract costs	5,120,413	4,489,111
Work in progress	73,439	41,705
Prepaid expenses	394,025	347,023
Inventory	1,277,826	1,268,682
Future income tax benefits (note 9)	1,203,875	1,094,579
	<u>24,807,230</u>	<u>25,811,106</u>

Long term accounts receivable (note 3)

792,495 812,000

Deferred contract costs

843,995 396,423

Capital Assets

686,506 492,979

Intangible assets

1,014,053 1,335,877

Future income tax benefits (note 9)

4,394,511 4,326,136

Goodwill

9,981,978 9,914,350

\$ 42,520,768 \$ 43,088,871
LIABILITIES

Current Liabilities

Line of credit	\$ -	\$ 3,383
Bank overdraft	1,638,792	170,422
Accounts payable and accrued liabilities	9,328,024	13,720,928
Current portion of deferred revenue	6,999,753	6,299,863
Current portion of bank term loan (note 4)	2,749,263	2,749,263
Term loan	-	175,000
Promissory Notes (note 5)	80,000	-
Current portion of capital lease obligations	844	4,748
	<u>20,796,676</u>	<u>23,123,607</u>

Deferred Revenue

953,361 487,416

21,750,037 23,611,023
SHAREHOLDERS' EQUITY

Share Capital (note 6)	52,021,006	51,643,963
Warrants (note 7)	327,965	382,650
Contributed surplus	3,057,669	2,998,798
Deficit	(34,633,431)	(35,263,226)
Foreign currency translation adjustment	(2,478)	(284,337)
	<u>20,770,731</u>	<u>19,477,848</u>

\$ 42,520,768 \$ 43,088,871

Subsequent Events (note 11)

APPROVED BY THE DIRECTORS:

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

See Notes to Consolidated Financial Statements

Versatile Systems Inc.
Consolidated Statements of Operations and Deficit

(Unaudited - Prepared by Management)

<i>Expressed in U.S. dollars</i>	Three months ended December 31		Six months ended December 31	
	2007	2006	2007	2006
SALES	\$ 18,523,167	\$ 17,140,576	\$ 31,138,673	\$ 31,645,268
COST OF SALES	13,716,667	13,187,863	23,252,056	24,713,872
	4,806,500	3,952,713	7,886,617	6,931,396
EXPENSES				
General and administrative	1,289,871	1,164,466	2,384,790	2,147,298
Selling and marketing	1,756,538	1,807,753	3,287,868	3,335,843
Research and development	491,459	262,261	899,718	474,282
Foreign Exchange Loss	122,192	16,324	131,159	17,361
Stock-based compensation	27,452	134,916	53,303	160,977
	3,687,512	3,385,720	6,756,838	6,135,761
Earnings before interest, taxes and amortization	1,118,988	566,993	1,129,779	795,635
Amortization of capital assets	60,173	87,336	117,347	136,260
Amortization of intangible assets	188,862	222,489	377,724	494,314
Interest	26,521	80,321	61,996	174,775
EARNINGS (LOSS) BEFORE INCOME TAXES	843,432	176,847	572,712	(9,714)
Current income taxes	(6,962)	(48,522)	(16,548)	(49,322)
Future income tax benefit (expense)	(150,171)	50,503	73,631	375,444
NET EARNINGS FOR THE PERIOD	686,299	178,828	629,795	316,408
DEFICIT, BEGINNING OF PERIOD	(35,319,730)	(36,505,091)	(35,263,226)	(36,642,671)
DEFICIT, END OF PERIOD	(34,633,431)	(36,326,263)	(34,633,431)	(36,326,263)
EARNINGS PER SHARE (basic and fully diluted):	\$0.01	\$0.00	\$0.01	\$0.00

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 December 31		Six months ended December 31	
	2007	2006	2007	2006
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net earnings for the period	\$ 686,299	\$ 178,828	\$ 629,795	\$ 316,408
Items not affecting cash				
Amortization of capital and intangible assets	249,035	309,825	495,071	630,574
Loss on disposal of capital assets	-	400	212	400
Stock-based compensation	27,452	134,916	53,303	160,977
Foreign exchange loss	24,465	16,324	33,431	17,361
Future income tax expense (benefit)	150,171	(50,503)	(73,631)	(375,444)
Cash flow from operations before other items	1,137,422	589,790	1,138,181	750,276
Net change in non-cash working capital items	(2,886,528)	(2,213,273)	(1,062,611)	(589,710)
	(1,749,106)	(1,623,483)	75,570	160,566
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Purchase of net assets	2,541	-	2,541	-
Proceeds from disposition of capital assets	-	400	1,867	1,940
Additions to capital and intangible assets	(121,325)	(259,144)	(307,872)	(355,255)
	(118,784)	(258,744)	(303,464)	(353,315)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Proceeds from issuance of shares	-	28,435	416,202	193,494
Purchase of Company shares	(87,478)	-	(87,478)	-
Repayment of the line of credit	-	998,133	(3,383)	627,373
Increase (decrease) in the bank overdraft	1,104,918	320,051	1,468,370	(323,222)
Repayment of the Term Loan	-	-	(175,000)	-
Repayment of capital lease obligations	(1,166)	(1,580)	(3,904)	(3,112)
	1,016,274	1,345,039	1,614,807	494,533
Effect of foreign exchange rate on cash	193,777	(673)	150,700	(2,930)
Increase in cash and cash equivalents	(657,839)	(537,861)	1,537,613	298,854
CASH and cash equivalents, beginning of period	5,564,539	935,725	3,369,087	99,010
CASH and cash equivalents, end of period	\$ 4,906,700	\$ 397,864	\$ 4,906,700	\$ 397,864
Supplementary information				
Cash paid for interest expense	60,367	71,750	131,471	\$ 150,767
Cash paid for income taxes	20,099	50,122	29,685	91,935
Non-cash investing and financing activities				
Promissory Notes issued for the acquisition of Sagent	80,000	-	80,000	-
Other consideration issued for the acquisition of Sagent	42,000	-	42,000	-

See Notes to Consolidated Financial Statements

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

(Unaudited - Prepared by Management)

1. Consolidated financial statement presentation:

These unaudited interim consolidated financial statements at December 31, 2007 and the consolidated statements of operations and deficit and cash flows for the periods ended December 31, 2007 and 2006, have been prepared in accordance with Canadian generally accepted accounting principles. These unaudited interim financial statements do not include all the disclosures required for annual financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements and notes therein for the year ended June 30, 2007.

The results of operations for the period ended December 31, 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.

The financial statements as at and for the periods ended December 31, 2007 have not been reviewed or audited by the Company's auditor.

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 \$66,041, which commenced on January 31, 2007 and is supported by a Promissory Note and a security agreement. The total amount of the receivable is \$1,564,057 of which \$771,562 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 was due on October 6, 2007 and has been extended by the bank, 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 December 31, 2007

(Unaudited - Prepared by Management)

5. Acquisition of Sagent Solutions

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

The consideration consisted of Promissory Notes bearing interest at 3% per annum in the amount of \$80,000 payable to the Vendor in quarterly amounts over the next year and 600,000 share purchase warrants exercisable at CDN \$0.30 per share with a term of four years, subject to the approval of the TSX Venture Exchange.

6. 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	121,851,143	52,108,484
Less shares held in Treasury	(360,000)	(87,478)
Balance - December 31, 2007	121,491,143	\$ 52,021,006

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

During the second quarter the Company purchased 360,000 common shares, pursuant to a Normal Course Issuer Bid.

7. 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 - December 31, 2007		4,819,194	\$ 327,965

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8. 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	(32,700)	\$ 0.25
Exercised during the period	(27,200)	\$ 0.25
Balance - December 31, 2007	9,234,000	\$ 0.57

9. 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>December 31, 2007</u> (unaudited)	<u>June 30, 2007</u>
Future income tax assets		
Tax losses and deductions	\$ 9,332,529	\$ 9,161,889
Capital assets	449,439	437,557
Share issuance costs	511,549	653,200
Other	99,913	99,913
Future income tax assets	10,393,430	10,352,559
Valuation allowance	(4,015,688)	(4,200,345)
Net Future income tax asset	6,377,742	6,152,214
Future income tax liabilities - Goodwill	(779,356)	(731,499)
Net Future income tax asset	5,598,386	5,420,715
Less current portion	(1,203,875)	(1,094,579)
Non-current portion of net future income tax asset	\$ 4,394,511	\$ 4,326,136

During the three months ended December 31, 2007 the Company recorded a \$150,171 non-cash future income tax expense (December 31, 2006 - \$50,503 future income tax benefit) related to the recognition of future income tax assets.

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For the period ended December 31, 2007
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10. 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:

	December 31 2007	June 30 2007	Six months ended December 31	
	Capital assets, intangible assets and goodwill	Capital assets, intangible assets and goodwill	Revenue	Revenue
<i>U.S. companies</i>				
United States	\$ 11,663,160	\$ 11,722,692	\$ 30,606,748	\$ 31,100,190
Canada			184,818	2,127
Netherlands			14,900	301,162
France			108,474	-
United Kingdom			36,377	-
Spain			-	24,908
<i>UK and Canadian companies</i>				
United Kingdom	16,767	16,678	187,356	216,881
Canada	2,610	3,836	-	-
	<u>11,682,537</u>	<u>11,743,206</u>	<u>31,138,673</u>	<u>31,645,268</u>

During the six months ended December 31, 2007 the company generated revenue of \$5,192,236 from Comcast Cable representing 16.7% of the revenue for the period.

During the six months ended December 31, 2007 the company purchased products and services from one vendor for \$15,761,900 (December 31, 2006 - \$14,791,939) representing 67.7% (2006 - 59.9%) of the cost of sales.

11. Subsequent Events

(a) On January 22, 2008 the Board of Directors passed a resolution to cancel the 360,000 common shares held in Treasury at December 31, 2007 along with 342,500 common shares that had been purchased in January, 2008.

(b) On January 30, 2008 the TSX Venture Exchange approved the 600,000 share purchase warrants to be issued pursuant to the acquisition of Sagent Solutions.