

Auditors' report and  
Consolidated financial statements of

# **Versatile Systems Inc.**

June 30, 2009 and 2008

# Versatile Systems Inc.

June 30, 2009

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## **Auditors' report**

To the Shareholders of  
Versatile Systems Inc.

We have audited the consolidated balance sheet of Versatile Systems Inc. as at June 30, 2009 and the consolidated statements of earnings (loss) and deficit, comprehensive (loss) income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at June 30, 2008 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated September 26, 2008.

***(Signed) Deloitte & Touche LLP***

Chartered Accountants  
September 4, 2009

# Versatile Systems Inc.

## Consolidated Balance Sheets

Expressed in U.S. dollars

June 30, 2009      June 30, 2008

### ASSETS

#### Current Assets

Cash and cash equivalents	\$ 2,002,530	\$ 1,500,005
Accounts receivable (Note 4)	8,408,093	11,842,754
Current portion of deferred contract costs	5,745,493	4,918,704
Work-in-progress	92,145	80,668
Prepaid expenses	286,709	309,061
Inventory	1,376,746	1,944,100
Future income tax benefits (Note 19)	944,843	706,249
	<u>18,856,559</u>	<u>21,301,541</u>

Long-term accounts receivable (Note 4)

112,781      26,522

Deferred contract costs

803,246      1,050,694

Capital Assets (Note 5)

794,008      867,771

Intangible assets (Note 6)

332,953      695,726

Future income tax benefits (Note 19)

5,283,896      4,672,907

Goodwill (Note 7)

9,977,659      9,977,659

\$ 36,161,102      \$ 38,592,820

### LIABILITIES

#### Current Liabilities

Line of credit (Note 8)	\$ -	\$ 74,942
Bank overdraft (Note 8)	-	127,214
Accounts payable and accrued liabilities (Note 9)	8,530,987	10,704,330
Current portion of deferred revenue	7,755,151	6,582,593
Promissory Notes	-	40,000
	<u>16,286,138</u>	<u>17,529,079</u>

Deferred Revenue

977,411      1,272,536

17,263,549      18,801,615

### SHAREHOLDERS' EQUITY

Share Capital (Note 10)	50,583,743	51,353,054
Warrants (Note 11)	186,367	369,965
Contributed surplus (Note 12)	4,138,437	3,188,496
Deficit	(35,729,215)	(35,063,096)
Accumulated other comprehensive loss	(281,779)	(57,214)
	<u>18,897,553</u>	<u>19,791,205</u>

\$ 36,161,102      \$ 38,592,820

Commitments (Note 18)

APPROVED BY THE DIRECTORS:

DIRECTOR: *John Hardy*

DIRECTOR: *Fraser Atkinson*

See Notes to Consolidated Financial Statements

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# Versatile Systems Inc.

## Consolidated Statements of Earnings (Loss) and Deficit

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Expressed in U.S. dollars

	Year ended June 30	
	2009	2008
SALES	\$ 49,118,091	\$ 59,380,354
COST OF SALES	37,006,572	44,527,536
	<u>12,111,519</u>	<u>14,852,818</u>
EXPENSES		
General and administrative	4,649,659	5,090,959
Selling and marketing	6,688,676	6,504,762
Research and development	1,281,109	1,745,569
Non recurring expenses	421,512	-
Foreign exchange (gain) loss	(258,306)	175,627
Stock-based compensation	21,411	46,671
	<u>12,804,061</u>	<u>13,563,588</u>
Earnings (loss) before interest, taxes and amortization	(692,542)	1,289,230
Amortization of capital assets	282,296	256,929
Amortization of intangible assets	362,698	693,748
Interest expense (income)	33,314	(28,212)
	<u>(1,370,850)</u>	<u>366,765</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	(1,370,850)	366,765
Current income tax expense	(144,855)	(65,031)
Future income tax benefit	849,586	(101,604)
	<u>(666,119)</u>	<u>200,130</u>
NET EARNINGS (LOSS)	(666,119)	200,130
DEFICIT, BEGINNING OF YEAR	(35,063,096)	(35,263,226)
DEFICIT, END OF YEAR	<u>(35,729,215)</u>	<u>(35,063,096)</u>
EARNINGS (LOSS) PER SHARE (basic and diluted)	<u>(\$0.01)</u>	<u>\$0.00</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	<u>118,676,969</u>	<u>120,991,438</u>

See Notes to Consolidated Financial Statements

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**Versatile Systems Inc.**  
Consolidated Statements of Comprehensive (Loss) Income

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*Expressed in U.S. dollars*

	Year ended June 30	
	2009	2008
Net earnings (loss)	(666,119)	200,130
Other comprehensive (loss) income		
Foreign currency translation adjustments	(224,565)	227,123
Comprehensive (loss) income	<u>(890,684)</u>	<u>427,253</u>

*See Notes to Consolidated Financial Statements*

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# Versatile Systems Inc.

## Consolidated Statements of Cash Flows

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Expressed in U.S. dollars

	Year ended June 30	
	2009	2008
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Net earnings (loss)	\$ (666,119)	\$ 200,130
Items not affecting cash		
Amortization of capital and intangible assets	704,833	950,677
Loss on disposal of capital assets	234	212
Stock-based compensation	21,411	46,671
Unrealized foreign exchange loss (gain)	( 194,359)	153,687
Future income tax expense (benefit)	( 849,586)	101,604
Cash flow from (used in) operations before other items	( 983,586)	1,452,981
Net change in non-cash working capital items (Note 21)	2,051,380	449,708
	<u>1,067,794</u>	<u>1,902,689</u>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		
Cash acquired on acquisition of Sagent Solutions	-	5,081
Proceeds from disposition of capital assets	1,820	1,867
Additions to capital assets	( 267,393)	( 634,181)
	<u>( 265,573)</u>	<u>( 627,233)</u>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		
Proceeds from issuance of shares, net of costs	-	416,202
Purchase of company shares	(24,379)	(618,780)
Proceeds from (Repayment of) line of credit	(74,942)	71,559
Repayment of bank overdraft	(127,214)	(43,208)
Repayment of the Bank Term Loan	-	(2,749,263)
Repayment of the Term Loan	-	(175,000)
Repayment of Promissory Notes	(40,000)	(40,000)
Repayment of capital lease obligations	-	(4,748)
	<u>( 266,535)</u>	<u>( 3,143,238)</u>
Effect of foreign exchange rate on cash	(33,161)	( 1,300)
Increase (decrease) in cash and cash equivalents	502,525	( 1,869,082)
CASH and cash equivalents, beginning of year	1,500,005	3,369,087
CASH and cash equivalents, end of year	<u>\$ 2,002,530</u>	<u>\$ 1,500,005</u>
Supplemental cash flow information (Note 21)		

See Notes to Consolidated Financial Statements

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(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, Mobiquity Systems, Inc., Versatile Investments Limited, 596327 B.C. Ltd. and EvolutionB Information Inc. ("EvolutionB"), are inactive.

### 2. Significant accounting policies

#### (a) 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., EvolutionB, Sagent Solutions, Mobiquity Systems, Inc. and Versatile Investments Limited. All intercompany accounts and transactions are eliminated on consolidation.

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

#### (b) 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.

#### (c) 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.

#### (d) 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.

#### (e) 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 for deferral and amortization under generally accepted accounting principles. The Company has not capitalized any development costs during the year.

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 2. Significant accounting policies (continued)

#### (f) 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

#### (g) 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	33-1/3% per annum
Customers	20% per annum
Intellectual property	66% per annum
Licences	25% per annum

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.

#### (h) 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.

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 2. Significant accounting policies (continued)

#### (h) *Income taxes (continued)*

During the current fiscal year, the Company determined that because VSI, POI, VAC and VMS-US were expected to continue to generate sufficient profits that it was more likely than not that the losses would be fully utilized and the deductions attributable to these companies would 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 \$849,586 for the income tax benefit 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, and utilize the tax benefit of the losses, that portion has been classified as current.

#### (i) *Foreign currency translation*

The U.S. dollar is the reporting and functional currency for the Company.

The functional currency of all self-sustaining subsidiaries is the U.S. dollar and the functional currency of the integrated UK subsidiary is the Pound Sterling.

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.

#### (j) *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, for 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.

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 2. Significant accounting policies (continued)

(j) *Revenue recognition (continued)*

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.

(k) *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.

(l) *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.

(m) *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.

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 2. Significant accounting policies (continued)

During the current fiscal year, the Company recognized \$21,411 (2008 - \$46,671) 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 13.

#### (n) Changes in accounting policies

The Company retroactively adopted, on July 1, 2008, the following new Handbook sections issued by the CICA:

##### (i) General standards on financial statement presentation

In June 2007, the CICA amended Section 1400, *General Standards on Financial Statement Presentation*. The new section is applicable to financial statements relating to fiscal years beginning on or after January 1, 2008. The amended section includes requirements to assess and disclose a company's ability to continue as a going concern.

##### (ii) Inventories

The Company adopted the recommendations of CICA Handbook Section 3031 on inventories which provides guidance on the determination of cost of inventories and its subsequent recognition as an expense, and includes additional disclosure requirements. The new section also requires the Company to account for the reversal of write-downs previously recognized when there is a subsequent increase in the value of inventories. This accounting policy was applied retroactively; the retroactive application did not have an impact on the comparative financial statements presented. There was no effect as of June 30, 2009 or for the year then ended.

##### (iii) Financial instrument disclosures

On July 1, 2008, the Company adopted three new CICA Handbook sections: Section 1535, *Capital Disclosures*; Section 3862, *Financial Instruments - Disclosures*; and Section 3863, *Financial Instruments - Presentation*. Prior year financial statements have not been restated. These sections relate to disclosure and presentation only and have no additional impact on the consolidated financial results.

Section 1535 requires disclosure of an entity's objectives, policies, and processes for managing capital; information about what the entity regards as capital; whether the Company has complied with any external capital requirements; and the consequences of not complying with these capital requirements.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*. Section 3863 carries forward unchanged the presentation requirements of Section 3861 while Section 3862 requires enhanced financial instrument disclosures focusing on disclosures related to the nature and extent of risks arising from financial instruments and how the entity manages those risks.

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 2. Significant accounting policies (continued)

(o) *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:

(i) 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. In February 2007, the CICA amended Section 1000, *Financial Statement Concepts*, to clarify the criteria for the recognition of an asset. The amended section is applicable to all entities and is effective for interim and annual 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. The Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

### 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 Solutions 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.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 3. Acquisition of Sagent Solutions business (continued)

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	(9,250)
<b>Fair value of net assets acquired</b>	<b>122,000</b>
Total consideration comprises	
Promissory notes	80,000
Value assigned to the Versatile warrants	42,000
<b>Total consideration as at the date of acquisition</b>	<b>122,000</b>

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 customers providing for monthly payments over a three year term. The total amount of the receivable is carried at amortized cost of \$196,410, of which \$83,629 has been classified as current.

### 5. Capital assets

	2009		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Automobiles	10,005	5,169	4,836
Computer and office equipment	2,610,605	2,041,144	569,461
Kiosk equipment	249,655	60,873	188,782
Demonstration equipment	104,339	104,339	-
Computer software	106,084	100,844	5,240
Tenant improvements	120,569	94,880	25,689
	<b>3,201,257</b>	<b>2,407,249</b>	<b>794,008</b>

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 5. Capital assets (continued)

As at June 30, 2009, equipment held for leasing purposes with a cost of \$249,355 (2008 - \$39,544) and accumulated amortization of \$60,873 (2008 - \$1,034) is included in capital assets.

			2008
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
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
	<b>2,995,668</b>	<b>2,127,897</b>	<b>867,771</b>

### 6. Intangible assets

The carrying amounts of the amortized intangible assets as at June 30, 2009 and 2008 are as follows:

			2009
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Customers	<b>1,813,509</b>	<b>1,481,298</b>	<b>332,211</b>
Purchased technology	<b>1,211,969</b>	<b>1,211,969</b>	-
Intellectual property	<b>451,250</b>	<b>451,250</b>	-
Other intangibles	<b>4,056</b>	<b>3,314</b>	<b>742</b>
Licences	<b>522,402</b>	<b>522,402</b>	-
	<b>4,003,186</b>	<b>3,670,233</b>	<b>332,953</b>

			2008
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
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	-
	<b>4,002,921</b>	<b>3,307,195</b>	<b>695,726</b>

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 7. Goodwill

The carrying amounts of the goodwill for the years ended June 30, 2009 and 2008 are as follows:

	2009		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
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
	18,134,571	8,156,912	9,977,659

  

	2008		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
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
	18,134,571	8,156,912	9,977,659

No amortization for goodwill has been recorded for 2009 or 2008. During the current fiscal year ended June 30, 2009, 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. Management concluded that no impairment charge was required for the year ended June 30, 2009.

### 8. Line of credit and bank overdraft

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, 2009, the Company had drawings of \$Nil (2008 - \$74,942) under its line of credit and had a bank overdraft of \$Nil (2008 - \$127,214). During the current fiscal year, the interest on the line of credit amounted to \$1,445 (2008 - \$4,224).

During the year ended June 30, 2008, the Company repaid a term loan in the amount of \$2,749,263 from the same U.S. based financial institution and the interest on the term loan amounted to \$161,538.

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, 2009, 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.

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 9. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is \$2,943,223 (2008 - \$2,740,373) owing to a major supplier.

### 10. Share capital

#### *Authorized*

Unlimited common shares without par value

#### *Issued and outstanding*

	Number of shares	Amount \$
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
<u>Issued and outstanding at June 30, 2008</u>	<u>121,148,643</u>	<u>51,808,079</u>
<u>Less: Shares held in Treasury</u>	<u>(2,559,000)</u>	<u>(455,025)</u>
<u>Balance, June 30, 2008</u>	<u>118,589,643</u>	<u>51,353,054</u>
Issued and outstanding at June 30, 2008	121,148,643	51,808,079
<u>Less: Shares repurchased and cancelled</u>	<u>(2,863,000)</u>	<u>(1,224,336)</u>
<u>Balance, June 30, 2009</u>	<u>118,285,643</u>	<u>50,583,743</u>

During the current fiscal year, the Company acquired 304,000 common shares at a cost of \$24,379. On June 17, 2009, the Company cancelled 304,000 shares and on July 14, 2008 cancelled 2,559,000 shares that had been held in Treasury at the previous year end.

During the year ended June 30, 2008, the Company acquired 3,261,500 common shares at a cost of \$618,780. On January 30, 2008, the Company cancelled 702,500 shares.

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 11. Warrants

The following warrants were outstanding:

Expiry date	Exercise price	Number of warrants				Amount
		Balance, June 30, 2008	Expired	Issued	Balance, June 30, 2009	
	Cdn\$					\$
March 31, 2009	0.3800	1,411,808	(1,411,808)	-	-	-
March 31, 2009	0.4140	1,411,808	(1,411,808)	-	-	-
March 31, 2011	0.5690	1,411,808	-	-	1,411,808	63,309
April 6, 2011	0.6636	583,770	-	-	583,770	81,058
January 22, 2012	0.3000	600,000	-	-	600,000	42,000
		5,419,194	(2,823,616)	-	2,595,578	186,367

During the current fiscal year, 2,823,616 warrants expired.

Expiry date	Exercise price	Number of warrants				Amount
		Balance, June 30, 2007	Expired or exercised	Issued	Balance, June 30, 2008	
	Cdn\$					\$
August 10, 2007	0.3000	1,646,000	(1,646,000)	-	-	-
March 31, 2009	0.3800	1,411,808	-	-	1,411,808	107,627
March 31, 2009	0.4140	1,411,808	-	-	1,411,808	75,971
March 31, 2011	0.5690	1,411,808	-	-	1,411,808	63,309
April 6, 2011	0.6636	583,770	-	-	583,770	81,058
January 22, 2012	0.3000	-	-	600,000	600,000	42,000
		6,465,194	(1,646,000)	600,000	5,419,194	369,965

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.

### 12. Contributed surplus

Contributed surplus consists of the following:

	\$
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	(279)
Balance, June 30, 2008	3,188,496
Shares repurchased and cancelled	744,932
Expiration of warrants	183,598
Stock-based compensation	21,411
Balance, June 30, 2009	4,138,437

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 12. Contributed surplus (continued)

During the year ended June 30, 2009, 2,823,616 (2008 - 200,000) warrants expired, resulting in their ascribed value of \$183,598 (2008 - \$6,645) being recorded as contributed surplus.

### 13. 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 (2008 - 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.

A summary of stock option activity for the years ended June 30, 2009 and 2008 is presented below:

	2009		2008	
	Number of shares	Weighted average exercise price Cdn\$	Number of shares	Weighted average exercise price Cdn\$
Outstanding, beginning of year	8,768,200	0.53	9,293,900	0.57
Granted	4,241,000	0.10	605,000	0.30
Exercised	-	-	(27,200)	0.25
Forfeited	(179,200)	0.75	(1,018,500)	0.79
Expired	(3,670,000)	0.30	(85,000)	0.32
Outstanding, end of year	9,160,000	0.42	8,768,200	0.53
Exercisable, end of year	4,717,333	0.72	8,116,533	0.55

The following table summarizes information about stock options outstanding at June 30, 2009:

Exercise price Cdn\$	Options outstanding			Options exercisable	
	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price Cdn\$	Number of options exercisable	Weighted average exercise price Cdn\$
0.10	4,241,000	3.97		-	
0.25	579,000	0.47		579,000	
0.30	1,205,000	1.36		1,003,333	
0.92	1,525,000	1.23		1,525,000	
0.96	1,610,000	1.35		1,610,000	
	9,160,000		0.42	4,717,333	0.72

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 13. Stock options (continued)

During the year ended June 30, 2009, all of the stock options were granted at an exercise price above the market price of a common share. The options granted in 2009 had an exercise price of Cdn\$0.10 (2008 - Cdn\$0.30) and a weighted average fair value of Cdn\$0.025 (2008 - Cdn\$0.038).

For the year ended June 30, 2009, the Company has recognized \$21,411 (2008 - \$46,671) in stock-based compensation for stock options granted to employees. There were no options granted to non-employees during the years ended June 30, 2009 and 2008. 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:

Expected dividend yield	0.00%
Expected volatility	74.8%
Risk-free interest rate	3.0%
Expected average option term (years)	1.11

### 14. Financial instruments

#### (a) Interest rate risk exposure

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

#### (b) Fair values

The fair values of the Company's cash and cash equivalents, accounts receivable, long-term receivables, deferred revenue, and accounts payable approximate their carrying values because of the short-term maturity of those instruments.

### 15. Financial risk management

This section provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk and interest rate risk, and how the Company manages those risks.

#### (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.

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 15. Financial risk management (continued)

(a) *Credit risk exposure (continued)*

Accounts receivable as at June 30 are summarized as follows:

	2009	2008
	\$	\$
Current	7,313,889	8,752,020
Overdue		
1 - 30 days	949,134	1,701,614
31 - 60 days	166,257	1,026,105
61 - 90 days	25,773	231,756
Over 90 days	19,308	346,794
<u>Less allowance for doubtful accounts</u>	<u>(66,268)</u>	<u>(215,535)</u>
	<b>8,408,093</b>	<b>11,842,754</b>

In establishing the appropriate provisions for accounts receivables, assumptions are made with respect to the future collectibility of the receivables. Assumptions are based on an individual assessment of a customer's credit quality as well as subjective factors and trends. The following table reflects the movement in the allowance for doubtful accounts:

	2009	2008
	\$	\$
Opening balance	215,535	65,000
Change in the provision	(141,887)	165,380
<u>Less receivable write-offs</u>	<u>(7,380)</u>	<u>(14,845)</u>
<u>Closing balance</u>	<u>66,268</u>	<u>215,535</u>

(b) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective of managing liquidity risk is to maintain sufficient resources to pursue its growth strategy. The Company manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions outside of the ordinary course of business including proposals on major investments. The Company's financial liabilities are comprised primarily of accounts payable. The Company generates cash from its operations and maintains available credit facilities to support the liquidity requirements of the business.

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 15. Financial risk management (continued)

#### (c) Foreign currency risk

The Company's functional and reporting currency is the U.S. dollar. Foreign currency risk is primarily related to the Company's operations in Canada and the UK. The Company's UK operations are conducted primarily in pound Sterling and the Canadian operations in Canadian dollars. The operations of the wholly-owned subsidiaries are consolidated in U.S. dollars. For the Company's foreign currency transactions, fluctuations in the respective exchange rates relative to the U.S. dollar will create volatility in the Company's cash flows and the reported amounts of sales, cost of goods sold and general and administrative expenses on a period-to-period basis and compared with operating budgets and forecasts. Additional earnings variability arises from the translation of monetary assets and liabilities denominated in foreign currencies at the rates of exchange at each balance sheet date, the impact of which is reported as a foreign exchange gain or loss in the determination of net income (loss) for the period. The Company's sales are primarily transacted in U.S. dollars with some sales in pound Sterling. A 1% change in the Canadian dollar exchange rate would not have a material impact on the net income.

### 16. Capital disclosures

The Company's objective of managing capital is to ensure sufficient liquidity to pursue its growth strategy. The Company's capital is composed of cash and cash equivalents and shareholders' equity. The Company also has unused credit facilities for up to \$5,800,000. The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures. The Company currently funds these requirements out of the cash flow from operations. The Company monitors its cash flow continuously and is subject to covenants related to its credit facilities. The Company has complied with all covenant requirements without exception.

### 17. Related party transactions

During the year ended June 30, 2009, the Company granted incentive stock options to directors to acquire 3,616,000 common shares of the Company with an exercise price of Cdn\$0.10 per share.

During the year ended June 30, 2008, an officer and director of the Company exercised 1,000,000 share purchase warrants at an exercise price of Cdn\$0.30 per share.

### 18. Commitments

As at June 30, 2009, future minimum lease payments for premises and equipment are as follows:

	\$
2010	731,311
2011	489,272
2012	103,455
2013	-
2014	-

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 19. Income taxes

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

	\$
Canada	1,728,420
United Kingdom	10,181,331
United States	14,364,702

Tax losses in Canada expire as follows:

	596327 BC Ltd. Cdn\$	Versatile (Canada) Cdn\$	EvolutionB Information Inc. Cdn\$
2010	24,000	1,551,967	111,948
2015	-	297,373	-
	<u>24,000</u>	<u>1,849,340</u>	<u>111,948</u>

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

	\$
Net operating losses expire as follows:	
2020	-
2021	941,118
2022	1,025,046
2023	477,803
2024	1,045,650
2025	1,265,169
2026	472,150
2028	148,117
2029	3,004,311
Tax deductions which may be taken from 2010 to 2020	<u>5,985,338</u>
	<u>14,364,702</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 2010 to 2020 relate to the 338 election for the acquisition of Perfect Order in 2005 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.

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 19. Income taxes (continued)

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:

	2009	2008
	\$	\$
Future income taxes		
Future income tax assets		
Tax losses and deductions	<b>8,378,058</b>	8,201,781
Capital assets	<b>1,134,697</b>	441,178
Share issuance costs	<b>217,338</b>	354,780
Other	<b>392,741</b>	183,861
Future income tax assets	<b>10,122,834</b>	9,181,600
Valuation allowance	<b>(3,138,444)</b>	(3,060,592)
Net future income tax asset	<b>6,984,390</b>	6,121,008
Future income tax liabilities		
Goodwill	<b>(755,651)</b>	(741,852)
Net future income tax asset	<b>6,228,739</b>	5,379,156
Less: Current portion	<b>(944,843)</b>	(706,249)
Non-current portion of net future income tax	<b>5,283,896</b>	4,672,907

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.

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 19. Income taxes (continued)

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

	2009	2008
	\$	\$
Tax at the statutory tax rate of 30.25% (2008 - 32.8%)	<b>(414,682)</b>	120,336
Foreign tax rate differential	<b>(245,305)</b>	37,518
Effect of foreign exchange losses	<b>(60,009)</b>	78,580
True up to income tax returns	<b>(275,677)</b>	-
Permanent differences	<b>15,297</b>	39,839
Expiry of previously recognized benefit of prior year losses	<b>457,976</b>	833,972
Use of prior year losses	<b>(260,183)</b>	-
Change in tax rates	-	237,361
Changes in valuation allowance	<b>77,852</b>	(1,139,753)
Other	-	(41,218)
	<b>(704,731)</b>	166,635
Future income tax recovery (expense)	<b>849,586</b>	(101,604)
Current income tax expense	<b>(144,855)</b>	(65,031)
	<b>704,731</b>	(166,635)

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 20. 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.

The Company's Capital assets, intangible assets and goodwill and sales by geographic area are as follows:

	2009		2008	
	Capital assets, intangible assets and goodwill	Revenue	Capital assets, intangible assets and goodwill	Revenue
	\$	\$	\$	\$
U.S. companies				
United States	11,104,620	48,229,701	11,529,258	57,997,937
Canada	-	117,059	-	216,854
Netherlands	-	-	-	14,900
France	-	250,927	-	388,951
United Kingdom	-	31,751	-	94,370
Japan	-	20,448	-	-
Other	-	48,863	-	12,430
UK and Canadian companies				
United Kingdom	3,950	419,342	11,574	654,912
Canada	2,046	-	324	-
	<b>11,110,616</b>	<b>49,118,091</b>	11,541,156	59,380,354

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

During the year ended June 30, 2009, the Company did not have any customers with revenues more than 10% of Sales. During the year ended June 30, 2008, the Company earned revenue of \$7,792,867 from one customer representing 13.1% of revenue.

During the year ended June 30, 2009, the Company purchased products and services from one vendor for \$19,037,053 (2008 - \$19,919,235) and from a second vendor for \$2,096,991 (2008 - \$5,780,900) representing 51.8% (2008 - 44.6%) and 5.7% (2008 - 12.9%), respectively, of the cost of sales.

# Versatile Systems Inc.

## Notes to the consolidated financial statements

June 30, 2009

(Expressed in U.S. dollars)

### 21. Supplemental cash flow information

	2009	2008
	\$	\$
Cash paid for taxes	121,327	65,743
Cash paid for interest	139,474	169,600
Non-cash investing and financing activities related to the acquisition of Sagent Solutions		
Promissory notes issued	-	80,000
Warrants issued	-	42,000

The Changes in the Non-cash Working Capital items are as follows:

	2009	2008
	\$	\$
Accounts Receivable	3,434,661	3,358,165
Current portion of deferred contract costs	(826,789)	(429,593)
Work in progress	(11,477)	(38,963)
Prepaid expenses	22,352	37,962
Inventory	567,354	(675,418)
Long term receivable	(86,259)	785,478
Long term portion of Deferred Contract costs	247,448	(654,271)
Accounts payable and accrued liabilities	(2,173,343)	(3,001,502)
Current portion of deferred revenue	1,172,558	282,730
Long term portion of Deferred Revenue	(295,125)	785,120
	<b>2,051,380</b>	449,708

The cash and cash equivalents consists of almost entirely cash.