
Versatile Systems Inc.
Management Discussion and Analysis
Three months ended September 30, 2008

The following management discussion and analysis of the consolidated results of operations and financial condition of Versatile Systems Inc. (the “Company” or “Versatile”) is made as of October 31, 2008 on the unaudited interim consolidated financial statements and notes for the three months ended September 30, 2008.

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) and are stated in United States dollars unless otherwise specified. The consolidated financial statements and management discussion and analysis have been reviewed by the Company’s Audit Committee and approved by the Company’s Board of Directors.

The preparation of financial statements in conformity with Canadian GAAP 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.

Forward-Looking Statements

This document may contain forward-looking statements relating to Versatile’s operations or to the environment in which it operates, which are based on Versatile’s operations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or are beyond Versatile's control. A number of important factors including those set forth in other public filings could cause actual outcomes and results to differ materially from those expressed in these forward looking statements. Consequently readers should not place any undue reliance on such forward-looking statements. In addition, these forward looking statements relate to the date on which they are made. Versatile disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

Non-GAAP Disclosure

EBITDA is defined by the Company as net earnings before interest, income taxes, depreciation and amortization. The Company has included information concerning EBITDA because it believes that it may be used by certain investors as one measure of the Company's financial performance. EBITDA is not a measure of financial performance under Canadian GAAP and is not necessarily comparable to similarly titled measures used by other companies. EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with Canadian GAAP) as a measure of liquidity.

In addition, the Company has included information concerning its cash flow from (used in) operations before the net change in non-cash working capital items as it may be used by certain investors as further measures of the Company's financial performance.

Overview

The Company's core business is developing solutions that solve customers' problems in the storage, security, transmission and collection of mission critical data. The Company's proprietary software applications, the *Mobiquity*TM Solution Suite, are a key component of this solution. This enables companies to improve the sales, marketing and distribution of their products. The Company delivers wireless/wired solutions to the consumer packaged goods, retail, financial, pharmaceutical, healthcare, and logistics verticals through an integrated combination of licensed software, professional services, and the re-sale of mobile-computing devices and related hardware. The Company also offers maintenance and support via a 24 hour call centre.

Acquisition of Sagent Solutions

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 is 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 Vendor in quarterly amounts (of which \$40,000 had been paid by the year-end) and 600,000 share purchase warrants 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.

For the period from January 1, 2007 to December 28, 2007 Sagent Solutions reported revenue of \$2,474,455 and pre-tax earnings of \$56,106. These figures have not been reviewed or audited. The operations of Sagent Solutions have been included in the consolidated financial statements for the company subsequent to December 28, 2007.

Highlights of the first quarter

Highlights of the Company's operations for the first quarter included:

- Revenue for the three months ended September 30, 2008 was \$14,303,851 compared to \$12,615,506 for the same period last year, an increase of 13.4%;
- Cash flow from operations, before the non-cash working capital items, was \$236,674 for the quarter ended September 30, 2008 compared to cash flow of \$760 for the same period last year;
- Deferred revenue at September 30, 2008 was \$7,773,787 (of which \$6,516,296 is expected to be recognized in the next four quarters) compared to \$7,343,606 at September 30, 2007, an increase of \$430,181;
- Working capital as of September 30, 2008 of \$3,938,350, an increase of \$165,888 over the working capital at the year-end of June 30, 2008;

- *Mobiquity Kiosk™* passed a milestone of generating more than \$2 Billion of credit facilities since inception for 512,243 customers of retailers;
- Deploying the *Mobiquity Route™* solution on the AT&T Data Network with Tree of Life; and
- Announcing the subscription packages for the Rockland and Madison Kiosks.

Cash flow from operations

The cash flow from operations, before the non-cash working capital items, was \$236,674 for the quarter ended September 30, 2008 compared to cash flow of \$760 for the same period last year.

Over the past four years the cash flow from operations, before non-cash working capital items, has been as follows:

2008	\$1,452,981
2007	2,159,289
2006	1,099,233
2005	(878,482)

Review of the first quarter

Revenue for the three months ended September 30, 2008 was \$14,303,851 compared to \$12,615,506 for the same quarter last year, an increase of \$1,688,345 or 13.4%. While the Company had repeat business from its existing customer base including Motorola, Thermo Fisher Scientific, Respironics, Iron Mountain, Carnegie Mellon, Comcast and various retailers, universities and government organizations as well as new customers such as Tree of Life, the Company is experiencing an overall slowdown in orders from customers for routine expenditures on infrastructure.

The EBITDA for the quarter was \$252,572 compared to an EBITDA of \$10,791 for the same quarter last year.

The Net Earnings for the quarter amounted to \$56,615 (\$0.00 per share) compared to a Net Loss of \$56,504 (\$0.00 per share) for the same period last year.

Cost of sales

Cost of sales for the quarter amounted to \$10,550,751 resulting in a gross profit of \$3,753,100 or 26.2% of sales as compared to \$9,535,389 resulting in a gross profit of \$3,080,117 or 24.4% of sales for the same quarter last year. The Company generated sales of higher margin products resulting in an increase in gross profit as a percentage of sales.

The Company determines its provision for inventory obsolescence based upon historical experience, expected inventory turnover, inventory aging and current condition, and current and future expectations with respect to product offerings. Assumptions underlying the provision for inventory obsolescence include future sales trends and product offerings, and the expected inventory requirements and inventory composition necessary to support these future sales and

offerings. The estimate of the Company's provision for inventory obsolescence could materially change from period to period due to changes in product offerings and consumer acceptance of those products. At September 30, 2008 the Company had an inventory provision of \$231,586 (June 30, 2008 - \$231,586).

General and administrative

General and administrative expenses for the quarter amounted to \$1,323,060 compared to \$1,094,919 for the same quarter last year. As a percentage of sales the general and administrative expenses were 9.2% in the quarter compared to 8.7% in the same quarter last year.

Technology Investment

Over the past five years the Company has made a significant investment in the form of expenses to advance the abilities of its technology and resulting service offering. This investment does not contribute directly to revenues during the period that the research and development expenses are incurred.

Research and development expense for the quarter amounted to \$424,752 compared to \$408,259 for the same quarter last year. The significant expense item in this category is salary and benefit costs. As a percentage of sales the research and development expenses are 3.0% in the quarter compared to 3.2% in the same quarter last year. The increase in the research and development expense can be attributed to the number of research and development projects as noted in the following paragraphs.

During the current quarter the Company's technology investment related to enhanced product functionality and requirements from various partners:

For the *Mobiquity Route*TM these included the following:

- Implementation of new features into *Mobiquity Route*TM; and
- Updated the management console for *Mobiquity Sell*TM.

For the *Mobiquity Transaction Engine 3.0*TM these included the following:

- Implementation of Event Flow module - a drag-and-drop web interface for interacting with tasks and complex events from the *Mobiquity Transaction Engine 3.0*TM; and
- Development of a simulator to simulate location events, RFID events, and temperature and sensor events for product and sales demonstrations.

For the *Mobiquity Kiosk*TM, these included the following:

- Preliminary development of a new small form-factor self-service unit called the Cortland, which is an integrated computer with an eight inch diagonal touch screen, making it ideal for check-out lanes and retailers where space is a premium;
- Implementation of the credit application with General Financial Services;
- Improvement of the video support to allow *Mobiquity Kiosk*TM to deliver smooth high definition video;

- Implementation of a new interactive digital signage *Welcome Kiosk* solution; and
- Enhancements to the Kiosk platform including automated software delivery to allow the Company to remotely make software, content and configuration changes.

The Company incurred \$173,066 for research and development activities related to *Mobiquity Route™*, DEX and related mobile software products.

The Company incurred \$200,620 for research and development activities related to *Mobiquity Transaction Engine 3.0™*, *Mobiquity Kiosk™* (including the Rockland and Madison Kiosks) and research on Virtualization.

Selling and marketing expenses

Selling and marketing expense for the quarter amounted to \$1,769,825 compared to \$1,531,330 for the same quarter last year. Selling and marketing expenses includes salaries, commissions, advertising, trade shows and promotion costs to support the various sales initiatives. As a percentage of sales the selling and marketing expenses are 12.4% in the quarter compared to 12.1% in the same quarter last year. As a percentage of gross profit the selling and marketing expenses were 47.2% in the quarter compared to 49.7% in the same quarter last year. There were no significant changes in the selling and marketing activities during the quarter.

Future Income Tax Benefits

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.

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' taxable income. As a result, future income tax assets were fully provided for.

During the 2006 fiscal year, the Company determined that the U.S. subsidiaries were generating sufficient profits such that they were *more likely than not* to utilize 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.

For the three months ended September 30, 2008 the Company recorded a \$1,795 non-cash future 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.

Amortization

The amortization of capital assets and intangible assets for the quarter amounted to \$166,902 (September 30, 2007 - \$246,036). The purchased technology arising from the acquisition of Perfect Order was fully amortized in the 2008 fiscal year so consequently the amount of amortization of intangible assets is lower.

Foreign Exchange Loss

The foreign exchange gain for the quarter amounted to \$20,352 compared to a loss of \$8,967 for the same quarter last year. The gain was due to an increase in the U.S. dollar against the Canadian dollar and British Sterling Pounds in the quarter.

Summary of Quarterly Results

The table below provides a summary of certain selected unaudited financial information from the Consolidated Statements of Operations for the most recent eight fiscal quarters comprising the Company's preceding two years:

	Q2 2007 Dec 06	Q3 2007 Mar 07	Q4 2007 Jun 07	Q1 2008 Sept 07	Q2 2008 Dec 07	Q3 2008 Mar 08	Q4 2008 Jun 08	Q1 2009 Sept 08
Revenue	17,140,576	12,391,840	18,193,167	12,615,506	18,523,167	14,519,869	13,721,812	14,303,851
Cost of Sales	13,187,863	9,029,838	13,770,768	9,535,389	13,716,667	11,094,832	10,180,648	10,550,751
Gross Profit	3,952,713	3,362,002	4,422,399	3,080,117	4,806,500	3,425,037	3,541,164	3,753,100
Expenses:								
General and administrative (including foreign exchange)	1,180,790	1,179,582	1,252,940	1,103,886	1,412,063	1,219,904	1,530,733	1,302,708
Research and Development	262,261	254,565	339,369	408,259	491,459	397,591	448,260	424,752
Selling and Marketing	1,807,753	1,578,391	1,587,817	1,531,330	1,756,538	1,746,710	1,470,184	1,769,825
Stock-based compensation	134,916	129,571	264,896	25,851	27,452	56,587	(63,219)	3,243
	3,385,720	3,142,109	3,445,022	3,069,326	3,687,512	3,420,792	3,385,958	3,500,528
Earnings before interest, taxes and amortization	566,993	219,893	977,377	10,791	1,118,988	4,245	155,206	252,572
Amortization	(309,825)	(249,562)	(282,705)	(246,036)	(249,035)	(261,951)	(193,655)	(160,574)
Interest	(80,321)	(56,907)	(69,236)	(35,475)	(26,521)	90,375	(167)	(29,088)
Income taxes	1,981	157,047	367,130	214,216	(157,133)	99,709	(323,427)	(6,295)
Net Earnings (loss)	178,828	70,471	992,566	(56,504)	686,299	(67,622)	(362,043)	56,615
Per share, basic and diluted	0.00	0.00	0.01	(0.00)	0.01	(0.00)	(0.00)	0.00

The Company's revenues and earnings fluctuate from quarter to quarter. A number of factors can cause such fluctuations, including the timing of substantial orders, the timing of releases of new products, timing of the deployment of solutions and delays by customers. Because the Company's operating expenses are determined based on anticipated sales, are generally fixed and are incurred throughout each fiscal quarter, any of the factors listed above can cause significant variations in the Company's revenues and earnings in any given quarter. Thus, the Company's quarterly results are not necessarily indicative of the Company's overall business, results of operations and financial condition.

In summary with the quarterly results the Company has improved cash flow from operations while maintaining selling, marketing, general and administration expenses in relation to revenue at relatively the same level.

Financial position

The working capital as of September 30, 2008 was \$3,938,350, an increase of \$165,888 over the working capital at the year-end of June 30, 2008.

At September 30, 2008 the Company had cash and cash equivalents of \$1,136,432 compared to \$1,500,005 at the year-end of June 30, 2008.

The cash flow from operations, before non-cash working capital items amounted to \$236,674 for the quarter ended September 30, 2008 compared to \$760 for the same period last year.

The Company has a credit line facility of \$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 VAC, VSI and POI. As at September 30, 2008 the line of credit was Nil (September 30, 2007 - \$74,942) and the Company had a bank overdraft of Nil (September 30, 2007 - \$127,214).

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 September 30, 2008 the financial covenants for these companies include requirements for debt coverage of 1.2 and minimum Tangible Net worth of \$4,800,000. The companies met these tests.

Included in accounts payable and accrued liabilities is \$1,781,383 owing to a major supplier, which is subordinated to the bank line of credit.

Capital Expenditures

During the three months ended September 30, 2008 the majority of the capital expenditures relates to the costs of Kiosks that have been deployed under various subscription agreements.

Share Capital

As of October 31, 2008 the Company had 118,589,643 common shares issued and outstanding. The Company is holding 150,000 common shares in Treasury that were purchased in October 2008.

During the current fiscal quarter the Company cancelled 2,559,000 shares that were held in Treasury that had been purchased in the 2008 fiscal year pursuant to a Normal Course Issuer Bid to purchase up to 6,000,000 common shares through the facilities of the TSX Venture Exchange.

Stock Options

The Company can grant up to 10,800,000 options pursuant to its stock option plan.

	Number of shares	Weighted average exercise price CDN\$
Outstanding – June 30, 2008	8,768,200	0.53
Granted	-	-
Forfeited	-	-
Expired	-	-
Exercised	-	-
Outstanding – September 30, 2008	8,768,200	0.53

For the quarter ended September 30, 2008, the Company recognized \$3,243 in stock-based compensation, a non-cash item, for vesting of stock options granted to employees, consultants, directors and officers of the Company in prior years.

Warrants

The details of the outstanding warrants at September 30, 2008 are as follows:

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

Related Party Transactions

During the current fiscal quarter, the Company paid consulting fees and salaries, which are included in the General and administration expense, of \$184,600 (2007 - \$179,663) to Directors and Officers of the Company.

Risk Factors

The securities of the Company should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in this Management Discussion & Analysis prior to making an investment in the Company. In addition to the other information presented in this Management Discussion & Analysis, the following risk factors

should be given special consideration when evaluating an investment in the Company's securities.

Operating History

The Company's predecessor company commenced operations in March 1987 to distribute and sell Maximizer products in European countries, as well as provide consulting services and Customer Relationship Management (“CRM”) solutions to companies. In January 1997, the Company changed its focus to research and development of CRM software. The Company purchased Versatile Mobile Systems on June 19, 2000, Perfect Order on April 26, 2005 and Sagent Solutions on December 28, 2007. The Company may face many of the risks and uncertainties encountered by early-stage companies in rapidly evolving markets.

History of Losses

The Company had a history of losses up to June 30, 2005 and has an accumulated deficit of \$35.0 million to September 30, 2008. Although the Company has decreased its operating expenses and increased its revenues over the past three years the Company cannot be assured that it can maintain its current level of profitability.

No Certainty of Future Profitability

The Company's product revenues are not predictable with any significant degree of certainty and future product revenues may differ from historical patterns. If customers cancel or delay orders, it can have a material adverse impact on the Company's revenues and results of operations from quarter to quarter. Because the Company's results of operations may fluctuate from quarter to quarter, investors should not assume that results of operations in future periods can be predicted based on results of operations in past periods.

Even though the Company's revenues are difficult to predict, the Company's expense levels are based in part on future revenue projections. Many of the Company's expenses are fixed and, accordingly, the Company cannot quickly reduce spending if revenues are lower than expected.

Competitive Market

The market for the Company's software is intensely competitive, fragmented and rapidly changing. Some of the Company's actual and potential competitors are larger, established companies that have greater technical, financial and marketing resources. In addition, as the Company develops new products, particularly applications focused on electronic commerce or specific industries, it may begin competing with companies with whom it has not previously competed. It is also possible that new competitors will enter the market or that the Company's competitors will form alliances that may enable them to rapidly increase their market share.

Increased competition may result in price reductions, lower gross margins or loss of the Company's market share, any of which could materially adversely affect its business, financial condition and operating results.

Technological Change

The market for the Company's solutions is characterized by rapidly changing technology and evolving industry standards. The market is affected by changes in end user requirements and frequent new product introductions and enhancements. The Company's products embody complex technology and may not always be compatible with current and evolving technical standards and products, developed by others. Failure or delays by the Company to meet or comply with the requisite and evolving industry or user standards could have a material adverse effect on the Company's business, results of operations and financial condition. The Company's ability to anticipate changes in technology, technical standards and product offerings will be a significant factor in the Company's ability to compete. There can be no assurance that the Company will be successful in identifying, developing, manufacturing and marketing products that will respond to technological change, evolving standards or individual wireless communications service provider standards or requirements. The Company's business will be adversely affected if the Company incurs delays in developing new products or enhancements or if such products or enhancements do not gain market acceptance. In addition, there can be no assurance that products or technologies developed by others will not render the Company's products or technologies non-competitive or obsolete.

Limited Sales and Support Infrastructure

The Company's future revenue growth will depend in large part on its ability to successfully expand its direct sales force and its customer support capability. The Company may not be able to successfully manage the expansion of these functions or to recruit and train additional direct sales, consulting and customer support personnel.

If the Company is unable to hire and retain additional highly skilled direct sales personnel, it may not be able to increase its license revenue to the extent necessary to achieve profitability. If the Company is unable to hire highly trained consulting and customer support personnel, it may be unable to meet customer demands. The Company is unlikely to be able to increase its revenues as planned if it fails to expand its direct sales force or its consulting and customer support staff. Even if the Company is successful in expanding its direct sales force and customer support capability, the expansion may not result in revenue growth.

Dependence on Business Alliances

A key element of the Company's business strategy is the formation of corporate alliances with leading companies. The Company is currently investing and plans to continue to invest significant resources to develop these relationships. The Company believes that its success in penetrating new markets for its products will depend in part on its ability to maintain these relationships and to cultivate additional or alternative relationships. There can be no assurance that the Company will be able to develop additional corporate alliances with such companies,

that existing relationships will continue or be successful in achieving their purposes or that such companies will not form competing arrangements.

Dependence on Key Personnel

The Company's success depends largely upon the continued service of its executive officers and other key management, sales and marketing and technical personnel. The loss of the services of one or more of the Company's executive officers or other key employees could have a material adverse effect on its business, results of operations or financial condition.

The Company's future success also depends on its ability to attract and retain highly qualified personnel. The competition for qualified personnel in the computer software and Internet markets is intense, and the Company may be unable to attract or retain highly qualified personnel in the future. In addition, due to intense competition for qualified employees, it may be necessary for the Company to increase the level of compensation paid to existing and new employees to the degree that operating expenses could be materially increased.

Management of Growth

The Company expects to experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. The Company's future will depend in part on the ability of its officers and other key employees to implement and improve its financial and management controls, reporting systems and procedures on a timely basis and to expand, train and manage its employee workforce. There can be no assurance that the Company will be able to effectively manage such growth. The Company's failure to do so could have a material adverse effect upon the Company's business, prospects, results of operation and financial condition.

Integration of Newly Acquired Businesses or Technology

The Company may expand its operations through acquisitions of additional businesses or technology. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses or technology or successfully integrate acquired businesses or technology into the Company without substantial expense, delay or other operational or financial problems. Further, acquisitions may involve a number of additional risks, including diversion of management's attention, failure to retain key acquired personnel, unanticipated events or circumstances, legal liabilities and amortization of acquired intangible assets, some or all of which could have a material adverse effect on the Company's business, financial condition and results of operation. In addition, there can be no assurance that acquired businesses, if any, will achieve anticipated revenues and earnings. The failure of the Company to manage its acquisition strategy successfully could have a material adverse effect on the Company's business, financial condition and results of operation.

Potential Fluctuations in Quarterly Financial Results

The Company's quarterly financial results may be affected by the timing of new releases of its products and/or substantial customer orders. The Company's operating expenses are based on anticipated revenue levels in the short term, are relatively fixed, and are incurred throughout the quarter. As a result, if expected revenues are not realized on a timely basis as anticipated, the Company's financial results could be materially and adversely affected. These or other factors, including possible delays in the shipment of new products, may influence quarterly financial results in the future. Accordingly, there may be significant variation in the Company's quarterly financial results.

International Sales

Sales outside of the United States currently represent less than 10% of the Company's total gross revenues. The Company believes that its continued growth and profitability will require additional expansion of its sales in international markets. To the extent that the Company is unable to expand international sales in a timely and cost effective manner, the Company's business, results of operations and financial condition could be materially and adversely affected. In addition, even with the successful recruitment of additional personnel and international resellers, there can be no assurance that the Company will be successful in maintaining or increasing international market demand for the Company's products.

Currency Exchange Rate Risk

The Company's results have been restated into U.S. dollars as a substantial portion of the Company's revenues and a material portion of its expenses are denominated in US dollars.

Dependence on Proprietary Technology and Limited Patent and Trademark Protection

The Company relies on a combination of copyright and trademark laws, trade secret, confidentiality procedures and contractual provisions to protect its proprietary rights. Unauthorized parties may attempt to copy aspects of the Company's products or obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's product is difficult, time-consuming and costly as is the pursuing of patents in each jurisdiction in which the Company carries on business. Although the Company is unable to determine the extent to which piracy of its software product exists, software piracy is a possibility. In addition, the laws of certain countries in which the Company's products may be licensed do not protect its product and intellectual property rights to the same extent as the laws do in Canada or the United States. There is no assurance that the Company's means of protecting its proprietary rights will be adequate or the Company's competitors will not independently develop similar technology, the effect of either of which may be materially adverse to the Company's business, results of operations and financial condition.

Risk of Third Party Claims for Infringement

The Company is not aware that its product infringes the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by the Company or its licensees with respect to current or future products. The Company expects that software product developers will increasingly be subject to such claims as the number of products and competitors in the Company's industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements which, if required, may not be available on terms acceptable to the Company. Any of the foregoing could have a materially adverse effect on the Company's business, results of operations and financial condition.

Lengthy Sales and Implementation Cycle

The adoption of the Company's product generally involves a significant commitment of resources by potential customers. As a result, the Company's sales process is often subject to delays associated with lengthy approval processes by potential customers. For these and other reasons, the sales cycle associated with the license of the Company's product varies substantially from customer to customer and typically lasts between 6 to 12 months during which time the Company may devote significant time and resources to a prospective customer, including costs associated with multiple site visits, product demonstrations and feasibility studies, and experience a number of significant delays over which the Company has no control. Any significant or ongoing failure by the Company to ultimately achieve such sales could have a material adverse effect on the Company's business, results of operations and financial condition. In addition, following license sales, the implementation period is expected to involve a time period for customer training and integration with the customer's existing systems. A successful implementation program requires a close working relationship between the Company, the customer and, generally, third party consultants and system integrators who assist in the process. There can be no assurance that delays or difficulties in the implementation process for any given customer will not have a material adverse effect on the Company's business, results of operations and financial condition.

Risk of System Defects

System development involves the integration of the Company's proprietary software and software of others into the customer's operating systems. There can be no assurance that defects and errors will not be found in the Company's product when integrated with other products or systems. Any such defects and errors could result in adverse customer reactions, negative publicity regarding the Company and its product or damages. Consequently, there could be a material adverse effect on the Company's business, results of operations and financial condition.

Requirements for New Capital

As a growing business, the Company typically needs more capital than it has available to it or can expect to generate through the sale of its products. In the past, the Company has had to raise,

by way of debt and equity financing, considerable funds to meet its capital needs. There is no guarantee that the Company will be able to continue to raise funds needed for its business. Failure to raise the necessary funds in a timely fashion will limit the Company's growth.

Critical Accounting Estimates

General

Unless otherwise specified in the discussion of the specific critical accounting estimates, the Company is not aware of trends, commitments, events, or uncertainties that it reasonably expects to materially affect the methodology or assumptions associated with the critical accounting estimates, subject to the circumstances identified above.

Changes are made to assumptions underlying all critical accounting estimates to reflect current economic conditions and updating of historical information used to develop the assumptions, where applicable. Unless otherwise specified in the discussion of the specific critical accounting estimates, it is expected that no material changes in overall financial performance and financial statement line items would arise either from reasonably likely changes in material assumptions underlying the estimate or within a valid range of estimates, from which the recorded estimate was selected.

All critical accounting estimates are uncertain at the time of making the estimate.

Accounts Receivable

Allowance for doubtful accounts

The Company considers the business area that gives rise to the accounts receivable, maintains procedures for granting credit terms on sales transactions and performs specific account identification when determining its allowance for doubtful accounts. This accounting estimate is in respect of the accounts receivable line item on the Company's consolidated balance sheet comprising approximately 25% of total assets as at September 30, 2008. In the event the future results were to adversely differ from management's best estimate of the allowance for doubtful accounts, the Company could experience a bad debt charge in the future. Such a bad debt charge would not result in a cash outflow.

The estimate of the Company's allowance for doubtful accounts could materially change from period to period due to the allowance being a function of the balance and composition of accounts receivable, which can vary on a month-to-month basis. The variance in the balance of accounts receivable can arise from a variance in the amount and composition of operating revenues and from variances in accounts receivable collection performance.

Inventories

Provision for inventory obsolescence

The Company determines its provision for inventory obsolescence based upon historical experience, expected inventory turnover, inventory aging and current condition, and current and future expectations with respect to product offerings.

Assumptions underlying the provision for inventory obsolescence include the activity levels over previous fiscal years, and the expected inventory requirements and inventory composition necessary to support these future sales and offerings. The estimate of the Company's provision for inventory obsolescence could materially change from period to period due to changes in product offerings and consumer acceptance of those products.

This accounting estimate is in respect of the inventory line item on the Company's consolidated balance sheet comprising approximately 5% of total assets as at September 30, 2008. If the provision for inventory obsolescence was inadequate, the Company could experience a charge to direct cost of sales in the future. Such an inventory obsolescence charge would not result in a cash outflow.

Long-Lived Assets

The accounting estimates for long-lived assets that include capital assets, purchased technology, intellectual property, customer contracts and licenses, in aggregate, represent approximately 4% of the Company's total assets as at September 30, 2008, presented in its consolidated balance sheet. If the Company's estimated useful lives of assets were different as a result of changes in facts and circumstances, the Company could experience increased or decreased charges for amortization and the Company could potentially experience future material impairment charges in respect of its recovery of long-lived assets.

The estimated useful lives of capital assets are determined by a continuing program of asset life studies. The recoverability of capital assets is significantly impacted by the estimated useful lives. Assumptions underlying the estimated useful lives of capital assets include timing of technological obsolescence, competitive pressures and future infrastructure utilization plans. In the event management's best estimate of the useful lives of capital assets was adversely affected, the Company could potentially experience a charge to amortization expense in the future. Such a charge to amortization would not result in a cash outflow.

Purchased Technology

The recoverability of the Company's investment in purchased technology is determined by an ongoing analysis of the economic benefits attributed to the purchased technology. The Company estimates the future economic benefits attributed to the purchased technology and compares the results with the net book value of the asset. Assumptions underlying the estimated future economic benefits of purchased technology costs include future sales trends, product offerings, timing of technological obsolescence, competitive pressures and consumer acceptance of product offerings. If management's best estimate of the future economic benefits of purchased technology costs was adversely affected, the Company could potentially experience a charge to amortization expense in the future. Such a charge to amortization would not result in a cash outflow.

Customer Contracts

The recoverability of the Company's investment in customer contracts is determined by an ongoing analysis of the economic benefits attributed to the customer contracts in place at the date of the acquisition. The Company estimates the future economic benefits attributed to the customer contracts and compares the results with the net book value of the asset. Assumptions underlying the estimated future economic benefits of customer contracts include future sales trends, product offerings, timing of technological obsolescence, competitive pressures and consumer acceptance of product offerings. If management's best estimate of the future economic benefits of customer contracts was adversely affected, the Company could potentially experience a charge to amortization expense in the future. Such a charge to amortization would not result in a cash outflow.

Future Income Tax Benefits

The amount recorded for Future Income Tax Benefits represents approximately 15% of the Company's assets as at September 30, 2008, presented in its consolidated balance sheet. If the Company determines that the valuation allowances relating to the loss carry forwards and tax deductions should be increased, the Company could experience a reduction in the recorded future income tax benefits.

Goodwill

The accounting estimates for goodwill represents approximately 28% of the Company's total assets as at September 30, 2008, presented in its consolidated balance sheet. If the Company's estimated fair value were incorrect, the Company could experience increased or decreased charges for changes to the estimated fair value in the future. If the future were to adversely differ from management's best estimate to recover the Company's investments in its goodwill, the Company could potentially experience future material impairment losses in respect of its goodwill. The impairment losses would be recognized and presented as a separate line item in the consolidated statements of loss and deficit. Impairment losses to goodwill would not result in a cash outflow.

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 cost. 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

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.

Under the new standards, a derivative is a financial instrument or other contract whose value changes in response to the change in a specified rate, price or index that requires nominal or no initial investment and which is settled at a future date. Derivative financial instruments can be utilized by the Company in the management of its foreign currency risk to reduce its exposure to fluctuations in foreign exchange on certain committed and anticipated transactions. The Company, where applicable, formally documents the relationships between derivative financial instruments and hedged items, as well as the risk management objective and strategy. The Company assesses, on an ongoing basis, whether the derivative financial instruments continue to be effective in offsetting changes in fair values or cash flows of the hedged transactions.

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 period ended September 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.

For the period ended September 30, 2008 the Company does not have any items that should be presented in other comprehensive income therefore, net loss for the period is equivalent to comprehensive loss for the period.

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.

Additional information relating to the Company can be found on the Canadian Securities Administrators System for Electronic Document Analysis and Retrieval (SEDAR), located at www.sedar.com