
Versatile Systems Inc.
Consolidated Financial Statements
(unaudited - prepared by management)
March 31, 2008

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Versatile Systems Inc.
Consolidated Balance Sheets

Expressed in U.S. dollars

March 31, 2008 June 30, 2007
(unaudited)
ASSETS

Current Assets

Cash and cash equivalents	\$ 3,109,385	\$ 3,369,087
Accounts receivable	8,955,594	15,200,919
Current portion of deferred contract costs	4,113,247	4,489,111
Work in progress	104,282	41,705
Prepaid expenses	443,612	347,023
Inventory	1,541,437	1,268,682
Future income tax benefits (note 8)	1,203,875	1,094,579
	<u>19,471,432</u>	<u>25,811,106</u>

Long term accounts receivable

- 812,000

Deferred contract costs

875,592 396,423

Capital Assets

775,574 492,979

Intangible assets

823,419 1,335,877

Future income tax benefits (note 8)

4,456,599 4,326,136

Goodwill

9,977,659 9,914,350

\$ 36,380,275 \$ 43,088,871
LIABILITIES

Current Liabilities

Line of credit (note 4)	\$ -	\$ 3,383
Bank overdraft	321,034	170,422
Accounts payable and accrued liabilities	8,556,621	13,720,928
Current portion of deferred revenue	5,986,232	6,299,863
Bank term loan (note 4)	-	2,749,263
Term loan	-	175,000
Promissory Notes	60,000	-
Current portion of capital lease obligations	-	4,748
	<u>14,923,887</u>	<u>23,123,607</u>

Deferred Revenue

1,016,282 487,416

15,940,169 23,611,023
SHAREHOLDERS' EQUITY

Share Capital (note 5)	51,666,224	51,643,963
Warrants (note 6)	369,965	382,650
Contributed surplus	3,161,954	2,998,798
Deficit	(34,701,053)	(35,263,226)
Foreign currency translation adjustment	(56,984)	(284,337)
	<u>20,440,106</u>	<u>19,477,848</u>

\$ 36,380,275 \$ 43,088,871

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 March 31		Nine months ended March 31	
	2008	2007	2008	2007
SALES	\$ 14,519,869	\$ 12,391,840	\$ 45,658,542	\$ 44,037,108
COST OF SALES	11,094,832	9,029,838	34,346,888	33,743,710
	<u>3,425,037</u>	<u>3,362,002</u>	<u>11,311,654</u>	<u>10,293,398</u>
EXPENSES				
General and administrative	1,176,901	1,162,952	3,561,691	3,325,335
Selling and marketing	1,746,710	1,578,391	5,034,578	4,914,234
Research and development	397,591	254,565	1,297,309	728,847
Foreign Exchange Loss	43,003	16,630	174,162	18,906
Stock-based compensation	56,587	129,571	109,890	290,548
	<u>3,420,792</u>	<u>3,142,109</u>	<u>10,177,630</u>	<u>9,277,870</u>
Earnings before interest, taxes and amortization	4,245	219,893	1,134,024	1,015,528
Amortization of capital assets	70,282	61,780	187,629	198,040
Amortization of intangible assets	191,669	187,782	569,393	682,096
Interest expense (income)	(90,375)	56,907	(28,379)	231,682
EARNINGS (LOSS) BEFORE INCOME TAXES	(167,331)	(86,576)	405,381	(96,290)
Current income tax expense	(19,269)	(11,064)	(35,817)	(60,386)
Future income tax benefit	118,978	168,111	192,609	543,555
NET EARNINGS (LOSS) FOR THE PERIOD	<u>(67,622)</u>	<u>70,471</u>	<u>562,173</u>	<u>386,879</u>
DEFICIT, BEGINNING OF PERIOD	(34,633,431)	(36,326,263)	(35,263,226)	(36,642,671)
DEFICIT, END OF PERIOD	<u>(34,701,053)</u>	<u>(36,255,792)</u>	<u>(34,701,053)</u>	<u>(36,255,792)</u>
EARNINGS PER SHARE (basic and fully diluted):	<u>(\$0.00)</u>	<u>\$0.00</u>	<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 March 31		Nine months ended March 31	
	2008	2007	2008	2007
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net earnings (loss) for the period	\$ (67,622)	\$ 70,471	\$ 562,173	\$ 386,879
Items not affecting cash				
Amortization of capital and intangible assets	261,951	249,562	757,022	880,136
Loss on disposal of capital assets	-	-	212	400
Stock-based compensation	56,587	129,571	109,890	290,548
Foreign exchange loss	43,375	16,630	67,840	18,906
Future income tax expense (benefit)	(118,978)	(168,111)	(192,609)	(543,555)
Cash flow from operations before other items	175,313	298,123	1,304,528	1,033,314
Net change in non-cash working capital items	2,597,341	(1,450,083)	1,534,730	(2,039,793)
	2,772,654	(1,151,960)	2,839,258	(1,006,479)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Purchase of net assets	-	-	2,541	-
Proceeds from disposition of capital assets	-	-	1,867	1,940
Additions to capital and intangible assets	(155,839)	(36,058)	(463,711)	(391,313)
	(155,839)	(36,058)	(459,303)	(389,373)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Proceeds from issuance of shares	-	319,923	416,202	513,417
Purchase of Company shares	(219,791)	-	(307,269)	-
Repayment of the line of credit	-	685,486	(3,383)	1,312,859
Increase (decrease) in the bank overdraft	(1,147,336)	12,010	150,612	(311,212)
Repayment of the Bank Term Loan	(2,749,263)	-	(2,749,263)	-
Repayment of the Term Loan	-	-	(175,000)	-
Repayment of the Promissory Notes	(20,000)	-	(20,000)	-
Repayment of capital lease obligations	(844)	(2,114)	(4,748)	(5,226)
	(4,137,234)	1,015,305	(2,692,849)	1,509,838
Effect of foreign exchange rate on cash	(276,896)	(17,343)	53,192	(5,188)
Increase in cash and cash equivalents	(1,797,315)	(190,056)	(259,702)	108,798
CASH and cash equivalents, beginning of period	4,906,700	397,864	3,369,087	99,010
CASH and cash equivalents, end of period	\$ 3,109,385	\$ 207,808	\$ 3,109,385	\$ 207,808
Supplementary information				
Cash paid for interest expense	18,526	83,377	149,997	\$ 234,144
Cash paid for income taxes	6,132	75,110	35,817	167,045
Non-cash investing and financing activities				
Promissory Notes issued for the acquisition of Sagent	-	-	80,000	-
Other consideration issued for the acquisition of Sagent	-	-	42,000	-

See Notes to Consolidated Financial Statements

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended March 31, 2008

(Unaudited - Prepared by Management)

1. Consolidated financial statement presentation:

These unaudited interim consolidated financial statements at March 31, 2008 and the consolidated statements of operations and deficit and cash flows for the periods ended March 31, 2008 and 2007, 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 March 31, 2008 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 March 31, 2008 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. 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.

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

4. Bank term loan and Line of Credit

During the third quarter the Company repaid the Bank term loan in the amount of \$2,749,263 with the Commerce Bank. The Company also increased its line of credit with the Commerce Bank to \$5,800,000.

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended March 31, 2008

(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
Shares cancelled that were held in Treasury	(702,500)	(300,405)
Warrant cost for exercised warrants		48,040
Contributed surplus related to the exercised stock options		278
Issued and outstanding	121,148,643	51,808,078
Less shares held in Treasury	(658,000)	(141,854)
Balance - March 31, 2008	<u>120,490,643</u>	<u>\$ 51,666,224</u>

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.

During the third quarter the Company purchased 1,000,500 common shares, pursuant to a Normal Course Issuer Bid and cancelled 702,500 shares.

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
January 22, 2012	\$ 0.30	600,000	42,000
Balance - March 31, 2008		<u>5,419,194</u>	<u>\$ 369,965</u>

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7. Stock Options

	Number of Stock Options	Weighted average exercise price CDN\$
Balance - June 30, 2007	9,293,900	\$ 0.57
Granted during the period	605,000	\$ 0.30
Forfeited during the period	(1,007,700)	\$ 0.79
Exercised during the period	(27,200)	\$ 0.25
Balance - March 31, 2008	<u>8,864,000</u>	<u>\$ 0.53</u>

During the third quarter the Company granted 605,000 stock options to employees of the Company, with an exercise price of CDN \$0.30 per share, vesting over two years and with a term of four years.

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>March 31, 2008</u> (unaudited)	<u>June 30, 2007</u>
Future income tax assets		
Tax losses and deductions	\$ 9,339,850	\$ 9,161,889
Capital assets	443,829	437,557
Share issuance costs	496,719	653,200
Other	99,913	99,913
Future income tax assets	<u>10,380,311</u>	<u>10,352,559</u>
Valuation allowance	<u>(3,963,075)</u>	<u>(4,200,345)</u>
Net Future income tax asset	6,417,236	6,152,214
Future income tax liabilities - Goodwill	<u>(756,762)</u>	<u>(731,499)</u>
Net Future income tax asset	5,660,474	5,420,715
Less current portion	<u>(1,203,875)</u>	<u>(1,094,579)</u>
Non-current portion of net future income tax asset	<u>\$ 4,456,599</u>	<u>\$ 4,326,136</u>

During the three months ended March 31, 2008 the Company recorded a \$118,978 non-cash future income tax expense (March 31, 2007 - \$168,111 future income tax benefit) related to the recognition of future income tax assets.

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For the period ended March 31, 2008
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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:

	March 31 2008	June 30 2007	Nine months ended March 31	
			2008	2007
	Capital assets, intangible assets and goodwill	Capital assets, intangible assets and goodwill	Revenue	Revenue
<i>U.S. companies</i>				
United States	\$ 11,561,071	\$ 11,722,692	\$ 44,765,368	\$ 43,188,829
Canada			183,496	2,127
Netherlands			14,900	348,540
France			243,405	-
United Kingdom			61,250	-
Other			12,300	24,908
<i>UK and Canadian companies</i>				
United Kingdom	13,803	16,678	377,823	472,704
Canada	1,779	3,836	-	-
	<u>11,576,653</u>	<u>11,743,206</u>	<u>45,658,542</u>	<u>44,037,108</u>

During the nine months ended March 31, 2008 the company generated revenue of \$4,635,481 from Comcast Cable representing 10.2% of the revenue for the period.

During the nine months ended March 31, 2008 the company purchased products and services from one vendor for \$18,650,705 (March 31, 2007 - \$20,697,965) representing 54.3% (2007 - 61.3%) of the cost of sales.