

Tangarine Payment Solutions Corp.
Consolidated Financial Statements
For the years ended July 31, 2007 and July 31, 2006

Tangarine Payment Solutions Corp.

Consolidated Financial Statements

For the years ended July 31, 2007 and July 31, 2006

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Tangarine Payment Solutions Corp.
Consolidated Balance Sheets

July 31	2007	2006 (Note 3)
Assets		
Current		
Cash	\$ 59,292	\$ 593,231
Short-term investments (Note 3)	11,000	161,000
Accounts receivable	438,425	556,682
Current income taxes recoverable	108,690	83,400
Inventory	245,595	548,661
Prepaid expenses	152,908	80,129
	<u>1,015,910</u>	2,023,103
Long-Term Receivable (Note 5)	1,246,518	2,246,518
Deferred Charges	1,030,994	729,344
Fixed Assets (Note 7)	1,039,402	1,074,216
Merchant Contracts (Notes 2, 3 and 7)	12,297,054	13,503,939
Future Income Taxes Recoverable (Note 14)	<u>186,978</u>	1,490,599
	\$ 16,816,856	\$ 21,067,719

The accompanying notes are an integral part of these financial statements

Tangarine Payment Solutions Corp.
Consolidated Statements of Deficit

For the year ended July 31	2007	2006 (Note 3)
Deficit , beginning of year	\$ (5,870,539)	\$ (178,571)
Reverse takeover adjustment (Note 15)	(1,793,972)	-
Net loss for the year	(6,129,417)	(3,405,421)
Dividends on class A special shares	-	(2,286,547)
Gain on redemption of common shares (Note 12)	26,681	-
Deficit , end of year	\$ (13,767,247)	\$ (5,870,539)

Tangarine Payment Solutions Corp.
Consolidated Statements of Operations

For the year ended July 31	2007	2006 (Note 3)
Sales and Fees (Note 20)	\$ 6,795,238	\$ 6,939,295
Cost of Sales	4,336,919	4,800,546
Gross Profit	2,458,319	2,138,749
Expenses		
General and administrative	1,066,640	1,154,892
Wages and benefits	1,651,171	1,822,955
	2,717,811	2,977,847
Loss Before Other Income (Expenses) and Income Taxes	(259,492)	(839,098)
Other Income (Expenses)		
Amortization	(1,806,431)	(2,152,137)
Bank charges and interest (Notes 9, 10 and 20)	(797,348)	(719,286)
Development costs	(463,745)	(1,292,224)
Gain on contract settlement	-	504,160
Writedown of long-term assets (note 5)	(1,000,000)	(124,334)
Restructuring and other one-time costs (Notes 9, 10 and 20)	(524,070)	(132,657)
	(4,591,594)	(3,916,478)
Loss Before Income Taxes	(4,851,086)	(4,755,576)
Income Tax (Expense) Recovery (Note 14)	(1,278,331)	1,350,155
Net Loss for the Year	\$ (6,129,417)	\$ (3,405,421)
Loss per common share (Note 16)		
Basic loss per common share	\$ (0.24)	\$ (0.20)

The accompanying notes are an integral part of these financial statements

Tangarine Payment Solutions Corp.
Consolidated Statements of Cash Flows

For the year ended July 31	2007	2006 (Note 3)
Cash Provided By (Used In)		
Operating Activities		
Net loss for the year	\$ (6,129,417)	\$ (3,405,421)
Items not involving cash:		
Amortization of unearned revenue - management contracts	(627,824)	(520,443)
Amortization of commissions included in deferred charges	124,682	89,637
Amortization of fixed assets and merchant contracts	1,806,431	2,152,137
Write-off of deferred development costs	-	250,136
Gain on contract settlement	-	(504,160)
Write-down of long-term receivable	1,000,000	-
Write-off of software licenses	-	124,334
Amortization of financing costs included in deferred charges	22,320	226,372
Write-off of financing costs included in deferred charges	267,846	54,000
Recovery of financing costs included in deferred charges	(29,643)	-
Stock based compensation - interest	22,500	10
Future income tax recovery	1,303,621	(1,439,227)
Change in non-cash working capital (Note 20)	1,202,538	(165,634)
Advances on unearned revenue - management contracts	2,052,816	1,392,470
Deferred commission additions	(806,347)	(170,735)
	209,523	(1,916,524)
Investing Activities		
Purchase of fixed assets	(219,795)	(144,067)
Purchase of merchant contracts	(6,149)	-
Purchase of software licenses	-	(65,834)
Purchase of investment in Tangarine Concepts Corp.	(1,030,222)	-
	(1,256,166)	(209,901)
Financing Activities		
Assumption of bank indebtedness	-	100,000
Repayment of bank indebtedness	(100,000)	-
Repayment of loans payable	-	(1,646,059)
Repayment of due to related party	(6,812)	(57,232)
Issuance of long-term debt	150,000	3,922,222
Repayment of long-term debt	(1,355,483)	(704,170)
Advances of due to related parties	1,825,000	1,010,000
Advances on unearned revenue - Issuance of units	-	45,000
Cost for issuance of units	-	(24,878)
Issuance of common shares	-	783,410
Redemption of common shares	(1)	-
Dividends on class A special shares	-	(777,441)
	512,704	2,650,852
Increase (Decrease) in Cash	(533,939)	524,427
Cash, beginning of year	593,231	68,804
Cash, end of year	\$ 59,292	\$ 593,231

The accompanying notes are an integral part of these financial statements

Tangarine Payment Solutions Corp.
Notes to Consolidated Financial Statements

July 31, 2007 and July 31, 2006

1. Nature of Business

Tangarine Payment Solutions Corp. (the "company") was incorporated under the Business Corporations Act (Ontario) on June 18, 2004 as Chrysalis Capital II Corporation. On July 26, 2006, the company's name was changed to Tangarine Payment Solutions Corp. and the company was continued under the Canada Business Corporations Act. The company through its wholly owned subsidiary Tangarine Concepts Corp. is engaged in the sale and management of deployed point of sale terminals.

2. Significant Accounting Policies

Method of Consolidation

These consolidated financial statements include the accounts of the legal parent Tangarine Payment Solutions Corp. and those of its wholly owned subsidiary Tangarine Concepts Corp. as at and for the year ended July 31, 2007. As a result of the reverse takeover that occurred on August 1, 2006, as described in note 15, the company is considered to be a continuation of its subsidiary Tangarine Concepts Corp., which is the successor corporation formed through the amalgamation described in note 15. As such, the comparative amounts being shown as at and for the year ended July 31, 2006, including the components and amounts comprising shareholders' equity are those of the subsidiary Tangarine Concepts Corp.'s predecessor corporation Tangarine Concepts Corporation.

Revenue Recognition

Hardware sales occur generally in conjunction with the signing of a management contract, which typically spans between three to five years, with options to renew generally over five years. Total consideration received by the company is accounted for in accordance with CICA Handbook EIC 142 and allocated proportionately between the hardware sale and the management contract using the relative fair value method. Revenue on the hardware sale portion is recognized upon delivery of the hardware and when ultimate collection is reasonably assured. Revenue on the management contract portion is deferred and amortized on a straight-line basis over the term of the management contract, plus one renewal period, commencing when ultimate collection is reasonably assured. In the event of the cancellation of a management contract, any remaining deferred revenue balance not amortized on the related contract is recognized in revenue during the period of cancellation.

Transaction revenue relates to the company's share of fees of POS transactions on terminals under management and are recognized when daily transactions are closed out and ultimate collection is assured. The company's share of transaction revenue is recorded on a gross basis with other third parties' share of transaction revenue recorded in cost of sales. The company uses the gross basis for recording revenue because: the company is the primary obligor to the terminal location through a management agreement and other third parties have no obligation to retailers; the company has the ability to establish price with the retailers without any direct effect on the compensation received by other third parties and the company has the credit risk of collection from the retailers without any effect on the compensation received by other third parties.

Tangarine Payment Solutions Corp.
Notes to Consolidated Financial Statements

July 31, 2007 and July 31, 2006

2. Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Non-refundable monthly administrative charges for ongoing support services and terminal rentals are recognized at the end of the month of service when collection is reasonably assured.

Administrative charges for one-time support services are recognized once confirmation of the service has been received by the customer and collection is reasonably assured.

Investments

Short-term investments are recorded at the lower of cost and net realizable value.

Long-term receivable is recorded at cost and only written down when there is a permanent decline in the value of the investment.

Inventory

Inventory is recorded at the lower of cost and market value. Cost being determined on the first in first out method. Market value being defined as retail selling price.

Deferred Charges

Commissions related to the management contract share of the consideration received by the company from hardware sales are deferred and amortized on a straight-line basis over the term of the management contract, plus one renewal period. In the event of the cancellation of a management contract, any remaining deferred expense balance not amortized on the related contract is recognized in expense during the period of cancellation.

Loan financing costs incurred to negotiate long-term debt agreements are deferred and amortized on a straight-line basis over the term of the long-term debt agreement. In the event of full repayment or the cancellation of such agreements, any remaining deferred expense balance not amortized is recognized in expense during the period of repayment or cancellation.

Development Costs

Development costs, including various overhead expenses related to the start-up of new commercial ventures and other costs with respect to new processes under development, are expensed as incurred.

Tangarine Payment Solutions Corp.
Notes to Consolidated Financial Statements

July 31, 2007 and July 31, 2006

2. Significant Accounting Policies (Continued)

Fixed Assets

Fixed assets are recorded at cost. Amortization based on the estimated useful life of the assets is as follows. Amortization in the year of addition is taken at half the yearly rate.

Furniture and equipment	- 20% diminishing balance basis
Computer hardware	- 30% diminishing balance basis
Computer software	- 30% diminishing balance basis
Leasehold improvements	- 5 years straight line
Rental hardware terminals	- 20% diminishing balance basis

Software Licenses

Software licenses are recorded at cost. Amortization is not being taken as they are considered to have an indefinite life. Cost is identified using a specific identification method for each license. Each individual license's value is tested annually through the calculation of the net present value of future cash flows generated by the use of each license in ongoing operations and any impairment is adjusted for against income in the year of impairment.

Merchant Contracts

Merchant contracts are recorded at cost. Cost being the amounts paid for merchant contracts purchased from third parties. Amortization based on the estimated useful life of the purchased merchant contracts is being taken on a straight-line basis over the term of a standard merchant contract, plus one renewal period, which in most cases corresponds to 10 years. The fair value of this asset is tested annually or when changes in circumstances would indicate that the value of this asset has become impaired. The assessment is performed through a calculation of the present value of future cash flow generated for the company by the portfolio of merchant contracts.

Income Tax

The company follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Stock Based Compensation

Share capital issued in exchange for non-monetary consideration is recorded at an amount based on the fair market value of the shares on the date of issuance.

The company recognizes as compensation expense the fair value of stock options issued in exchange for services provided by outside consultants and company directors. The cost of such compensation is calculated using the fair value method (Black-Scholes option pricing model) based on the fair value of the stock options on the granting date.

Tangarine Payment Solutions Corp.
Notes to Consolidated Financial Statements

July 31, 2007 and July 31, 2006

2. Significant Accounting Policies (Continued)

Earnings per Share

The company calculates earnings per share using the weighted average number of shares outstanding during the period. The treasury stock method of calculating fully diluted earnings per share amounts is used, which assumes that all outstanding stock options with an exercise price below the average market value are exercised and the assumed proceeds are used to purchase common shares at the average market price during the period. The difference between the number of shares assumed issued and the number of shares assumed purchased is then included in the denominator of the diluted earnings per share computation.

Use of Estimates

The preparation of the company's consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates.

3. Change in Accounting Policy

On July 31, 2007, the company determined, based on information obtained regarding its existing merchant base, that the purchased merchant contract assets recorded on the balance sheet do not have an indefinite life. As such, effective July 31, 2007, the company retroactively changed its accounting policy with respect to merchant contracts. The new policy amortizes the cost of merchant contracts straight line over the term of a merchant contract, plus one renewal period, which in most cases amounts to 10 years, as disclosed in note 2. Previously, the company's policy was that the merchant contracts had an indefinite life and they were only to be tested annually for permanent impairment.

The effect on amounts being presented as at and for the year ended July 31, 2006 was to decrease merchant contracts by \$1,901,176; increase future income taxes recoverable by \$515,029 and decrease net income and increase closing deficit by \$1,386,147. As well, the effect of this change was to increase basic and fully diluted net loss per common share by \$0.05.

Tangarine Payment Solutions Corp.
Notes to Consolidated Financial Statements

July 31, 2007 and July 31, 2006

4. Short-Term Investments

	2007	2006
Non-redeemable term deposit, interest at 3.1%, maturing September 27, 2007	\$ 11,000	\$ 11,000
Non-redeemable term deposit, interest at 2%	-	100,000
Float account, non-interest bearing, held for purpose of prepaid credit card program to guarantee funds for card loads	-	50,000
	\$ 11,000	\$ 161,000

5. Long-Term Receivable

	2007	2006
Promissory note receivable, interest bearing at 4% annually, interest payable quarterly on a calendar basis, principal of \$1,123,259 repayable on December 31, 2007 and \$1,123,259 repayable on December 31, 2008, unsecured and subordinated in favour of all existing and future conventional institutional debt financing of the borrower	\$ 2,246,518	\$ 2,246,518
Less: allowance for impairment	(1,000,000)	-
	\$ 1,246,518	\$ 2,246,518

As a result of the downturn in the Spanish real estate market, the market in which the party to this loan operates, the company has determined that it may no longer be able to collect the full principal amount owing on this long-term receivable. As such, as of July 31, 2007, the company has determined the need for an impairment allowance of \$1,000,000, which has been included in other expenses for the year. The long-term receivable is secured by a pledge of 5,000,000 common shares of the company by an individual who is a shareholder, director and officer of the company.

The fair value of the long-term receivable is estimated to be **\$1,218,473** (2006 - \$2,246,084).

Tangarine Payment Solutions Corp.
Notes to Consolidated Financial Statements

July 31, 2007 and July 31, 2006

6. Fixed Assets

2007

	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 92,061	\$ 68,080	\$ 23,981
Computer hardware	274,330	153,703	120,627
Computer software	336,614	173,344	163,270
Leasehold improvements	11,872	9,844	2,028
Rental hardware terminals	1,022,116	292,620	729,496
	\$ 1,736,993	\$ 697,591	\$ 1,039,402

Included in fixed assets at July 31, 2007 is \$70,117 of computer software under development.

2006

	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 91,638	\$ 62,445	\$ 29,193
Computer hardware	89,850	26,007	63,843
Computer software	256,953	135,040	121,913
Computer equipment under capital lease	48,157	28,100	20,057
Leasehold improvements	8,487	7,637	850
Rental hardware terminals	1,105,828	267,468	838,360
	\$ 1,600,913	\$ 526,697	\$ 1,074,216

Tangarine Payment Solutions Corp.
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July 31, 2007 and July 31, 2006

7. Merchant Contracts

2007	Cost	Accumulated Amortization	Net Book Value
Merchant Contracts	\$ 15,775,811	\$ 3,478,757	\$ 12,297,054

2006 (Note 3)	Cost	Accumulated Amortization	Net Book Value
Merchant Contracts	\$ 15,405,115	\$ 1,901,176	\$ 13,503,939

8. Bank Indebtedness

The company had a credit facility agreement for an operating line of credit up to a limit of \$100,000, interest bearing at prime plus 1.5% annually, interest payable monthly, principal payable on demand, secured by a short-term investment in the amount of \$100,000. This credit facility was secured by accounts receivable, inventory and cash up to the limit of the loan amount.

This credit facility was cancelled at the company's option in December 2006.

Tangarine Payment Solutions Corp.
Notes to Consolidated Financial Statements

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9. Long-Term Debt

	2007	2006
Promissory note payable, non-interest bearing, payable \$1,667 monthly, maturing November 1, 2007, unsecured	\$ 6,667	\$ 25,000
Promissory note payable, non-interest bearing, payable on February 1, 2008, unsecured	50,000	-
Promissory note payable, terms as described below	50,000	-
Term loan payable, interest at 12%, payable \$47,000 principal plus interest monthly, with \$55,000 final payment on maturity date of October 31, 2008, secured as described below	-	1,277,000
Promissory note payable, non-interest bearing, payable \$1,450 monthly, matured March 1, 2007, unsecured	-	10,150
	106,667	1,312,150
Less: current portion	(56,667)	(594,150)
	\$ 50,000	\$ 718,000

Promissory Note Payable

The \$50,000 amount above is in the form of a secured subordinate promissory note, bearing interest at 12% annually, payable 2% each quarter on a calendar year basis and 4% annually on the anniversary date of the loan being September 30th of each year; principal repayable on the maturity date of September 30, 2008, with an extension feature at the option of the holder to extend the term up to a further three years to September 30, 2011; secured by a general security agreement covering all of the personal property and undertakings of Tangarine Concepts Corp.; postponed and subordinated to right of payment and to right of security granted for all current and future institutional debt financings.

The fair value of long-term debt is estimated to be \$108,403 (2006 - \$1,461,683). Principal payments expected over the next two years are: 2008 - \$56,667 and 2009 - \$50,000.

Interest on long-term debt for the year included in restructuring and one-time costs was \$87,656. (2006 - \$151,810 was included in bank charges and interest.)

Term Loan Payable

This loan was paid off early on September 30, 2006, with an interest penalty charge, which is included in the restructuring and one-time costs total as noted above.

Tangarine Payment Solutions Corp.
Notes to Consolidated Financial Statements

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10. Preferred Shares

The company is authorized to issue an unlimited number of preferred shares in series.

	<u>2007</u>	2006
3,059,178 Series I Preferred shares (2006 - nil)	\$ 3,059,178	\$ -
3,000,000 Preferred shares	-	3,000,000
Discount on preferred shares	-	(673,897)
	<u>\$ 3,059,178</u>	<u>\$ 2,326,103</u>

The preferred share balance being shown for comparative purposes as at July 31, 2006 relates to 3,000,000 preferred shares previously issued by Tangarine Concepts Corporation before the reverse takeover and amalgamation as described in note 15. On August 1, 2006, immediately prior to the reverse takeover and amalgamation described in note 15, Tangarine Concepts Corporation issued 59,178 preferred shares at a fair value of \$1 per preferred share to satisfy a liability of \$59,178 for interest, due pursuant to the terms of the preferred shares. Tangarine Concepts Corporation's 3,059,178 preferred shares were subsequently cancelled as part of the reverse takeover and amalgamation described in note 15.

The preferred share balance being shown as at July 31, 2007 relates to the series I preferred shares of the parent company Tangarine Payment Solutions Corp., which were issued as part of the reverse takeover described in note 15. The terms and features attached to these preferred shares are substantially the same as those attached to the preferred shares as previously issued by Tangarine Concepts Corporation.

Dividends

Preferred shares provide a cumulative cash dividend at a rate of 5% per annum, payable quarterly on a calendar year basis. In the event that the company fails to pay quarterly dividends in full on the quarterly payment date for any three successive quarters or is in arrears on paying quarterly dividends in full for any four quarters in aggregate, the holder of the preferred shares shall be entitled to exercise their retraction rights as described below or convert in whole or in part any unpaid annual dividends into common shares of the company at the current market price.

Tangarine Payment Solutions Corp.
Notes to Consolidated Financial Statements

July 31, 2007 and July 31, 2006

10. Preferred Shares (Continued)

Dividends (Continued)

Preferred Shares also provide a cumulative dividend at a rate of 9% per annum payable in cash, or in kind, or part in cash and part in kind, at the option of the company, except where paid pursuant to a redemption or retraction, in which case the dividend shall be paid in cash, such annual dividend being payable on January 30th. In the event that the company fails to pay annual dividends in full within sixty days after the applicable payment date, the holder of the preferred shares shall be entitled to exercise their retraction rights as described below and/or convert in whole or in part any unpaid quarterly dividends into common shares of the company at the current market price.

Retraction

Each preferred share is retractable at the option of the holder at the earlier of:

a) January 17, 2010; b) the failure of the company to pay quarterly dividends in full for any three successive quarters or for four quarters in aggregate; c) the failure of the company to pay annual dividends in full within sixty days of the applicable payment date or d) the company's debt as defined per the preferred share agreement exceeds \$3 million without the prior written consent of the preferred shareholder.

In the event that the company does not pay the retraction amount within sixty days of the retraction date, the preferred share holder has the option to convert in whole or in part the unpaid retraction price into common shares at the stated market price.

Redemption

Preferred shares are redeemable at the option of the company any time after July 17, 2007 if all of the following conditions are met:

a) all of the outstanding preferred shares are redeemed at the original investment price; b) all preferred share dividends, both quarterly and annual, whether declared or not, on a pro-rata basis up to the date of redemption are paid and c) all common shares relating to bonus share provisions of the preferred share agreement are issued as per the conditions noted below.

In the event of such redemption notice being provided by the company, the preferred shareholders have the right to convert all or part of their preferred shares into common shares of the company at any time before the date fixed for redemption or receipt of the redemption price. In the event that the company does not pay the redemption amount within sixty days of the redemption date, the preferred share holders have the option to convert in whole or in part the unpaid redemption price into common shares at the stated market price.

July 31, 2007 and July 31, 2006

10. Preferred Shares (Continued)

Conversion

Each preferred share is convertible at the option of the holder in blocks of not less than 250,000 preferred shares into common shares of the company at a rate of one common share per one preferred share. Upon conversion, the holders of the preferred shares will be eligible to receive all preferred share dividends, both quarterly and annual, whether declared or not, on a pro-rata basis up to the date of conversion.

Each Preferred Share is convertible at the option of the company into common shares in the event each of the following is satisfied:

a) The occurrence of one of the following events i) raising of minimum net proceeds of \$15 million through the issuance of common shares at a price per share in excess of two times the applicable conversion price; or ii) if the company is party to a business combination such that outstanding common shareholders are issued other securities issued on a stock exchange and the price paid per common share is in excess of between one and a half and two times the applicable conversion price depending on the timing of the transaction; or iii) if any time after July 17, 2007, the volume weighted average trading price of the common shares is two times the conversion price or greater; or iv) if the holders of at least 67% of the preferred shares voting as a single class, vote for such a conversion and b) all preferred share dividends, both quarterly and annual, whether declared or, on a pro-rata basis up to the date of conversion are paid and c) no more than \$110,000 of the due to related parties as described in note 13 remain outstanding and the remainder of such amounts having been converted to common shares at a conversion rate of not less than the conversion price.

Voting

Each preferred share carries the right to vote on all matters submitted to a vote or requiring consent of shareholders of the company, and entitles the holder thereof to the number of votes per share equal to the number of common shares into which the preferred shares are convertible. Each preferred share also holds right of first payment in the event of any distribution of assets to shareholders.

Bonus Payments

The holders of the preferred shares shall receive a bonus of 0.2 common shares multiplied by the conversion basis of each preferred share in the event of any of the following occurrences:

a) redemption of the preferred shares by the company; or b) if the common shares as listed on an exchange on January 17, 2010 have a weighted average trading price for twenty days that is less than \$1.20 per share or c) if the common shares are not posted for trading on an exchange by January 17, 2010. Such bonus common shares will have a deemed issue price of the current market price.

Tangarine Payment Solutions Corp.
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July 31, 2007 and July 31, 2006

10. Preferred Shares (Continued)

Bonus Payments (Continued)

On September 30, 2006 and on each such anniversary date, the preferred share holders shall receive on that date, a bonus equal to 5% of the aggregate investment amount plus all accrued and unpaid dividends on preferred shares as of that date. Such a bonus is to be payable through the issuance of additional preferred shares.

Included in bank charges and interest is \$159,518 related to this bonus payment, which has yet to be paid as of July 31, 2007. The fair value of preferred shares is estimated to be \$3,254,621 (2006 - \$nil). The principal is expected to be repaid no earlier than January 17, 2010. Dividends on the preferred shares for the year was \$620,615 (2006 - \$nil).

Escrowed Shares

Under the requirements of the TSX Venture Exchange and under an Escrow Agreement dated August 1, 2006, all of 3,059,178 preferred shares were deposited in escrow with Trustee to be released in stages over a period of three years from the date of acceptance by the TSX Venture Exchange of the company's qualifying transaction (being August 11, 2006). The shares are to be released in the following stages: 10% upon acceptance of the transaction, 16.67% of remaining securities on February 11, 2007; 20% of remaining securities on August 11, 2007; 25% of remaining securities on February 11, 2008; 33.33% of remaining securities on August 11, 2008; 50% of remaining securities on February 11, 2009 and all remaining securities on August 11, 2009. As at July 31, 2007, 2,294,384 preferred shares continued to be held in escrow.

11. Unearned Revenue - Management Contracts

	2007	2006
Opening balance, total unearned revenue - management contracts	\$ 2,469,929	\$ 1,597,902
Management contracts entered into during the year	2,052,816	1,392,470
Amortization of unearned management contracts	(627,824)	(520,443)
Total unearned revenue - management contracts	3,894,921	2,469,929
Amount to be amortized into income over next year (current portion)	(520,305)	(419,198)
	\$ 3,374,616	\$ 2,050,731

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12. Share Capital

Class A Special Shares and Common Share Purchase Warrants

	Class A Special Shares		Common Share Purchase Warrants	
	Number Outstanding	Amount	Number Outstanding	Amount
Balance, August 1, 2005	15,702,544	\$14,492,445	15,722,544	\$ 1,572
Issued in exchange for terminals or the obligation to deploy terminals and terminal merchant contracts	221,515	221,493	221,515	22
Reduction of previous issuance in exchange for terminals or the obligation to deploy terminals and terminal merchant contracts	(518,999)	(518,947)	(518,999)	(52)
Issued for cash	45,000	44,995	45,000	5
Deposits used for share purchase	-	(34,890)	-	-
Net reduction of previous issuance for advisory services	(29,205)	(29,202)	(29,205)	(3)
Reallocation of previous issuance costs	-	735,523	-	-
Issuance costs	-	(6,596)	-	-
Issued in exchange for legal services related to units issuance	20,000	19,998	20,000	2
Units cancelled	(350,000)	-	(350,000)	(35)
Issued as part of loan agreements disclosed in Note 11	-	-	101,400	10
Warrants exercised	-	-	(41,924)	(4)
Balance, July 31, 2006	15,090,855	\$14,924,819	15,170,331	\$ 1,517

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12. Share Capital

Class A Special Shares

The class A special share balance being shown for comparative purposes as at July 31, 2006 relates to 15,090,855 class A special shares issued by Tangarine Concepts Corporation before the amalgamation as described in note 15. On August 1, 2006, immediately prior to the reverse takeover and amalgamation described in note 15, Tangarine Concepts Corporation issued 361,232 class A special shares at a fair value of \$0.8999 per class A special share in exchange for merchant contracts. Tangarine Concepts Corporation's 15,452,087 class A special shares were subsequently cancelled as part of the reverse takeover and amalgamation described in note 15.

Common Share Purchase Warrants

The common share purchase warrants balance being shown for comparative purposes as at July 31, 2006 relates to 15,170,331 common share purchase warrants previously issued by Tangarine Concepts Corporation before the amalgamation as described in note 15. On August 1, 2006, immediately prior to the reverse takeover and amalgamation described in note 15, Tangarine Concepts Corporation issued 361,232 common share purchase warrants at a fair value of \$0.0001 per common share purchase warrant in exchange for merchant contracts. Following the reverse takeover and amalgamation described in note 15, the common share purchase warrants were, according to their terms, then exercisable to purchase one common share of Tangarine Payment Solutions Corp. under substantially the same terms and conditions. Tangarine Concept Corp.'s 15,531,563 common share purchase warrants expired on October 20, 2006.

Common Shares

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

The common share balance being shown for comparative purposes as at July 31, 2006 relates to common shares previously issued by Tangarine Concepts Corporation before the amalgamation as described in note 15. On August 1, 2006, immediately prior to the reverse takeover and amalgamation described in note 15, Tangarine Concepts Corporation also issued additional common shares as described below.

Tangarine Payment Solutions Corp.
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July 31, 2007 and July 31, 2006

12. Share Capital (Continued)

	Common Shares		Contributed Surplus
	Number Outstanding	Amount	Amount
Balance, August 1, 2005	27,829,816	\$ 1,075	\$ -
Common share purchase warrants exercised	41,924	41,928	-
Issued in private placement, net of issue costs	1,050,000	741,478	-
Stock dividend on class A special shares	1,509,106	1,509,106	-
Options issued as part of long-term debt agreement	-	-	333,500
Options issued as part of due to related party agreement	-	-	54,000
Balance, July 31, 2006	30,430,846	\$ 2,293,587	\$ 387,500
Issued upon exercise of stock options	333,500	333,503	(333,500)
Issued to purchase merchant contracts	36,123	32,511	-
Issued as interest penalty	25,000	\$ 22,500	\$ -
Tangarine Concepts Corporation's capital balances before reverse takeover and amalgamation described in note 15, which were exchanged for Tangarine Concepts Corp.'s capital balances as part of reverse takeover and amalgamation in note 15	30,825,469	\$ 2,682,101	\$ 54,000

Tangarine Payment Solutions Corp.
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12. Share Capital (Continued)

	Common Shares		Contributed Surplus
	Number Outstanding	Amount	Amount
Balance carried forward	30,825,469	\$ 2,682,101	\$ 54,000
Tangarine Concept Corp's common shares issued re class A special shares as part of reverse takeover and amalgamation in note 15	15,452,087	15,249,892	-
Tangarine Concept Corp's common share issued re common share of . 6583425 Canada Inc. as part of reverse takeover and amalgamation as described in note 15	1	-	-
Elimination of Tangarine Concept Corp's common shares as part of reverse takeover and amalgamation in note 15	(46,277,557)	-	-
Tangarine Payment Solutions Corp.'s common shares as at July 31, 2006	8,750,000	1,311,428	-
Consolidation of Tangarine Payment Solutions Corp.'s common shares as part of reverse takeover and amalgamation as described in note 15	(5,833,332)	(1,311,428)	-
Tangarine Payment Solutions Corp.'s common shares issued as part of reverse takeover and amalgamation as described in note 15	43,777,556	-	-
Redemption of common shares	(148,221)	(56,324)	-
Expiration of Tangarine Concept Corp.'s common share purchase warrants	-	-	1,553
Issuance of common shares for purchase of merchant contracts	34,637	6,927	-
Balance, July 31, 2007	46,580,640	\$ 17,882,596	\$ 55,553

Tangarine Payment Solutions Corp.
Notes to Consolidated Financial Statements

July 31, 2007 and July 31, 2006

12. Share Capital (Continued)

Common Shares (Continued)

On December 20, 2006, the company exercised a provision of their loan agreement with respect to the term loan paid out early as described in note 9. The company was allowed to redeem 148,221 common shares previously issued as compensation for this loan agreement, with a market value of \$0.20 per common share as of the date of redemption, for redemption price of \$1. A total of \$29,643, representing the difference between the market value of the common shares on the redemption date and the redemption price has been recorded as a reduction to restructuring and one-time costs. A total of \$26,681, representing the difference between the market value of common shares on the redemption date and the paid up capital of the common shares has been recorded as a gain on redemption and credited to retained earnings.

On February 27, 2007, the company issued 34,637 common shares, with a market value of \$0.20 per common share, for the purchase of merchant contracts.

Escrowed Shares

Under the requirements of the TSX Venture Exchange and under an Escrow Agreement dated February 23, 2005, initial seed capital of the company of 2,500,000 common share were deposited in escrow with a Trustee to be released in stages over a period of three years from the date of acceptance by the TSX Venture Exchange of the company's qualifying (being August 11, 2006). The common shares are to be released in the following stages: 10% upon acceptance of the transaction and 15% every six months thereafter. As at July 31, 2007, 1,875,000 common shares continue to be held in escrow under this escrow arrangement.

Under the requirements of the TSX Venture Exchange and under an Escrow Agreement dated August 1, 2006, 25,329,816 common shares issued to certain principal shareholders of the former Tangarine Concepts Corporation as part of the company's qualifying transaction, were deposited in escrow with a Trustee to be released in stages over a period of three years from the date of acceptance by the TSX Venture Exchange of the company's qualifying transaction (being August 11, 2006). The shares are to be released in the following stages: 10% upon acceptance of the transaction, 16.67% of remaining securities on February 11, 2007; 20% of remaining securities on August 11, 2007; 25% of remaining securities on February 11, 2008; 33.33% of remaining securities on August 11, 2008; 50% of remaining securities on February 11, 2009 and all remaining securities on August 11, 2009. As at July 31, 2007, 18,997,362 common shares continue to be held in escrow under this escrow arrangement.

Tangarine Payment Solutions Corp.
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July 31, 2007 and July 31, 2006

12. Share Capital (Continued)

Stock Options

The company has a stock option plan which allows for the granting of non-transferable stock options to directors, officers, employees, consultants and management company employees as additional compensation for services rendered, as well as eligible charitable organizations for benevolent purposes, with such options generally being exercisable over a five year period. The options are generally required to have an exercise price no less than the market price prevailing on the day the option is granted. The maximum number of common shares which may be issued pursuant to options granted under the stock option plan may not exceed 10% of the total number of issued and outstanding common shares of the company as determined from time to time. In addition, the number of common shares which may be reserved for issuance to any one consultant or any one investor relations individual shall not exceed 2% on a yearly basis and to any other one individual may not exceed 5% on a yearly basis. The options granted under the plan must be exercised within 90 days of an individual leaving the post of either director, officer, employee, consultant or management company employee unless doing so was upon that person's death, at which point the time period for exercise of the stock options by that person's heirs is extended to one year; or if the organization ceases to be an eligible charitable organization. As part of the company's reverse takeover, the shareholders agreed to an exception to the above noted 90 day rule, whereby two former directors, who resigned as part of the qualifying transaction had their exercise terms extended to one year from the date of their resignation which was effective as of the date of the reverse takeover of August 1, 2006. The following is detailed information regarding stock options outstanding at July 31, 2007. As at July 31, 2007, all of the stock options have vested.

	Number	Weighted average exercise price
Outstanding, August 1, 2006	1,250,000	\$ 0.20
Stock options consolidated as part of reverse takeover described in note 15 by a ratio of 3:1	(833,333)	0.60
Expired	(166,667)	0.60
Outstanding, July 31, 2007	250,000	\$ 0.60

The following table provides additional information with respect to the company's stock options outstanding at July 31, 2007. All options are exercisable as described above.

	Outstanding July 31, 2007	Weighted average exercise price	Weighted average life
Exercise price			
\$ 0.60	250,000	\$ 0.60	2.65

Tangarine Payment Solutions Corp.
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July 31, 2007 and July 31, 2006

13. Related Party Transactions

Related parties include the directors and a company controlled by a director and the preferred shareholder. All amounts are transacted at the exchange value as per the normal course of operations.

	2007	2006
Bank Charges and Interest		
Interest on due to related parties	\$ 225,000	\$ 129,432
Dividends on preferred shares	620,615	231,986
General and Administration		
Professional fees	98,818	95,112
Salaries and benefits	437,912	758,004

Due to Related Party - Current

The due to related party included in current liabilities is non-interest bearing, has no fixed terms of repayment, is payable on demand and is unsecured.

	2007	2006
Due to Related Parties - Long-Term		
Secured subordinate promissory notes as described below	\$ 1,825,000	\$ -
Unsecured promissory notes as described below	1,200,000	-
Loan Payable to a director, interest payable monthly at 12% on a calendar year basis, maturing August 31, 2007, unsecured	-	500,000
Loans Payable to four directors, interest payable quarterly at 12% on a calendar year basis, maturing August 31, 2007, unsecured	-	700,000
	\$ 3,025,000	\$ 1,200,000

Secured Subordinate Promissory Notes

These promissory notes were issued to five directors to refinance the \$1,200,000 loans payable to those five directors as of July 31, 2006 and to provide additional cash to payout the term loan payable as described in note 9. These promissory notes have the following terms and conditions attached: Interest at 12% annually, 2% payable each quarter on a calendar year basis and 4% payable annually on the anniversary date of the loan; principal repayable on the maturity date of September 30, 2008, with an extension feature at the option of the holder to extend the term up to a further three years to September 30, 2011; secured by general security agreements covering all of the personal property and undertakings of Tangarine Concepts Corp.; postponed and subordinated to right of payment and to right of security granted for all current and future institutional debt financings.

Tangarine Payment Solutions Corp.
Notes to Consolidated Financial Statements

July 31, 2007 and July 31, 2006

13. Related Party Transactions (Continued)

Unsecured Promissory Notes

Promissory notes issued to two directors as part of the reverse takeover as described in note 15, non-interest bearing, no fixed terms of repayment, payable by the company at any time, payable on demand of the holders any time after November 1, 2007, unsecured.

The fair value of due to related parties is estimated to be \$3,024,194 (2006 - \$1,206,793). Principal payments expected over the next two years are as follows: 2008 - \$1,200,000 and 2009 - \$1,825,000. Included in accounts payable and accrued liabilities is \$846,558 (2006 - \$406,902) owing to related parties. This amount is non-interest bearing, has no fixed terms of repayment, is payable on demand and is unsecured.

Contractual Obligations

The company is party to employment agreements with three members of senior management, who are also directors, for a total aggregate annual salary of \$400,000. In the event of termination of any of these employees, the company will be obligated to pay an amount equal to 12 months of annual base salary.

14. Income Taxes

	2007	2006 (Note 3)
Tax effect of temporary differences relating to payment of withholding taxes	\$ 186,978	\$ 336,978
Tax effect of temporary differences relating to Ontario Corporate Minimum tax	-	70,373
Tax effect of temporary differences relating to deductions for loan financing and share issuance costs	-	2,570
Tax effect of temporary differences relating to deductions for intangible assets	-	518,803
Tax effect of temporary differences relating to deduction of non-capital losses	-	592,346
Tax effect of temporary differences relating to deductions for capital losses	-	3,053
Tax effect of temporary differences relating to deductions for depreciable fixed assets	-	(33,524)
	\$ 186,978	\$ 1,490,599

Tangarine Payment Solutions Corp.
Notes to Consolidated Financial Statements

July 31, 2007 and July 31, 2006

14. Income Taxes (Continued)

The following is an explanation of the relationship between income tax expense and accounting income.

	2007	2006 (Note 3)
Accounting loss before income taxes	\$ (4,851,086)	\$ (4,755,576)
Tax on accounting income at applicable statutory rate of 36.12% (2006 - 27.64%)	\$ (1,752,212)	\$ (1,314,441)
Tax effect of expenses that are not deductible for income tax purposes	229,825	71,212
Tax effect of expenses relating to the origination and reversal of temporary differences	2,800,718	(106,926)
Tax Expense (Recovery)	\$ 1,278,331	\$ (1,350,155)
Tax Expense (Recovery) consists of:		
Current tax expense (recovery)	\$ (25,290)	\$ 89,072
Future income tax recovery	1,303,621	(1,439,227)
	\$ 1,278,331	\$ (1,350,155)

During the year, the company determined that they could no longer meet the more likely than not test with respect to the realization of future tax assets and as such have removed any future tax assets which do not meet the more likely than not test.

The company has deductible temporary differences for which the value of depreciable assets for tax purposes exceeds the value of depreciable assets for accounting purposes in the amount of \$74,790. The company also has a non-deductible tax reserve for which the value of assets for tax purposes exceeds the value of assets for accounting purposes in the amount of \$1,000,000.

The company has non-capital loss carryforwards, which can be used to reduce future income taxes payable, expiring as follows: 2015 - \$39,008; 2026 - \$2,500,325 and 2027 - \$3,143,198. The company also has capital loss carryforwards, which can be applied against future capital gains in the amount of \$16,902.

The company also has temporary differences relating to an Ontario corporate minimum tax credit of \$80,298 which can be used to reduce future Ontario income tax.

Tangarine Payment Solutions Corp.
Notes to Consolidated Financial Statements

July 31, 2007 and July 31, 2006

15. Reverse Takeover and Amalgamation

On August 1, 2006, Tangarine Payment Solutions Corp. acquired all of the issued and outstanding class A special shares, common shares and preferred shares of Tangarine Concepts Corporation, pursuant to an amalgamation agreement between 6583425 Canada Inc., a wholly owned subsidiary of Tangarine Payment Solutions Corp., and Tangarine Concepts Corporation, as follows:

- 1) Immediately prior to the transactions noted below in part 2, the following occurred:
 - a) Tangarine Payment Solutions Corp. purchased 2,500,000 common shares of Tangarine Concepts Corporation from two individuals who are principal shareholders, directors and officers of Tangarine Concepts Corporation at a purchase price of \$0.80 per share for total consideration of \$2,000,000. This consideration was paid through \$800,000 in cash and the issuance of promissory notes in the aggregate principal amount of \$1,200,000 as described in note 12.
 - b) Tangarine Payment Solutions Corp. consolidated its outstanding shares by a ratio of 3:1
- 2) Pursuant to the amalgamation agreement between Tangarine Payment Solutions Corp., Tangarine Concepts Corporation and 6583425 Canada Inc., the following occurred:
 - a) Tangarine Payment Solutions Corp. issued one common share for each class A special share of Tangarine Concepts Corporation, then outstanding, for a total issuance of 15,452,087 common shares for all of the outstanding class A shares of Tangarine Concepts Corporation, with a paid up capital of \$15,249,892.
 - b) Tangarine Payment Solutions Corp. issued one common share for each common share of Tangarine Concepts Corporation, then outstanding, for a total issuance of 28,325,469 common shares for all of the outstanding common shares of Tangarine Concepts Corporation, with a paid up capital of \$2,493,675.
 - c) Tangarine Payment Solutions Corp. issued one Series I Preferred Share for each preferred share of Tangarine Concepts Corporation, then outstanding, for a total issuance of 3,059,178 Tangarine Payment Solution Corp.'s Series I Preferred Shares at an aggregate fair value of \$3,059,178, for all of the outstanding preferred shares of Tangarine Concepts Corporation, with a paid up capital, net of deferred charges of \$2,295,431.
 - d) Tangarine Concepts Corporation amalgamated with 6582435 Canada Inc., a wholly owned subsidiary of Tangarine Payment Solutions Corp. to continue as Tangarine Concepts Corp., a wholly owned subsidiary of Tangarine Payment Solutions Corp.
 - e) Tangarine Payment Solutions Corp.'s existing share in the capital of 6583425 Canada Inc., with a book value of \$1, was converted into one share of the capital of the newly formed Tangarine Concepts Corp., with a book value of \$1. Tangarine Concepts Corp. also issued one common share to Tangarine Payment Solutions Corp. for each of the Tangarine Payment Solutions Corp. common shares and Tangarine Payment Solutions Corp. series I preferred shares issued as noted above in combination with the cancellation of all of the previously issued class A special shares, common shares and preferred shares of the predecessor company Tangarine Concepts Corporation.

Tangarine Payment Solutions Corp.
Notes to Consolidated Financial Statements

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15. Reverse Takeover and Amalgamation (Continued)

Given that the former shareholders of Tangarine Concepts Corporation, through the transactions noted above, have gained control of Tangarine Payment Solutions Corp., these transactions are accounted for as a reverse takeover as described in EIC-10 of the CICA Handbook, with the shareholders' equity of Tangarine Payment Solutions Corp. assuming the book value of the shareholders' equity of Tangarine Concepts Corporation, the predecessor of Tangarine Payment Solutions Corp.'s subsidiary Tangarine Concepts Corp., prior to the reverse takeover. The net shareholders' equity (deficiency) of Tangarine Payment Solutions Corp. prior to the reverse takeover and related costs of the reverse takeover and amalgamation is being recorded as a capital transaction with a direct reduction to retained earnings in the amount of \$1,793,972.

16. Loss per Common Share

	2007	2006 (Note 3)
Net Loss	\$ (6,129,417)	\$ (3,405,421)
Less: Dividend declared on class A special shares	-	(2,286,547)
	(6,129,417)	(5,691,968)
Weighted average number of common shares for basic loss	25,931,764	28,995,110
Basic loss per common share	\$ (0.24)	\$ (0.20)

The basic loss per common share calculation for 2006 is calculated based on the results and the issued and outstanding share balances of Tangarine Concepts Corporation, the successor to the company's subsidiary Tangarine Concepts Corp.

Diluted loss per common share is not presented because the effect would be anti-dilutive for all periods.

17. Contractual Obligations and Commitments

The company is contractually obligated to make residual payments in the amount of \$48,420 annually to two former distributors. These obligations are to be bought out for an amount to be determined in the future.

The company is contractually obligated to pay for the development of computer software for a total cost of \$160,000 U.S, payable in instalments upon completion of various stages in the development. As at July 31, 2007, \$65,000 U.S. of this commitment has been paid upon successful completion of certain stages of the project. These amounts paid have been included in fixed assets at year end as described in note 6.

Tangarine Payment Solutions Corp.
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18. Contingency

There exists a potential contingency relating to corporate income taxes in the amount of approximately \$817,000. This contingency arose from the purchase of the outstanding common and preferred shares of Excape Business Transactions Inc. and FinPos Wholesale Inc. and their subsequent amalgamation with the predecessor to the company's subsidiary Tangarine Concepts Corp., Tangarine Concepts Corporation. Management is currently undertaking legal steps in an attempt to dismiss the above noted share purchases and the related amalgamation, which should eliminate the related potential corporate income tax liability. The outcome of these legal steps and hence the resolution of this contingency is not determinable at this time.

19. Financial Instruments

The fair values of cash, short-term investments, accounts receivable, accounts payable and accrued liabilities and due to related party - current approximate their recorded values due to their short-term maturities. The fair values of long-term receivable, long-term debt, preferred shares and due to related parties - long-term are as described in the related notes above.

20. Supplemental Disclosures

Changes in non cash working capital balances

	<u>2007</u>	<u>2006</u>
Short-term investments	\$ 150,000	\$ (150,000)
Accounts receivable	118,257	328,156
Current income taxes recoverable/payable	(50,001)	(75,189)
Inventory	328,825	(160,659)
Prepaid expenses	(72,779)	(80,129)
Accounts payable and accrued liabilities	657,624	(29,613)
Unearned revenue	70,612	1,800
	<u>\$ 1,202,538</u>	<u>\$ (165,634)</u>

Tangarine Payment Solutions Corp.
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20. Supplemental Disclosures (Continued)

Supplemental Cash Flow Information

	2007	2006
Cash received for interest	\$ 259,276	\$ 117,452
Cash paid for interest	285,902	263,205
Cash paid for dividends	161,138	34,623
Cash paid for income taxes	24,711	158,839
Transfer to rental hardware terminals fixed assets from inventory	305,916	245,558
Transfer from rental hardware terminals fixed assets to inventory	331,675	99,980
Payment of deferred financing charges through issuance of stock options	-	387,500
Acquisition of merchant contracts through the issuance of shares	364,547	412,183
Acquisition of merchant contracts through the issuance of loans payable	-	622,532
Elimination of software licenses through the reversal of accounts payable and accrued liabilities	-	40,000
Acquisition of future tax asset through assumption of accounts payable and accrued liabilities	-	213,978
Issuance of preferred shares to satisfy the payment of accounts payable and accrued liabilities	59,178	-
Issuance of common shares through the exercise of stock options	333,500	-
Dividends on class A special shares paid by issuance of common shares	-	1,509,106

Dividends Payable

Included in accounts payable and accrued liabilities are dividends payable of **\$734,391** (2006 - \$346,902).

Sales and Fees

Included in sales and fees is revenue on operating leases of **\$818,899** (2006 - \$1,064,532).

Bank Charges and Interest

Included as a reduction against bank charges and interest is interest revenue of **\$93,137** (2006 - \$89,832).

Restructuring and One-Time Costs

Included in restructuring and one-time costs is amortization of deferred charges of **\$22,320** (2006 - \$10,314) and writeoff, net of estimated recoveries, of deferred charges of **\$259,747** (2006 - \$nil).

Tangarine Payment Solutions Corp.
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21. Subsequent Events

On September 26, 2007, the company obtained an equipment lease loan in the amount of \$732,360 with the following terms: effective interest rate of 19.85%, monthly blended payments of \$18,309, with first and last month payment due upon issuance of the loan, with a further balloon payment at the end of the loan of \$73,236, maturity date of September 30, 2012, with the ability to prepay the monthly payments of the loan at the company's option at any time without further penalty, secured by assignment of specific lease contracts held by the company and personal property security agreements over the accounts receivable, inventory, equipment and other assets of the company and its subsidiary.