

---

# **Versatile Systems Inc.**

## **Consolidated Financial Statements**

(unaudited - prepared by management)

**September 30, 2009**

---

---

Consolidated Balance Sheets

Consolidated Statements of Operations and Deficit

Consolidated Statements of Comprehensive (Loss) Income

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

---

# Versatile Systems Inc.

## Consolidated Balance Sheets

(unaudited - prepared by management)

---

Expressed in U.S. dollars

September 30, 2009    June 30, 2009  
(unaudited)

### ASSETS

#### Current Assets

Cash and cash equivalents	\$ 1,265,827	\$ 2,002,530
Short term investments (note 3)	1,733,277	-
Accounts receivable	8,622,176	8,408,093
Current portion of deferred contract costs	5,883,066	5,745,493
Work-in-progress	16,560	92,145
Prepaid expenses	382,061	286,709
Inventory	1,522,585	1,376,746
Future income tax benefits (Note 9)	944,843	944,843
	<u>20,370,395</u>	<u>18,856,559</u>

Long-term accounts receivable

206,670    112,781

Deferred contract costs

728,448    803,246

Capital Assets

726,638    794,008

Intangible assets

242,209    332,953

Future income tax benefits (Note 9)

5,283,896    5,283,896

Goodwill

9,977,659    9,977,659

\$ 37,535,915    \$ 36,161,102

### LIABILITIES

#### Current Liabilities

Line of credit and bank overdraft (Note 4)	\$ 3,061,496	\$ -
Accounts payable and accrued liabilities	7,340,216	8,530,987
Current portion of deferred revenue	7,375,423	7,755,151
	<u>17,777,135</u>	<u>16,286,138</u>

Deferred Revenue

884,637    977,411

18,661,772    17,263,549

### SHAREHOLDERS' EQUITY

Share Capital (Note 5)	50,583,743	50,583,743
Warrants (Note 6)	186,367	186,367
Contributed surplus	4,161,802	4,138,437
Deficit	(35,775,990)	(35,729,215)
Accumulated other comprehensive loss	(281,779)	(281,779)
	<u>18,874,143</u>	<u>18,897,553</u>

\$ 37,535,915    \$ 36,161,102

APPROVED BY THE DIRECTORS:

DIRECTOR: *John Hardy*

DIRECTOR: *Fraser Atkinson*

See Notes to Consolidated Financial Statements

---

# Versatile Systems Inc.

## Consolidated Statements of Earnings (Loss) and Deficit

(unaudited - prepared by management)

---

*Expressed in U.S. dollars*

	Three Months ended September 30	
	2009	2008
SALES	\$ 11,616,225	\$ 14,303,851
COST OF SALES	8,960,921	10,550,751
	<u>2,655,304</u>	<u>3,753,100</u>
EXPENSES		
General and administrative	874,348	1,323,060
Selling and marketing	1,361,701	1,769,825
Research and development	246,670	424,752
Non recurring expenses	19,860	-
Foreign exchange (gain) loss	14,542	(20,352)
Stock-based compensation	22,388	3,243
	<u>2,539,509</u>	<u>3,500,528</u>
Earnings before interest, taxes and amortization	115,795	252,572
Amortization of capital assets	66,624	69,900
Amortization of intangible assets	90,674	90,674
Interest expense	3,769	29,088
	<u>(45,272)</u>	<u>62,910</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	(45,272)	62,910
Current income tax expense	(1,503)	(4,500)
Future income tax expense	-	(1,795)
	<u>(46,775)</u>	<u>56,615</u>
NET EARNINGS (LOSS)	(46,775)	56,615
DEFICIT, BEGINNING OF PERIOD	(35,729,215)	(35,063,096)
	<u>(35,775,990)</u>	<u>(35,006,481)</u>
DEFICIT, END OF PERIOD	(35,775,990)	(35,006,481)
EARNINGS (LOSS) PER SHARE (basic and diluted)	<u>(\$0.00)</u>	<u>\$0.00</u>

*See Notes to Consolidated Financial Statements*

---

**Versatile Systems Inc.**

## Consolidated Statements of Comprehensive (Loss) Income

(unaudited - prepared by management)

---

*Expressed in U.S. dollars*

	Three Months ended September 30	
	2009	2008
Net earnings (loss)	(46,775)	56,615
Other comprehensive (loss) income		
Foreign currency translation adjustments	0	(33,429)
Comprehensive (loss) income	<u>(46,775)</u>	<u>23,186</u>

*See Notes to Consolidated Financial Statements*

---

# Versatile Systems Inc.

## Consolidated Statements of Cash Flows

(unaudited - prepared by management)

---

*Expressed in U.S. dollars*

Three Months ended September 30

	2009	2008
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Net earnings (loss)	\$ (46,775)	\$ 56,615
Items not affecting cash		
Amortization of capital and intangible assets	178,125	166,902
Stock-based compensation	22,388	3,243
Unrealized foreign exchange loss (gain)	( 4,330)	8,119
Future income tax expense (benefit)	-	1,795
Cash flow from (used in) operations before other items	149,408	236,674
Net change in non-cash working capital items	( 2,198,478)	( 385,172)
	<u>( 2,049,070)</u>	<u>( 148,498)</u>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		
Short term investments	(1,733,277)	-
Additions to capital assets	( 15,852)	( 103,478)
	<u>( 1,749,129)</u>	<u>( 103,478)</u>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		
Proceeds from (Repayment of) line of credit	3,061,496	(74,942)
Repayment of bank overdraft	-	(127,214)
Repayment of Promissory Notes	-	(20,000)
	<u>3,061,496</u>	<u>( 222,156)</u>
Effect of foreign exchange rate on cash	-	110,559
Increase (decrease) in cash and cash equivalents	( 736,703)	( 363,573)
CASH and cash equivalents, beginning of period	2,002,530	1,500,005
CASH and cash equivalents, end of period	<u>\$ 1,265,827</u>	<u>\$ 1,136,432</u>
<b>Supplementary information</b>		
Cash paid for interest expense	\$ 542	\$ 25,118
Cash paid for income taxes	1,508	27,985

*See Notes to Consolidated Financial Statements*

---

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements

### For the period ended September 30, 2009

(Unaudited - Prepared by Management)

---

#### 1. Consolidated financial statement presentation:

These unaudited interim consolidated financial statements at September 30, 2009 and the consolidated statements of operations and deficit, comprehensive income (loss) and cash flows for the periods ended September 30, 2009 and 2008, have been prepared in accordance with Canadian generally accepted accounting principles. These unaudited interim financial statements do not include all the disclosures required for annual audited financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements and notes therein for the year ended June 30, 2009.

The results of operations for the period ended September 30, 2009 are not necessarily indicative of the results for the full year ending June 30, 2010. All amounts herein, including the comparative figures, have been expressed in United States dollars unless otherwise noted.

The financial statements as at and for the periods ended September 30, 2009 have not been reviewed or audited by the Company's auditor.

#### 2. Accounting Policies

The accounting policies applied in these interim financial statements are consistent with those applied in the Annual financial statements.

#### 3. Short term investments

The short term investments consists of 531,680 shares of Equus Total Return, Inc. which is a public company trading on the NYSE under the symbol EQS.

On October 5, 2009 the Company acquired an additional 205,889 shares of Equus Total Return, Inc. for \$671,198.

#### 4. Bank Line of Credit

The Company has a credit line facility for up to \$5,800,000, which is limited to 70% of eligible accounts receivable of certain U.S. subsidiaries from a U.S. based financial institution. At September 30, 2009 this amounted to \$4,878,371. The line of credit bears interest at the prime rate of lending as published in the Wall Street Journal and is secured with a first charge on the assets of these U.S. subsidiaries.

#### 5. Share Capital

Authorized

Unlimited common shares without par value

Issued and outstanding

Issued and outstanding - June 30, 2009

Transactions in the quarter

Balance - September 30, 2009

	<b>Number of shares</b>	<b>Amount</b>
	118,285,643	\$ 50,583,743
	-	-
	<u>118,285,643</u>	<u>\$ 50,583,743</u>

**Versatile Systems Inc.**  
**Notes to Consolidated Financial Statements**  
**For the period ended September 30, 2009**

(Unaudited - Prepared by Management)

**6. Warrants**

Issued and outstanding:

Expiry date	Exercise Price CDN\$	Number of Warrants	Cost
March 31, 2011	\$ 0.569	1,411,808	63,309
April 16, 2011	\$ 0.6636	583,770	81,058
January 22, 2012	\$ 0.30	600,000	42,000
Balance - September 30, 2009		<u>2,595,578</u>	<u>186,367</u>

**7. Stock Options**

	Number of Stock Options	Weighted average exercise price CDN\$
Balance - June 30, 2009	9,160,000	\$ 0.42
Granted during the period	-	
Forfeited during the period	-	
Expired during the period	<u>(600,000)</u>	<u>\$ 0.30</u>
Balance - September 30, 2009	<u>8,560,000</u>	<u>\$ 0.42</u>

**8. Non Recurring Expenses**

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

---

**Versatile Systems Inc.**  
**Notes to Consolidated Financial Statements**  
**For the period ended September 30, 2009**

(Unaudited - Prepared by Management)

---

**9. Income taxes**

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

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

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

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

	<u>September 30, 2009</u>	<u>June 30, 2009</u>
	(unaudited)	
Future income tax assets		
Tax losses and deductions	\$ 8,378,058	\$ 8,378,058
Capital assets	1,134,697	1,134,697
Share issuance costs	217,338	217,338
Other	392,741	392,741
	<hr/>	<hr/>
Future income tax assets	10,122,834	10,122,834
Valuation allowance	(3,138,444)	(3,138,444)
	<hr/>	<hr/>
Net Future income tax asset	6,984,390	6,984,390
Future income tax liabilities - Goodwill	(755,651)	(755,651)
	<hr/>	<hr/>
Net Future income tax asset	6,228,739	6,228,739
Less current portion	(944,843)	(944,843)
	<hr/>	<hr/>
Non-current portion of net future income tax asset	\$ 5,283,896	\$ 5,283,896

During the three months ended September 30, 2009 the Company recorded no future income tax expense (2008 - \$1,795) related to the recognition of future income tax assets.

---

**Versatile Systems Inc.**  
**Notes to Consolidated Financial Statements**  
**For the period ended September 30, 2009**

(Unaudited - Prepared by Management)

---

**10. Segmented Information**

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

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

	September 30 2009 (unaudited)	June 30 2009	Three months ended September 30	
			2009 (unaudited)	2008 (unaudited)
	Capital assets, intangible assets and goodwill	Capital assets, intangible assets and goodwill	Revenue	Revenue
<i>U.S. companies</i>				
United States	\$ 10,940,269	\$ 11,104,620	\$ 11,375,767	\$ 13,998,907
Canada			77,049	50,992
Netherlands			12,025	-
France			11,798	-
United Kingdom			20,907	10,625
Other			3,616	-
<i>UK and Canadian companies</i>				
United Kingdom	4,718	3,950	115,063	243,327
Canada	1,518	2,046	-	-
	<u>10,946,505</u>	<u>11,110,616</u>	<u>11,616,225</u>	<u>14,303,851</u>

During the three months ended September 30, 2009 the Company generated revenue of \$1,701,137 from Comcast Cable representing 14.6% of the revenue for that period. During the three months ended September 30, 2008 the Company did not have a customer with more than 10% of the total revenue.

During the three months ended September 30, 2009 the Company purchased products and services from one vendor for \$5,199,475 (2008 - \$5,543,011) representing 58.0% (2008 - 52.5%) of the cost of sales.