

Versatile Systems Inc.

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

Auditors' Report

To the Shareholders of Versatile Systems Inc.

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

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

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

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
September 26, 2008

Versatile Systems Inc.

Consolidated Balance Sheets

As at June 30, 2008 and 2007

(expressed in U.S. dollars)

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

Director

Director

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

Versatile Systems Inc.

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

(expressed in U.S. dollars)

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

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

Versatile Systems Inc.

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

(expressed in U.S. dollars)

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

Versatile Systems Inc.

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

(expressed in U.S. dollars)

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

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

Versatile Systems Inc.

Notes to Consolidated Financial Statements June 30, 2008 and 2007

(expressed in U.S. dollars)

1 Nature of operations

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

2 Significant accounting policies

Basis of presentation

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

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

Cash and cash equivalents

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

Inventory

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

Deferred service contract costs

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

Versatile Systems Inc.

Notes to Consolidated Financial Statements June 30, 2008 and 2007

(expressed in U.S. dollars)

Research and development

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

Capital assets

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

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

Goodwill and intangible assets

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

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

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

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

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

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

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Notes to Consolidated Financial Statements

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Income taxes

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

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

Foreign currency translation

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

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

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

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Revenue recognition

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

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

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

Warranty costs

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

Use of estimates

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

Earnings per share

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

Versatile Systems Inc.

Notes to Consolidated Financial Statements June 30, 2008 and 2007

(expressed in U.S. dollars)

Stock-based compensation

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

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

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

Changes in accounting policies

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

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

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

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

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(expressed in U.S. dollars)

The Company has made the following classifications:

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

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

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

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

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

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

Versatile Systems Inc.

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(expressed in U.S. dollars)

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

Recent accounting pronouncements issued and not yet adopted

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

Capital Disclosures and Financial Instruments - Presentation and Disclosure

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

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

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

Inventories

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

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Going concern

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

Goodwill and intangible assets

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

3 Acquisition of Sagent Solutions business

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

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

Versatile Systems Inc.

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(expressed in U.S. dollars)

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

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

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

4 Accounts receivable

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

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

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5 Capital assets

	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
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

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

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

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(expressed in U.S. dollars)

6 Intangible assets

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

	2008		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
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
			2007
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Customers	1,757,359	761,518	995,841
Purchased technology	1,211,969	875,314	336,655
Intellectual property	451,250	451,250	-
Other intangibles	6,127	2,746	3,381
Licences	522,402	522,402	-
	3,949,107	2,613,230	1,335,877

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(expressed in U.S. dollars)

7 Goodwill

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

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

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

8 Line of credit, bank overdraft and bank term loan

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

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

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

9 Accounts payable and accrued liabilities

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

10 Convertible debenture

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

11 Capital lease obligations

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

12 Term loan

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

Versatile Systems Inc.

Notes to Consolidated Financial Statements June 30, 2008 and 2007

(expressed in U.S. dollars)

13 Share capital

Authorized

Unlimited common shares without par value

Issued and outstanding

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

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

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

Versatile Systems Inc.

Notes to Consolidated Financial Statements June 30, 2008 and 2007

(expressed in U.S. dollars)

14 Warrants

The following warrants were outstanding:

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

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

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

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

Versatile Systems Inc.

Notes to Consolidated Financial Statements June 30, 2008 and 2007

(expressed in U.S. dollars)

15 Contributed surplus

Contributed surplus consists of the following:

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

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

16 Stock options

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

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

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

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

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

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

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

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

Versatile Systems Inc.

Notes to Consolidated Financial Statements June 30, 2008 and 2007

(expressed in U.S. dollars)

17 Financial instruments

a) Credit risk exposure

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

b) Interest rate risk exposure

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

c) Fair values

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

18 Related party transactions

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

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

Versatile Systems Inc.

Notes to Consolidated Financial Statements June 30, 2008 and 2007

(expressed in U.S. dollars)

19 Commitments

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

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

20 Income taxes

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

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

Tax losses in Canada expire as follows:

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

Versatile Systems Inc.

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

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

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

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

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

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

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

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

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

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

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

21 Segmented information

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

Versatile Systems Inc.

Notes to Consolidated Financial Statements June 30, 2008 and 2007

(expressed in U.S. dollars)

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

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

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

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

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

22 Supplemental cash flow information

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

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23 Subsequent event

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