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

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Versatile Systems Inc.
Consolidated Balance Sheets

Expressed in U.S. dollars

December 31, 2008 June 30, 2008
(unaudited)

ASSETS

Current Assets

Cash and cash equivalents	\$ 2,371,513	\$ 1,500,005
Accounts receivable	8,183,556	11,842,754
Current portion of deferred contract costs	5,122,943	4,918,704
Work-in-progress	61,895	80,668
Prepaid expenses	687,223	309,061
Inventory	1,579,110	1,944,100
Future income tax benefits (note 8)	727,797	706,249
	<u>18,734,037</u>	<u>21,301,541</u>

Long-term accounts receivable

53,928 26,522

Deferred contract costs

924,429 1,050,694

Capital Assets

916,102 867,771

Intangible assets

514,117 695,726

Future income tax benefits (note 8)

4,628,098 4,672,907

Goodwill

9,977,659 9,977,659

\$ 35,748,370 \$ 38,592,820

LIABILITIES

Current Liabilities

Line of credit (note 3)	\$ -	\$ 74,942
Bank overdraft	-	127,214
Accounts payable and accrued liabilities	8,842,239	10,704,330
Current portion of deferred revenue	6,848,954	6,582,593
Promissory Notes	-	40,000
	<u>15,691,193</u>	<u>17,529,079</u>

Deferred Revenue

1,137,511 1,272,536

16,828,704 18,801,615

SHAREHOLDERS' EQUITY

Share Capital (note 4)	50,688,658	51,353,054
Warrants (note 5)	369,965	369,965
Contributed surplus	3,833,801	3,188,496
Deficit	(35,539,652)	(35,063,096)
Accumulated other comprehensive income (loss)	(433,106)	(57,214)
	<u>18,919,666</u>	<u>19,791,205</u>

\$ 35,748,370 \$ 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)

<i>Expressed in U.S. dollars</i>	Three months ended December 31		Six months ended December 31	
	2008	2007	2008	2007
SALES	\$ 12,327,064	\$ 18,523,167	\$ 26,630,915	\$ 31,138,673
COST OF SALES	9,287,669	13,716,667	19,838,420	23,252,056
	3,039,395	4,806,500	6,792,495	7,886,617
EXPENSES				
General and administrative	1,278,420	1,289,871	2,601,480	2,384,790
Selling and marketing	1,717,311	1,756,538	3,487,136	3,287,868
Research and development	391,088	491,459	815,840	899,718
Non recurring expenses	372,177	-	372,177	-
Foreign Exchange (gain) Loss	(76,407)	122,192	(96,759)	131,159
Stock-based compensation	2,753	27,452	5,996	53,303
	3,685,342	3,687,512	7,185,870	6,756,838
Earnings before interest, taxes and amortization	(645,947)	1,118,988	(393,375)	1,129,779
Amortization of capital assets	87,406	60,173	157,306	117,347
Amortization of intangible assets	90,675	188,862	181,349	377,724
Interest expense	354	26,521	29,442	61,996
EARNINGS (LOSS) BEFORE INCOME TAXES	(824,382)	843,432	(761,472)	572,712
Current income tax expense	(16,044)	(6,962)	(20,544)	(16,548)
Future income tax (expense) benefit	307,255	(150,171)	305,460	73,631
NET EARNINGS (LOSS) FOR THE PERIOD	(533,171)	686,299	(476,556)	629,795
DEFICIT, BEGINNING OF PERIOD	(35,006,481)	(35,319,730)	(35,063,096)	(35,263,226)
DEFICIT, END OF PERIOD	(35,539,652)	(34,633,431)	(35,539,652)	(34,633,431)
EARNINGS (LOSS) PER SHARE (basic and fully diluted)	(\$0.00)	\$0.01	(\$0.00)	\$0.01

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 December 31		Six months ended December 31	
	2008	2007	2008	2007
Net earnings (loss) for the period	(533,171)	686,299	(476,556)	629,795
Other comprehensive income (loss)				
Foreign currency translation adjustments	(342,643)	238,781	(375,892)	281,859
Comprehensive income (loss) for the period	(875,814)	925,080	(852,448)	911,654

See Notes to Consolidated Financial Statements

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

(Unaudited - Prepared by Management)

1. Consolidated financial statement presentation:

These unaudited interim consolidated financial statements at December 31, 2008 and the consolidated statements of operations and deficit, comprehensive income (loss) and cash flows for the periods ended December 31, 2008 and 2007, have been prepared in accordance with Canadian generally accepted accounting principles. These unaudited interim financial statements do not include all the disclosures required for annual 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 December 31, 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 December 31, 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 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

	Number of shares	Amount
Issued and outstanding - June 30, 2008	121,148,643	\$ 51,808,079
Cancelled shares that were held in Treasury	(2,559,000)	(1,094,333)
Less shares held in Treasury		(25,088)
	<hr/>	<hr/>
Balance - December 31, 2008	118,589,643	\$ 50,688,658

During the first 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 was 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 December 31, 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 - December 31, 2008		<u>5,419,194</u>	<u>\$ 369,965</u>

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	(32,600)	\$ 0.25
Exercised during the period	-	
Balance - December 31, 2008	<u>8,735,600</u>	<u>\$ 0.53</u>

7. Non Recurring Expenses

During the quarter the Company recorded an additional provision, including legal costs, for transactions occurring in prior periods.

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended December 31, 2008
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8. Income taxes

Canadian GAAP requires a valuation allowance to be recorded against any future tax asset to the extent that it is more likely than not that the future income tax asset will not be realized. This is also the Company's stated accounting policy.

Prior to the 2006 fiscal year the Company determined that it had not met this test so the Company recorded a full valuation allowance against the potential value of all of its tax losses and deductions available to be taken against future years' income tax returns. As a result there has been no future income tax asset.

During the 2006 fiscal year, the Company determined that the U.S. subsidiaries were generating sufficient profits that they were more likely than not to utilize the the losses and deductions attributable to these U.S. subsidiaries. Consequently, the Company concluded that the valuation allowance be reduced accordingly. The difference between the total value of these tax benefits less the valuation allowance is the amount of the future income tax asset that is recorded by the Company.

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

	<u>December 31, 2008</u>	<u>June 30, 2008</u>
	(unaudited)	
Future income tax assets		
Tax losses and deductions	\$ 7,760,074	\$ 8,201,781
Capital assets	400,070	441,178
Share issuance costs	242,184	354,780
Other	171,861	183,861
	<u>8,574,189</u>	<u>9,181,600</u>
Future income tax assets	8,574,189	9,181,600
Valuation allowance	<u>(2,601,235)</u>	<u>(3,060,592)</u>
	<u>5,972,954</u>	<u>6,121,008</u>
Net Future income tax asset	5,972,954	6,121,008
Future income tax liabilities - Goodwill	<u>(617,059)</u>	<u>(741,852)</u>
	<u>5,355,895</u>	<u>5,379,156</u>
Net Future income tax asset	5,355,895	5,379,156
	<u>(727,797)</u>	<u>(706,249)</u>
Less current portion	(727,797)	(706,249)
Non-current portion of net future income tax asset	<u>\$ 4,628,098</u>	<u>\$ 4,672,907</u>

During the three months ended December 31, 2008 the Company recorded a \$307,255 non-cash future income tax benefit (December 31, 2007 - \$150,171 future income tax expense) related to the recognition of future income tax assets.

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended December 31, 2008
(Unaudited - Prepared by Management)

9. Segmented Information

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

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

	December 31 2008	June 30 2008	Six months ended December 31	
			2008	2007
	Capital assets, intangible assets and goodwill	Capital assets, intangible assets and goodwill	Revenue	Revenue
<i>U.S. companies</i>				
United States	\$ 11,397,752	\$ 11,529,258	\$ 25,999,380	\$ 30,606,748
Canada			106,901	184,818
Netherlands				14,900
France			173,180	108,474
United Kingdom			30,850	36,377
<i>UK and Canadian companies</i>				
United Kingdom	6,500	11,574	320,604	187,356
Canada	3,626	324	-	-
	<u>11,407,878</u>	<u>11,541,156</u>	<u>26,630,915</u>	<u>31,138,673</u>

During the six months ended December 31, 2008 the company did not have a customer with more than 10% of the total revenue. For the six months ended December 31, 2007 the Company generated revenue of \$5,192,236 from Comcast Cable representing 17.0% of the revenue for the period.

During the six months ended December 31, 2008 the company purchased products and services from one vendor for \$10,655,115 (December 31, 2007 - \$15,761,900) representing 53.7% (2007 - 67.7%) of the cost of sales.