
Versatile Systems Inc.

Consolidated Financial Statements

(unaudited - prepared by management)

December 31, 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

December 31, 2009 June 30, 2009
(unaudited)

ASSETS

Current Assets

Cash and cash equivalents	\$ 3,795,423	\$ 2,002,530
Short term investments (note 3)	2,300,835	-
Accounts receivable	7,499,668	8,408,093
Current portion of deferred contract costs	5,029,092	5,745,493
Work-in-progress	42,822	92,145
Prepaid expenses	387,000	286,709
Inventory	1,446,357	1,376,746
Future income tax benefits (Note 9)	944,843	944,843
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	21,446,040	18,856,559

Long-term accounts receivable

238,868 112,781

Deferred contract costs

678,291 803,246

Capital Assets

644,145 794,008

Intangible assets

242,138 332,953

Future income tax benefits (Note 9)

5,631,462 5,283,896

Goodwill

9,977,659 9,977,659

\$ 38,858,603 \$ 36,161,102

LIABILITIES

Current Liabilities

Line of credit and bank overdraft (Note 4)	\$ 2,558,445	\$ -
Accounts payable and accrued liabilities	6,097,671	8,530,987
Current portion of deferred revenue	6,641,170	7,755,151
	<hr/>	<hr/>
	15,297,286	16,286,138

Deferred Revenue

871,435 977,411

16,168,721 17,263,549

SHAREHOLDERS' EQUITY

Share Capital (Note 5)	54,433,709	50,583,743
Warrants (Note 6)	186,367	186,367
Contributed surplus	4,208,236	4,138,437
Deficit	(35,856,651)	(35,729,215)
Accumulated other comprehensive loss	(281,779)	(281,779)
	<hr/>	<hr/>
	22,689,882	18,897,553

\$ 38,858,603 \$ 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 December 31		Six Months ended December 31	
	2009	2008	2009	2008
SALES	\$ 11,259,292	\$ 12,327,064	\$ 22,875,517	\$ 26,630,915
COST OF SALES	8,599,212	9,287,669	17,560,133	19,838,420
	<u>2,660,080</u>	<u>3,039,395</u>	<u>5,315,384</u>	<u>6,792,495</u>
EXPENSES				
General and administrative	1,100,145	1,278,420	1,974,493	2,601,480
Selling and marketing	1,619,075	1,717,311	2,980,776	3,487,136
Research and development	247,084	391,088	493,754	815,840
Non recurring expenses	28,219	372,177	48,079	372,177
Foreign exchange (gain) loss	(89,154)	(76,407)	(74,612)	(96,759)
Stock-based compensation	23,242	2,753	45,630	5,996
	<u>2,928,611</u>	<u>3,685,342</u>	<u>5,468,120</u>	<u>7,185,870</u>
Earnings before interest, taxes and amortization	(268,531)	(645,947)	(152,736)	(393,375)
Amortization of capital assets	62,287	87,406	128,911	157,306
Amortization of intangible assets	90,675	90,675	181,349	181,349
Interest expense	10,441	354	14,210	29,442
Gain on sale of investments	(4,952)	-	(4,952)	-
EARNINGS (LOSS) BEFORE INCOME TAXES	(426,982)	(824,382)	(472,254)	(761,472)
Current income tax expense	(1,245)	(16,044)	(2,748)	(20,544)
Future income tax expense	347,566	307,255	347,566	305,460
NET EARNINGS (LOSS)	<u>(80,661)</u>	<u>(533,171)</u>	<u>(127,436)</u>	<u>(476,556)</u>
DEFICIT, BEGINNING OF PERIOD	(35,775,990)	(35,006,481)	(35,729,215)	(35,063,096)
DEFICIT, END OF PERIOD	<u>(35,856,651)</u>	<u>(35,539,652)</u>	<u>(35,856,651)</u>	<u>(35,539,652)</u>
EARNINGS (LOSS) PER SHARE (basic and diluted)	<u>(\$0.00)</u>	<u>(\$0.00)</u>	<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 December 31		Six Months ended December 31	
	2009	2008	2009	2008
Net earnings (loss)	(80,661)	(533,171)	(127,436)	(476,556)
Other comprehensive (loss) income				
Foreign currency translation adjustments	0	(367,732)	0	(400,981)
Comprehensive (loss) income	<u>(80,661)</u>	<u>(900,903)</u>	<u>(127,436)</u>	<u>(877,537)</u>

See Notes to Consolidated Financial Statements

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended December 31, 2009

(Unaudited - Prepared by Management)

1. Consolidated financial statement presentation:

These unaudited interim consolidated financial statements at December 31, 2009 and the consolidated statements of operations and deficit, comprehensive income (loss) and cash flows for the periods ended December 31, 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 December 31, 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 December 31, 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 696,869 shares of Equus Total Return, Inc. which is a public company trading on the NYSE under the symbol EQS.

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 December 31, 2009 this amounted to \$4,415,003. 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
Issued in the current quarter
Less share issue costs

Balance - December 31, 2009

	Number of shares	Amount
	118,285,643	\$ 50,583,743
	39,000,000	3,876,257
		(26,291)
	<hr/> 157,285,643	<hr/> \$ 54,433,709

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended December 31, 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 - December 31, 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>(1,179,000)</u>	<u>\$ 0.28</u>
Balance - December 31, 2009	<u>7,981,000</u>	<u>\$ 0.44</u>

During the current quarter 579,000 stock options expired that had been granted on December 19, 2005.

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 December 31, 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>December 31, 2009</u> (unaudited)	<u>June 30, 2009</u>
Future income tax assets		
Tax losses and deductions	\$ 8,538,624	\$ 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	10,283,400	10,122,834
Valuation allowance	(2,951,444)	(3,138,444)
	<hr/>	<hr/>
Net Future income tax asset	7,331,956	6,984,390
Future income tax liabilities - Goodwill	(755,651)	(755,651)
	<hr/>	<hr/>
Net Future income tax asset	6,576,305	6,228,739
Less current portion	(944,843)	(944,843)
	<hr/>	<hr/>
Non-current portion of net future income tax asset	\$ 5,631,462	\$ 5,283,896

During the three months ended December 31, 2009 the Company recorded a future income tax benefit of \$347,566 (2008 - \$307,255) related to the recognition of future income tax assets.

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

	December 31	June 30	Three months ended	
	2009	2009	December 31	
	(unaudited)		2009	2008
			(unaudited)	(unaudited)
	Capital assets, intangible assets and goodwill	Capital assets, intangible assets and goodwill	Revenue	Revenue
<i>U.S. companies</i>				
United States	\$ 10,858,409	\$ 11,104,620	\$ 10,949,663	\$ 12,000,473
Canada			138,802	55,909
Netherlands			16,579	-
France			32,390	173,180
United Kingdom			16,884	20,225
Other			32,906	-
<i>UK and Canadian companies</i>				
United Kingdom	4,694	3,950	72,068	77,277
Canada	838	2,046	-	-
	<u>10,863,941</u>	<u>11,110,616</u>	<u>11,259,292</u>	<u>12,327,064</u>

During the three months ended December 31, 2009 the Company generated revenue of \$1,804,020 from Comcast Cable representing 16.0% of the revenue for that period. During the three months ended December 31, 2008 the Company did not have a customer with more than 10% of the total revenue.

During the three months ended December 31, 2009 the Company purchased products and services from one vendor for \$3,551,944 (2008 - \$5,112,104) representing 41.0% (2008 - 55.0%) of the cost of sales.