
VERSAPAY CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

VERSAPAY CORPORATION

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December 31, 2009 and 2008

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Auditors' report

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To the shareholders of
VersaPay Corporation

We have audited the consolidated balance sheets of VersaPay Corporation as at December 31, 2009 and 2008 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years 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 audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Vancouver, Canada
April 1, 2010 except as to Note 21(b)
which is as of April 28, 2010

Chartered accountants

VERSAPAY CORPORATION

CONSOLIDATED BALANCE SHEETS

As at December 31

	2009 \$	2008 \$
ASSETS		
Current		
Cash and cash equivalents	212,353	325,175
Funds held for merchants (note 17)	365,518	14,809
Receivables	321,218	342,776
Inventory	10,000	12,186
Prepaid expenses	17,133	13,055
	926,222	708,001
Share issue costs (Note 21)	425,536	-
Equipment (note 6)	321,234	174,901
Intangible Assets (note 7)	204,810	137,624
Goodwill	55,295	55,295
	1,933,097	1,075,821
LIABILITIES		
Current		
Accounts payable and accrued liabilities	1,336,112	566,694
Funds due to merchants (note 17)	365,518	14,809
Deferred revenue	9,688	10,000
Convertible debentures (note 13)	-	160,000
JG Capital Loan (note 16)	225,000	225,000
Current portion of obligation under capital lease (note 8)	36,819	11,163
	1,973,137	987,666
Obligation Under Capital Lease , net of current portion (note 8)	97,546	68,326
	2,070,683	1,055,992
Non-Controlling Interest in Positive Inc. (note 12)	7,569	19,154
SHAREHOLDERS' (DEFICIENCY) EQUITY		
Share Capital (note 10)	4,872,073	4,017,078
Share Subscriptions Received (note 10)	288,958	-
Contributed Surplus (note 11)	618,955	567,489
Deficit	(5,925,141)	(4,583,892)
	(145,155)	675
	1,933,097	1,075,821

Basis of Presentation (note 1)

Going Concern (note 2)

Economic Dependence (note 5)

Commitments (note 9)

Subsequent Events (note 21)

APPROVED ON BEHALF OF THE BOARD:

"Michael Gokturk" Director

"Brian Kyle" Director

VERSAPAY CORPORATION

CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

	Year ended December 31	
	2009	2008
	\$	\$
Revenue		
Transaction processing fees	7,229,840	3,648,209
Product sales and other	937,828	1,415,263
VersaCard/EFT fees	244,427	89,684
	8,412,095	5,153,156
Expenses		
Cost of services	5,015,867	2,656,978
Cost of products sold	1,164,379	1,013,794
VersaCard/EFT costs	123,413	60,168
Amortization	106,793	76,233
Bad debts	11,062	50,000
Bank charges and interest	54,637	26,640
Consulting fees (note 14)	667,995	583,106
General and administrative	328,940	179,356
Marketing and promotion	119,709	120,604
Professional fees (note 14)	302,657	100,158
Rent and occupancy	201,028	189,095
Salaries and benefits	897,345	766,216
Stock-based compensation (note 10)	333,357	1,088,994
Telecom & wireless connection fees	346,190	150,683
Travel	91,557	121,814
	9,764,929	7,183,839
Operating Loss	(1,352,834)	(2,030,683)
Other Income	-	4,982
	(1,352,834)	(2,025,701)
Loss before Non-Controlling Interest	(1,352,834)	(2,025,701)
Non-Controlling Interest (note 12)	11,585	(8,219)
Loss and Comprehensive Loss for the Year	(1,341,249)	(2,033,920)
Deficit, beginning of year	(4,583,892)	(2,549,972)
	(5,925,141)	(4,583,892)
Deficit, end of year	(5,925,141)	(4,583,892)
Loss per Share - basic and fully diluted	\$ (0.15)	\$ (0.26)
Weighted average number of common shares outstanding	9,011,570	7,705,227

VERSAPAY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

	Year ended December 31	
	2009	2008
	\$	\$
Cash Provided By (Used In) Operating Activities		
Net loss for the year	(1,341,249)	(2,033,920)
Items not affecting cash:		
- amortization	106,793	76,233
- stock-based compensation	333,357	1,088,994
- non-controlling interest	(11,585)	8,219
Change in non-cash working capital items		
receivables	21,557	50,582
inventory	2,186	(1,386)
prepaid expenses	(4,078)	(7,430)
accounts payable and		
accrued liabilities	669,418	82,930
deferred revenue	(312)	10,000
	(223,913)	(725,778)
Cash Provided by (Used In) Financing Activities		
Advance from JG Capital Corp	-	225,000
Payment of convertible debentures	(120,000)	160,000
Issuance of common shares,		
net of issuance costs	533,104	443,625
Share Subscription Received	288,958	-
Capital lease principal payments	(23,259)	(6,210)
	678,803	822,415
Cash Used in Investing Activities		
Acquisition of equipment	(140,584)	(58,843)
Developed Technology	(101,592)	-
Purchase of Positive Inc., net of cash	-	(240,000)
Share Issue Costs	(325,536)	-
	(567,712)	(298,843)
Decrease in Cash	(112,822)	(202,206)
Cash, beginning of year	325,175	527,381
Cash, ending of year	212,353	325,175
Supplementary Cash Flow Information:		
Interest paid	31,527	18,219

See Note 18 for Additional Cash Flow Information

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

1. Basis of Presentation

Versapay Corporation and its subsidiaries (the "Company"), is a financial transactions processor providing electronic payments technology, settlement and clearance services primarily to businesses and organizations using electronic commerce to send or receive payments. The Company also acts on behalf of financial institutions to provide Canadian merchants and consumers the ability to process credit and debit card payments for card-not-present and card-present transactions, including internet businesses, mail-order/telephone-order merchants and retail point-of-sale merchants. The Company also has partnership arrangements and certified connections to financial institutions, technology and hardware vendors, large institutions, trade organizations and other payment service providers in order to enable its customers to perform financial transactions between one another.

The Company's consolidated financial statements include the accounts of the Company and its 75%-owned subsidiary, Positive Inc. and have been prepared by management. They are presented in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of operations for the foreseeable future (see note 2). Intercompany accounts and transactions have been eliminated on consolidation.

Certain comparative amounts have been reclassified to conform with the current year presentation

2. Going Concern

The Company's ability to generate sufficient cash flows to maintain normal operations, if unsuccessful, will result in it not being able to continue as a going concern. The Company has incurred losses since inception (year ended December 31, 2009 - net loss for the year totaled \$1,341,249; (December 31, 2008 - net loss for the year totaled \$2,033,920) and as at December 31, 2009 had accumulated a deficit of \$5,925,141. Accordingly, there is significant uncertainty about the Company's ability to continue as a going concern. Management has been able, thus far, to finance operations through equity and debt financings and will continue, as appropriate, to seek financing from these and other sources; however, there are no assurances that any such financings can be obtained on favourable terms, if at all. In view of these conditions, the ability of the Company to continue as a going concern is dependent upon its ability to obtain financing, generate sufficient cash flows and, ultimately, achieve profitable operations. The outcome of these matters cannot be predicted at this time. The consolidated financial statements of the periods presented do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue in business.

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

3. Significant Accounting Policies

Revenue Recognition

Revenue from transaction and processing services are recognized when the related service has been rendered, the fee is fixed or determinable and collectability is reasonably assured.

Revenue from the sale of point-of-service ("POS") terminals and other tangible items are recognized when persuasive evidence of an agreement exists, delivery has occurred, price is fixed or determinable, collection of the resulting receivable is deemed probable, and no other significant vendor obligation exists. Generally, these conditions are met when the POS terminals or other tangible items are delivered.

Revenue from the Company's VersaCard/EFT ("VCEFT") services is derived from one-time set-up fees, monthly gateway fees, and transaction service fees. Gateway fees are monthly subscription fees charged to the VCEFT merchant customers for the use of the Company's payment gateway. Gateway fees are recognized in the period in which the service is provided. Set-up fees represent one-time charges for initiating the VCEFT services and are recognized ratably over the estimated life of the merchant relationships. Transaction service fees are recognized in the period in which the transactions occur.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Significant estimates are made in the valuation of accounts receivable, the allocation of intangible assets and goodwill arising from the acquisition of Positive Inc., in the determination of the useful lives of equipment and intangible assets, the recoverability of future income tax assets, the factors used in the fair value model to calculate stock-based compensation, and fair value assumptions used in the liability and equity components of the convertible debt.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid debt instruments purchased with a maturity of three months or less at the date of purchase.

Inventory

Inventory consisting of POS terminals and wireless modems is valued at the lower of cost, determined on a first-in first-out basis, and net realizable value.

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

3. Significant Accounting Policies (continued)

Equipment

Equipment is recorded at cost less accumulated amortization and is amortized over their estimated useful lives at the following annual rates and methods:

Computer	30% declining balance basis
Office furniture	20% declining balance basis

The Company performs impairment tests on equipment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its estimated fair value, and is charged to net loss for the year.

Leases

Leases are classified as either capital or operating. Leases, which substantially transfer all of the benefits and risks of ownership, are accounted for as capital leases. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a capital lease, an asset and an obligation is recorded at an amount equal to the lesser of the present value of the future minimum lease payments and the asset's fair value at the beginning of such lease.

Intangible Assets

The Company's intangible assets consist of both the value attributed to customer relationships as part of the acquisition of Positive Inc. (note 12) and the cost associated with the development of internally produced, proprietary software for electronic fund transfers. The customer relationships are amortized straight-line over five years. At December 31, 2009, the software is in development and the Company will commence recording amortization expense upon commercial use of the developed software which is expected to be June 2010. Management annually assesses the carrying value of intangible assets by considering current operating results, trends and prospects to indicate whether there is an impairment in the carrying value. If impairment is indicated, a comparison is made of the asset's net book value to its undiscounted cash flows. If the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment charge is measured and based on discounted cash flows. Future cash flows are estimated based on estimated future margins of the services related to the intangible assets.

Share Issue Costs

Costs incurred by the Company that are directly and incrementally related to the reverse takeover of JG Capital Corporation have been capitalized at December 31, 2009 and will be recorded as a reduction in share capital when the reverse takeover is completed in January, 2010 (note 21).

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

3. Significant Accounting Policies (continued)

Goodwill

Goodwill is the amount by which the purchase price of an acquired business (note 12) exceeds the sum of the amounts allocated to the assets acquired less liabilities assumed, based on estimated fair values. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate the value of the asset might be impaired. If goodwill is determined to be impaired, the value of the goodwill would be reduced to its estimated fair value.

Convertible Debentures

The carrying value of the convertible debentures is calculated as the present value of the required interest and principal payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible debentures at the time the debentures were issued. The difference between the face value and the estimated carrying value of the debt is recorded as contributed surplus. The carrying value of the convertible debentures is accreted to the principal amount using the effective yield method as additional non-cash interest expense over the term of the debentures. When converted, the initial amount recorded to debentures along with the value of conversion options exercised, which was initially recorded to contributed surplus, and accreted interest net of cash interest payments is recorded to share capital.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, future tax assets and liabilities are recognized for temporary differences between the financial statement carrying value and the tax basis of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes, only if it is more likely than not they can be realized.

Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in net loss in the period during which the change in rates is considered to be substantially enacted. Future income tax assets, net of a valuation allowance, are recorded in the consolidated financial statements if realization is considered more likely than not.

Foreign Currency

The functional and reporting currency of the Company is Canadian dollars. Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary items are translated at their historic exchange rates. Revenues and expenses are translated at exchange rates in effect at the time of the transaction. The resulting foreign exchange gains and losses are included in the determination of net loss for the year.

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

3. Significant Accounting Policies (continued)

Stock-Based Compensation Plans

The Company accounts for the granting of stock options and direct awards of stock to employees and non-employees using the fair value method whereby all awards to employees and non-employees will be recorded at fair value of each stock option at the date of grant using the Black-Scholes option pricing model. Any consideration paid by the option holders to purchase shares is credited to share capital. Options forfeited by individual employees are recognized as they occur.

Income (Loss) Per Share

The computation of basic earnings (loss) per share uses the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share reflect the potential dilution that would occur if stock options were exercised and debentures converted. The Company applies the if-converted method for convertible debentures which assumes conversion into common shares outstanding since the beginning of the year. The Company uses the treasury stock method for outstanding options which assumes that all outstanding stock options with an exercise price below the average market prices are exercised and assumed proceeds are used to purchase the Company's common shares at the average market price during the year.

Financial Instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are initially measured in the consolidated balance sheet at fair value. Transaction costs are included in the carrying amounts of financial instruments measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income; loans and receivables, held-to-maturity investments, and other financial liabilities are measured at amortized cost using the effective interest method.

Comprehensive Loss

Comprehensive loss includes net loss and other comprehensive income or losses which refers to unrealized gains and losses that under Canadian GAAP are excluded from net loss. The Company does not currently engage in any transactions that would result in the reporting of accumulated other comprehensive loss.

Changes in Accounting Policies and Recently Issued Accounting Pronouncements:

[a] CICA Handbook Section 3064 "Goodwill and Intangible Assets," which replaces Section 3062 Goodwill and Other Intangibles and Section 3450 Research and Development Costs. This Section establishes standards for the recognition, measurement, presentation, and disclosure of goodwill and intangible assets, including the development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licenses, intellectual property, market knowledge and trademarks. Section 1000 - Financial Statement Concepts was also amended to provide consistency with this new standard.

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

3. Significant Accounting Policies (continued)

These sections are applicable to fiscal years beginning on or after October 1, 2008. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

[b] Business Combinations. In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-Controlling Interests. These sections replace the former CICA Handbook Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements, and establish a new section for accounting for a non-controlling interest in a subsidiary.

Section 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of consideration and are expected to be expensed when incurred. Section 1601 established standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

[c] CICA Handbook Section 3855 "Financial Instruments-Recognition and Measurement" was amended April 2009. Paragraphs were added and amended regarding the application of the effective interest method to previously impaired financial assets and embedded prepayment options. The amendments are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 with early adoption permitted. The Company is currently evaluating the impact of the adoption of this section.

[d] CICA Handbook Section 3862 "Financial Instruments-Disclosure" was amended in June 2009 in order to harmonize Section 3862 with International Financial Reporting Standards Section 7 – Disclosures ("IFRS 7"). The purpose was to establish a framework for measuring fair value and expand disclosures about fair value measurements. According to Section 3862, an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). These standards apply to interim and annual consolidated financial statements relating to fiscal years ending after September 30, 2009. The adoption of these amendments did not impact the Company's approach in fair value measurement. The carrying value of the Company's financial assets and liabilities is considered to be a reasonable approximation of fair value due to the short-term nature of these instruments and are considered level 1 financial instruments according to this section.

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

3. Significant Accounting Policies (continued)

[e] Emerging Issues Committee EIC-173 - "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" issued a new abstract in January 2009 concerning the measurement of financial assets and financial liabilities &, financial position or disclosure.

[f] The Accounting Standards Board of the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Early conversion to IFRS for fiscal years beginning on or after January 1, 2009 will also be permitted.

When implemented, IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes. It may also have an effect on taxes, contractual commitments involving GAAP-based clauses, long-term employee compensation plans and performance metrics. The Company is currently developing an IFRS implementation plan and has hired an IFRS consultant to help analyze IFRS impact, aid in implementation planning and to provide training to key finance personnel. Part of the implementation plan is to review contracts and agreements, and to increase the level of awareness and knowledge amongst management, the Board of Directors and the Audit Committee. As at December 31, 2009, a preliminary review of the Company's financial statements has been performed to determine potential impact of IFRS adoption. This review has identified the following areas that may be impacted by IFRS conversion: Stock Based Compensation, Intangible Assets, Related Party Transactions, Revenue Recognition, Subsidiaries, Capital Assets and Leases. Accounting for Income Taxes is expected to be affected but the impact has not been analyzed. It is the intent of management to produce IFRS compliant quarterly financial statements for 2010 in tandem with Canadian GAAP based financial statements. Additional resources may be engaged to ensure the timely conversion to IFRS.

4. Financial Instruments

For certain of the Company's financial instruments, including cash and cash equivalents, funds held for merchants, receivables, accounts payable and accrued liabilities, funds due to merchants, convertible debentures and the JG Capital Corporation loan, the carrying amounts approximate fair values due to their short-term nature. The carrying value of obligations under capital lease approximates the fair value based on the discounted cash flows at market price.

The Company has classified its financial instruments as follows:

- Cash and cash equivalents	Held for trading
- Funds held for merchants	Held for trading
- Receivables	Loans and receivables
- Accounts payable and accrued liabilities	Other liabilities
- Funds due to merchants	Other liabilities
- Convertible debentures	Other liabilities
- JG Capital loan	Other liabilities

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

4. Financial Instruments (continued)

The carrying value and fair value of financial instruments as at December 31, 2009 and December 31, 2008 are summarized as follows:

	December 31, 2009		December 31, 2008	
	Carrying Value \$	Fair Value \$	Carrying Value \$	Fair Value \$
Held-for-trading	577,871	577,871	339,984	339,984
Receivables	321,218	321,218	342,776	342,776
Held-to-maturity	-	-	-	-
Available-for-sale	-	-	-	-
Other liabilities	1,926,630	1,926,630	966,503	966,503

Financial instruments risk, exposure and management:

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk, and liquidity risk.

(a) Credit Risk

The only financial instruments that potentially subjects the Company to concentrations of credit risk are its accounts receivable. Management is of the opinion that any risk of accounting loss on accounts receivable is significantly reduced due to the financial strength of the Company's major customers. All of the cash and cash equivalents and funds due to merchants are held with Canadian chartered banks. As at December 31, 2009 two [December 31, 2008 - three] customers represent 83% [December 31, 2008 - 85%] of the accounts receivable balance. For the year ended December 31, 2009 three [December 31, 2008 - four] customers represent 93% [t year ended December 31, 2008 - 88%] of total revenue. The Company has good credit history with these customers and the amounts due from them are generally received as expected. Provisions for doubtful accounts are made on an account-by-account basis.

The maximum exposure to credit risk in terms of accounts receivable as at December 31, 2009 and December 31, 2008 was:

	2009 \$	2008 \$
Accounts receivable - gross balance	321,218	392,776
Allowance for doubtful accounts	-	(50,000)
Accounts receivable - carrying value	321,218	342,776

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

4. Financial Instruments (continued)

The aging of the accounts receivable as at December 31, 2009 and December 31, 2008 was:

	2009 \$	2008 \$
Current	288,176	174,267
Past due (31-60 days)	13,848	13,921
Past due (61-90 days)	7,894	16,376
Past due greater than 90 days	11,300	188,212
Accounts receivable - gross balance	321,218	392,776

(b) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange risks and interest rates, will affect the fair value of future cash flows of financial instruments.

(i) Foreign exchange risk

The Company is exposed to minimal foreign exchange risk as the Company had only a nominal balance of net assets denominated in US dollars as at December 31, 2009.

(ii) Interest rate risk

The Company is exposed to minimal interest rate risk as the interest rate on interest-bearing debt (JG Capital loan) is fixed. (note16)

(c) 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 approach to managing liquidity risk is to ensure that it will have sufficient working capital and cash flow generated from operations to fund the operations and settle debt and liabilities when due. All of the Company's financial liabilities, other than the JG Capital Corporation loan and capital lease obligations, have contractual maturities of less than 45 days.

The table below provides a summary of the contractual obligations and payments related to financial liabilities due as at December 31, 2009. The amounts disclosed are the contractual undiscounted cash flows:

	Payments due as at December 31				
	Total \$	Less than one year \$	1 to 3 years \$	4 to 5 years \$	After 5 years \$
Accounts payable and accrued liabilities	1,336,112	1,336,112	-	-	-
Funds due to merchants	365,518	368,518	-	-	-
JG Capital loan	225,000	225,000	-	-	-
Obligations under capital lease	150,171	44,000	73,776	31,101	1,294

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

5. Economic Dependence

The Company derives 84% of its transaction and processing service fee revenue (2008: 92%) through an arrangement with Chase Paymentech ("Chase") pursuant to a written agreement. The Company is economically dependent on this customer. As at December 31, 2009 the agreement contains covenants requiring the Company to submit audited financial statements to Chase within 60 days of fiscal year-end and to maintain a minimum financial current ratio and net tangible worth. At December 31, 2009, the Company was in temporary breach of these covenants. However, a waiver of this breach was received from Chase until the end of January 2010 at which point the Company was in compliance with these covenants.

For the twelve months ended December 31, 2009, the Company derived 51% (2008: 40%) of its product sales and other revenue from Lease Finance Group. The Company is economically dependent on this customer.

6. Equipment

	2009		
	\$		
	Cost	Accumulated Amortization	Net Book Value
Computer	316,495	(94,685)	221,810
Office furniture	154,380	(54,956)	99,424
	470,875	(149,641)	321,234

Included in office furniture are assets under capital lease with a cost basis of \$85,699 (December 31, 2008: \$85,699) and accumulated amortization of \$26,918 (December 31, 2008: \$12,223). Included in computer are assets under capital lease with a cost base of \$78,315 (December 31, 2008: nil) and accumulated amortization of \$11,747 (December 31, 2008: nil).

	2008		
	\$		
	Cost	Accumulated Amortization	Net Book Value
Computer	110,664	(45,521)	65,143
Office furniture	141,491	(31,733)	109,758
	252,155	(77,254)	174,901

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

7. Intangible Assets

	2009 \$		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships	172,030	(68,812)	103,218
Developed technology	101,592	-	101,592
	273,622	(68,812)	204,810

	2008 \$		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships	172,030	(34,406)	137,624

8. Obligation under Capital Lease

	2009 \$	2008 \$
Obligation under Capital Lease	134,365	79,489
Less: current portion	(36,819)	(11,163)
	97,546	68,326

Repayable in monthly blended payments of \$3,667. One capital lease is due January 15, 2015 bearing interest at 6%. The other capital lease is due June 1, 2012 bearing interest at 6%.

The Company has minimum lease payment commitments for the following amounts:

Year	\$
2010	44,000
2011	44,000
2012	29,775
2013	15,551
2014 and thereafter	16,845
Total	<u>150,171</u>
Less: Interest	(15,806)
Principal	<u>134,365</u>

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

9. Operating Lease Commitments

The company has operating lease commitments for office premise's payments for the next five years and thereafter in the following amounts:

Year	\$
2010	194,528
2011	198,600
2012	125,421
2013	89,199
2014 and thereafter	<u>68,867</u>
	<u>676,615</u>

The foregoing table does not include estimates for property taxes and operating costs related to the premise lease.

10. Share Capital

The Company is authorized to issue an unlimited number of common shares.

Issued and Fully Paid:

	Common Shares	\$
Balance, December 31, 2007	7,130,250	2,655,003
Reallocation of contributed surplus upon exercise of stock options	-	918,450
Exercise of stock options for cash	975,000	23,625
Issued for cash through private placements	417,909	420,000
Balance, December 31, 2008	8,523,159	4,017,078
Issued for cash through private placements	560,400	545,656
Issued in conversion of debentures (note 13)	40,000	40,000
Reallocation of contributed surplus upon exercise of stock options(note 11)	-	17,204
Exercise of stock options for cash	25,000	6,250
Exercise of cashless stock options (note 11)	262,500	264,687
Share issuance costs	-	(18,802)
Balance, December 31, 2009	9,411,059	4,872,073

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

10. Share Capital (continued)

Subsequent to the year ended December 31, 2009, the Company completed a private placement of 2,354,267 subscription receipts at \$1.50 per subscription receipt for gross proceeds of \$3,531,400. Of the total gross proceeds \$288,958 was received by the Company prior to December 31, 2009. This amount has been include in share subscriptions received. Professional fees of \$425,536 related to the share issuance have been capitalized at December 31, 2009 and will be offset against subscription receipts upon completion of the reverse takeover of with JG Capital Corporation. (Note 21)

Stock Options

The Company's fixed Stock Option Plan ("the Plan") allows for 20% of the issued share capital to be reserved for issuance to employees, officers, directors, and consultants of the Company. The Board of Directors of the Company may terminate the Plan at any time provided that the termination does not alter the terms or conditions of any option or impair the right of any shareholder. Vesting provisions of the plan provide for 25% of the options upon the Grant Date and 25% every 6 months thereafter until fully vested. During the year, the terms of 350,000 options were modified so that they could be exercised early, for no cash consideration, for \$262,500 of the company's common shares. The modification was accounted for in accordance with CICA Handbook Section 3870.

	2009		2008	
	\$		\$	
	Options (000's)	Weighted Average Exercise Price	Options (000's)	Weighted Average Exercise Price
Outstanding, start of year	940	0.25	1,175	0.12
Granted	750	1.00	915	0.18
Exercised	(375)	0.25	(975)	0.02
Forfeited	(15)	0.25	(175)	0.25
Outstanding, end of year	1,300	0.68	940	0.25

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

10. Share Capital (continued)

Stock Options (continued)

The options outstanding at December 31, 2009 expire as follows:

Expiry Date	Number of Shares Optioned (000's)	Weighted Average Remaining Contractual Life Years	Weighted Average Exercise Price \$	Number of Shares Optioned that are Vested (000's)	Weighted Average Exercise Price of Vested Options \$
Aug.24, 2012	750	1.53	1.00	188	1.00
Oct. 3, 2012	225	0.48	0.25	225	0.25
Dec.11, 2012	25	0.06	0.25	25	0.25
Mar. 1, 2013	50	0.12	0.25	50	0.25
May 1, 2013	250	0.64	0.25	250	0.25
	<u>1,300</u>	<u>1.53</u>	<u>0.68</u>	<u>738</u>	<u>0.44</u>

Stock-based compensation totaling \$333,357 was recognized during the year ended December 31, 2009 (2008: \$1,088,994).

The fair value of stock options granted during the twelve months ended December 31, 2009 was estimated using the Black-Scholes option-pricing model with the following assumptions:

	<u>2009</u>	<u>2008</u>
Dividend yield	0%	0%
Expected volatility	60%	80%
Risk-free interest rate	1.81%	2.86%
Expected option life	3 years	5 years

11. Contributed Surplus

	\$
Balance, December 31, 2007	396,945
Stock-based compensation on share options issued	1,088,994
Share options exercised allocated to share capital (note 10)	(918,450)
Balance December 31, 2008	<u>567,489</u>
Stock-based compensation on stock options issued	333,357
Stock options exercised allocated to share capital(note 10)	(17,204)
Exercise of cashless stock options (note 10)	(264,687)
Balance, December 31, 2009	<u>618,955</u>

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

12. Acquisition of Business

On February 11, 2008 the Company purchased 75% of the issued and outstanding common shares of Positive Inc. ("Positive"), a private company incorporated in Quebec, engaged in the business of reselling payment processing services. The results of Positive have been included in the consolidated financial statements since its acquisition. The aggregate purchase price was \$240,000 cash.

The acquisition was accounted for using the purchase method where the assets acquired and the liabilities assumed were recorded at their fair value as of the date of acquisition. Details of the fair values of net assets acquired are as follows:

<u>As at February 11, 2008</u>	\$
Current assets	336,674
Equipment	4,338
Intangible assets - customer relationships	172,030
Goodwill	55,295
Total assets acquired	568,337
Current liabilities	(317,402)
Non-controlling interest	(10,935)
Net assets acquired	240,000

All of the \$172,030 of acquired intangible assets have been identified as customer relationships (see Note 7). None of the costs allocated to customer relationships or goodwill are deductible for income tax purposes.

Non-controlling interest in Positive Inc.:

	2009	2008
	\$	\$
Balance, beginning of year	19,154	-
On acquisition	-	10,935
Current year non-controlling interest	(11,585)	8,219
Balance, end of year	7,569	19,154

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

13. Convertible Debentures

Between June 25, 2008 and July 25, 2008 the Company issued three secured convertible debentures totaling \$160,000, paying interest of 15% per annum. The maturity date for \$120,000 of the debentures was June 25, 2009, and the maturity date of the remaining \$40,000 debenture was July 25, 2009. The conversion price was \$1.00 per share. The conversion options, being equity components, belong to these debentures, have nominal value.

The \$40,000 debenture was converted into 40,000 common shares at the request of the debenture holder in June 2009 (see note 10). The \$120,000 of debentures that matured on June 25, 2009 were paid out in July 2009.

14. Related Party Transactions

The following related party transactions were incurred at the exchange amounts as agreed upon by the parties:

	2009	2008
	\$	\$
Consulting fees paid to shareholders of the Company	746,667	343,235
Professional fees paid to a company owned by a director of the Company	23,175	6,120
Professional fees paid to a shareholder of the Company	15,676	12,233

Included in accounts payable and accrued liabilities is \$10,251 owing to related parties.

15. Capital Management

The capital structure of the Company consists of shareholders' equity, convertible debentures, JG Capital loan and obligations under capital lease.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company. The Board of Directors does not currently establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to enhance and sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size and stage of the Company, is reasonable. The Company is subject to an externally imposed capital requirement (see Note 5). There were no changes in the Company's approach to capital management during the year.

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

16. JG Capital Loan

On September 22, 2008, the Company entered into a binding letter agreement ("Letter Agreement") with JG Capital Corp. ("JG"), a TSX Venture Exchange-listed capital pool company. This Letter Agreement contemplates the amalgamation of the Company and JG and a future equity financing (see note 21).

JG extended a loan (the "JG Capital Loan") to the Company in the amount of \$225,000, on November 8, 2008. The JG Capital Loan accrued interest at a rate of 6% per annum, and since the amalgamation occurred subsequent to year end, the JG Capital Loan was considered null and void once the amalgamation was completed (Note 21). As such, the principal and all accrued interest will not have to be repaid. The JG Capital Loan has a general security agreement over all of the Company's assets and property.

17. VersaCard/VersaEFT Funds

The Company makes a bank account available to holders of VersaCard and VersaEFT accounts that can be funded and subsequently drawn down to make payments. At December 31, 2009 the Company was holding funds on behalf of the merchants who use the VersaCard and VersaEFT services in the amount of \$365,518 (December 31, 2008: \$14,809). The funds held for merchants are composed of funds from transaction payment processing and funds from pre-authorized debit services provided to the Company's customers.

18. Additional Cash Flow Information:

Non-cash investing and financing transactions not included in cash flows:

	2009 \$	2008 \$
Equipment acquired through capital lease	78,315	85,699
Conversion of debentures into common shares	40,000	-
Cashless exercise of stock options	264,687	-
Accrued share issuance costs	100,000	-

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

19. Income Taxes

The components of the Company's future income tax assets are as follows:

	2009	2008
	\$	\$
Property and equipment temporary differences	17,160	17,273
Non-capital losses carry-forwards	818,200	630,481
Total future income tax assets	835,360	647,754
Valuation allowance	(835,360)	(647,754)
Net book value	-	-

The Company has \$2,870, 879 in income tax non-capital loss carryforwards available to reduce taxable income of future years. These losses expire as follows:

Year	\$
2015	79,323
2026	416,337
2027	932,379
2028	605,772
2029	837,068
	<hr/>
	2,870,879
	<hr/> <hr/>

No benefit from these loss carry-forwards has been recorded in these consolidated financial statements.

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

19. Income Taxes (continued)

The Company's income taxes have been calculated as follows:

	2009	2008
	\$	\$
Loss before non-controlling interest in Positive Inc.	(1,352,834)	(2,025,701)
Income tax recovery at Canadian federal and provincial combined statutory rates	(392,388)	(627,968)
Non-deductible stock-based compensation	100,007	337,588
Other permanent differences	104,775	67,431
Increase in valuation allowance	187,606	222,949
Provision for income taxes	-	-

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

20 . Segmented Information

The Company's business operates primarily through two business entities, Versapay and Positive. Versapay is primarily a financial transactions processor providing electronic payments technology, settlement and clearance services. Positive represents payment processing and related services using wireless terminals exclusively.

The Company's reportable segments are separate legal entity business units that offer different products and services. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The following tables set forth information by operating segments for the years ended December 31, 2009 and 2008.

	2009			2008		
	Versapay	Positive	Total	Versapay	Positive	Total
Revenues	\$8,023,788	\$388,307	\$8,412,095	\$4,616,207	\$536,949	\$5,153,156
COS	5,945,186	358,473	6,303,659	3,214,024	516,916	3,730,940
Earnings before the						
Undernoted	2,078,602	29,834	2,108,436	1,402,183	20,033	1,422,216
Amortization of						
Property & Equipment	71,517	870	72,387	40,856	970	41,826
Amortization of						
Intangibles	34,406		34,406	34,406		34,406
Interest Expense	31,527	948	32,475	18,219		18,219
(gain) Loss on FX	210		210	(764)		(764)
Stock Based						
Compensation	333,357		333,357	1,088,994		1,088,994
Earnings before						
Corporate Expenses	1,607,586	28,016	1,635,602	220,472	19,063	239,535
Corporate Expenses			2,988,436			2,270,218
Loss before non -						
controlling interest			\$(1,352,834)			\$(2,030,683)

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

20 . Segmented Information (continued)

	2009			2008		
	Versapay	Positive	Total	Versapay	Positive	Total
Goodwill	55,295	-	55,295	55,295	-	55,295
Equipment	318,735	2,499	321,234	171,535	3,366	174,901
Intangibles	204,810	-	204,810	137,624	-	137,624
Other Assets	1,322,620	29,138	1,351,758	554,186	153,825	708,001
Additions to Capital Assets	218,720	-	218,720	58,843	-	58,843
Additions to Intangible	101,592	-	101,592	-	-	-

21.Subsequent events

a) On January 12, 2010 the Company completed its previously announced amalgamation with JG Capital Corp. As a result of the amalgamation the loan of \$225,000 (see note 15) from JG Capital Loan and all accrued interest has been considered null and void and will not be required to be repaid. Immediately prior to the completion of the transaction, VersaPay completed private placements raising aggregate gross proceeds of \$3,531,400 for 2,354,267 subscription receipts ("Subscription Receipts"). VersaPay sold the Subscription Receipts at a purchase price of \$1.50 per Subscription Receipt with each Subscription Receipt automatically converting into one common share of VersaPay ("VPY Share") and one-half of one common share purchase warrant of VersaPay (each whole warrant, a "VPY Warrant") immediately prior to the completion of the transaction. Each whole VPY Warrant expires on January 13, 2012 and entitles the holder to acquire one VPY Share at an exercise price of \$1.80 per VPY Share.

As a result of the foregoing amalgamation, the former shareholders of the Company, for accounting purposes, will be considered to have acquired control of JG Capital Corp. Accordingly, the acquisition of JG Capital Corp is accounted for as a reverse takeover that is not a business combination and effectively as a capital transaction of Versapay.

The Company incurred \$425,536 in professional fees that were directly and incrementally related to the foregoing transaction. These costs are capitalized as share issuance costs on the December 31, 2009 consolidated balance sheet and will be recorded as a reduction in issued share capital when the reverse takeover is completed in January, 2010

VERSAPAY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

21. Subsequent events (continued)

b) On April 28, 2010 the Company entered into an agreement with a related party (a shareholder) to sell its 75% ownership in Positive Inc (note 12) in exchange for the redemption of 150,000 shares of Versapay. As part of the agreement, the Company has provided the purchaser with an option to redeem an additional 100,000 Versapay shares to the Company for total consideration of \$50,000. The sale constitutes a "Related Party" transaction under the definition of that term under Multilateral Instrument 61-101 and is subject to a number of conditions including the approval of the TSX Venture Exchange. The transaction is expected to be completed in the second quarter of 2010.