
Versatile Systems Inc.
Consolidated Financial Statements
(unaudited - prepared by management)
September 30, 2008

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Versatile Systems Inc.
Consolidated Balance Sheets

Expressed in U.S. dollars

September 30, 2008 June 30, 2008
(unaudited)
ASSETS

Current Assets

Cash and cash equivalents	\$ 1,136,432	\$ 1,500,005
Accounts receivable	8,777,332	11,842,754
Current portion of deferred contract costs	4,940,787	4,918,704
Work-in-progress	156,459	80,668
Prepaid expenses	489,220	309,061
Inventory	1,748,322	1,944,100
Future income tax benefits (note 7)	680,983	706,249
	<u>17,929,535</u>	<u>21,301,541</u>

Long-term accounts receivable

38,081 26,522

Deferred contract costs

1,076,692 1,050,694

Capital Assets

892,106 867,771

Intangible assets

604,846 695,726

Future income tax benefits (note 7)

4,547,393 4,672,907

Goodwill

9,977,659 9,977,659

\$ 35,066,312 \$ 38,592,820
LIABILITIES

Current Liabilities

Line of credit (note 3)	\$ -	\$ 74,942
Bank overdraft	-	127,214
Accounts payable and accrued liabilities	7,454,889	10,704,330
Current portion of deferred revenue	6,516,296	6,582,593
Promissory Notes	20,000	40,000
	<u>13,991,185</u>	<u>17,529,079</u>

Deferred Revenue

1,257,491 1,272,536

15,248,676 18,801,615
SHAREHOLDERS' EQUITY

Share Capital (note 4)	50,713,746	51,353,054
Warrants (note 5)	369,965	369,965
Contributed surplus	3,831,049	3,188,496
Deficit	(35,006,481)	(35,063,096)
Accumulated other comprehensive income (loss)	(90,643)	(57,214)
	<u>19,817,636</u>	<u>19,791,205</u>

\$ 35,066,312 \$ 38,592,820

APPROVED BY THE DIRECTORS:

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

See Notes to Consolidated Financial Statements

Versatile Systems Inc.
Consolidated Statements of Earnings and Deficit
(unaudited - prepared by management)

Expressed in U.S. dollars

	Three months ended September 30	
	2008	2007
SALES	\$ 14,303,851	\$ 12,615,506
COST OF SALES	10,550,751	9,535,389
	<u>3,753,100</u>	<u>3,080,117</u>
EXPENSES		
General and administrative	1,323,060	1,094,919
Selling and marketing	1,769,825	1,531,330
Research and development	424,752	408,259
Foreign Exchange (gain) Loss	(20,352)	8,967
Stock-based compensation	3,243	25,851
	<u>3,500,528</u>	<u>3,069,326</u>
Earnings before interest, taxes and amortization	252,572	10,791
Amortization of capital assets	69,900	57,174
Amortization of intangible assets	90,674	188,862
Interest expense	29,088	35,475
EARNINGS (LOSS) BEFORE INCOME TAXES	62,910	(270,720)
Current income tax expense	(4,500)	(9,586)
Future income tax (expense) benefit	(1,795)	223,802
NET EARNINGS (LOSS) FOR THE PERIOD	<u>56,615</u>	<u>(56,504)</u>
DEFICIT, BEGINNING OF PERIOD	(35,063,096)	(35,263,226)
DEFICIT, END OF PERIOD	<u>(35,006,481)</u>	<u>(35,319,730)</u>
EARNINGS 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 Comprehensive Income (Loss)
(unaudited - prepared by management)

Expressed in U.S. dollars

	Three months ended September 30	
	2008	2007
Net earnings (loss) for the period	56,615	(56,504)
Other comprehensive income (loss)		
Foreign currency translation adjustments	(33,429)	43,078
Comprehensive income (loss) for the period	<u>23,186</u>	<u>(13,426)</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
2008 2007

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

Net earnings (loss) for the period	\$	56,615	\$	(56,504)
Items not affecting cash				
Amortization of capital and intangible assets		166,902		246,036
Loss on disposal of capital assets		-		212
Stock-based compensation		3,243		25,851
Foreign exchange loss		8,119		8,967
Future income tax expense (benefit)		1,795		(223,802)
Cash flow from operations before other items		236,674		760
Net change in non-cash working capital items		(385,172)		1,823,917
		<u>(148,498)</u>		<u>1,824,677</u>

CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES

Proceeds from disposition of capital assets		-		1,867
Additions to capital assets		(103,478)		(186,547)
		<u>(103,478)</u>		<u>(184,680)</u>

CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES

Proceeds from issuance of shares, net of costs		-		416,202
Repayment of line of credit		(74,942)		(3,383)
Proceeds from (Repayment of) bank overdraft		(127,214)		363,452
Repayment of the Term Loan		-		(175,000)
Repayment of Promissory Notes		(20,000)		-
Repayment of capital lease obligations		-		(2,738)
		<u>(222,156)</u>		<u>598,533</u>

Effect of foreign exchange rate on cash		110,559		(43,078)
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Increase (decrease) in cash and cash equivalents		(363,573)		2,195,452
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CASH and cash equivalents, beginning of period		1,500,005		3,369,087
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CASH and cash equivalents, end of period	\$	<u>1,136,432</u>	\$	<u>5,564,539</u>
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Supplementary information

Cash paid for interest expense	\$	25,118	\$	71,104
Cash paid for income taxes		27,985		9,586

See Notes to Consolidated Financial Statements

Versatile Systems Inc.**Notes to Consolidated Financial Statements
For the period ended September 30, 2008**

(Unaudited - Prepared by Management)

1. Consolidated financial statement presentation:

These unaudited interim consolidated financial statements at September 30, 2008 and the consolidated statements of operations and deficit, comprehensive income (loss) and cash flows for the periods ended September 30, 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 audited 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, 2008.

The results of operations for the period ended September 30, 2008 are not necessarily indicative of the results for the full year ending June 30, 2009. 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 September 30, 2008 have not been reviewed or audited by the Company's auditor.

2. Accounting Policies:

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

3. Bank term loan and Line of Credit

The Company has a credit line facility for up to \$5,800,000, which is limited to 70% of eligible accounts receivable of certain U.S. subsidiaries from a U.S. based financial institution. The line of credit bears interest at the State of New York prime rate of lending and is secured with a first charge on the assets of these U.S. subsidiaries.

4. Common Shares

Authorized

Unlimited common shares without par value

Issued and outstanding

Issued and outstanding - June 30, 2008

Cancelled shares that were held in Treasury

Balance - September 30, 2008

	Number of shares	Amount
	121,148,643	\$ 51,808,079
	(2,559,000)	(1,094,333)
	<u>118,589,643</u>	<u>\$ 50,713,746</u>

During the current quarter the Company cancelled 2,559,000 common shares that had been purchased pursuant to a Normal Course Issuer Bid. As a result the share capital is reduced by the average cost of shares, which results in contributed surplus of \$639,308.

Versatile Systems Inc.**Notes to Consolidated Financial Statements****For the period ended September 30, 2008**(Unaudited - Prepared by Management)

5. 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 - September 30, 2008		5,419,194	\$ 369,965

6. Stock Options

	Number of Stock Options	Weighted average exercise price CDN\$
Balance - June 30, 2008	8,768,200	\$ 0.53
Granted during the period	-	
Forfeited during the period	-	
Exercised during the period	-	
Balance - September 30, 2008	8,768,200	\$ 0.53

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended September 30, 2008
(Unaudited - Prepared by Management)

7. 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, 2008</u>	<u>June 30, 2008</u>
	(unaudited)	
Future income tax assets		
Tax losses and deductions	\$ 8,040,616	\$ 8,201,781
Capital assets	431,656	441,178
Share issuance costs	340,956	354,780
Other	181,081	183,861
	<hr/>	<hr/>
Future income tax assets	8,994,309	9,181,600
Valuation allowance	(3,052,988)	(3,060,592)
	<hr/>	<hr/>
Net Future income tax asset	5,941,321	6,121,008
Future income tax liabilities - Goodwill	(712,945)	(741,852)
	<hr/>	<hr/>
Net Future income tax asset	5,228,376	5,379,156
Less current portion	(680,983)	(706,249)
	<hr/>	<hr/>
Non-current portiion of net future income tax asset	\$ 4,547,393	\$ 4,672,907

During the three months ended September 30, 2008 the Company recorded a \$1,795 non-cash future income tax expense (September 30, 2007 - \$223,802 future 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, 2008
(Unaudited - Prepared by Management)

8. Segmented Information

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

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

	September 30 2008	June 30 2008	Three months ended September 30	
			2008	2007
	Capital assets, intangible assets and goodwill	Capital assets, intangible assets and goodwill	Revenue	Revenue
<i>U.S. companies</i>				
United States	\$ 11,466,374	\$ 11,529,258	\$ 13,998,907	\$ 12,342,059
Canada			50,992	102,388
Netherlands			-	14,900
France			-	35,449
United Kingdom			10,625	7,000
Other			-	-
<i>UK and Canadian companies</i>				
United Kingdom	7,916	11,574	243,327	113,710
Canada	321	324	-	-
	<u>11,474,611</u>	<u>11,541,156</u>	<u>14,303,851</u>	<u>12,615,506</u>

During the three months ended September 30, 2008 the company did not have a customer with more than 10% of the total revenue. For 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, 2008 the company purchased products and services from one vendor for \$5,543,011 (September 30, 2007 - \$5,942,014) representing 52.5% (2007 - 62.3%) of the cost of sales.