
Versatile Systems Inc.

Consolidated Financial Statements

(unaudited - prepared by management)

March 31, 2010

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

	<u>March 31, 2010</u>	<u>June 30, 2009</u>
	(unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,929,538	\$ 2,002,530
Short term investments (note 3)	2,726,160	-
Accounts receivable	4,817,366	8,408,093
Current portion of deferred contract costs	4,154,312	5,745,493
Work-in-progress	92,630	92,145
Prepaid expenses	353,596	286,709
Inventory	1,705,666	1,376,746
Future income tax benefits (Note 9)	944,843	944,843
	<u>16,724,111</u>	<u>18,856,559</u>
Long-term accounts receivable	281,060	112,781
Deferred contract costs	652,947	803,246
Capital Assets	587,230	794,008
Intangible assets	60,719	332,953
Future income tax benefits (Note 9)	5,907,510	5,283,896
Goodwill	9,977,659	9,977,659
	<u>\$ 34,191,236</u>	<u>\$ 36,161,102</u>
LIABILITIES		
Current Liabilities		
Line of credit and bank overdraft (Note 4)	\$ 768,336	\$ -
Accounts payable and accrued liabilities	4,992,884	8,530,987
Current portion of deferred revenue	5,767,807	7,755,151
	<u>11,529,027</u>	<u>16,286,138</u>
Deferred Revenue	789,811	977,411
	<u>12,318,838</u>	<u>17,263,549</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 5)	54,433,709	50,583,743
Warrants (Note 6)	186,367	186,367
Contributed surplus	4,207,602	4,138,437
Deficit	(36,673,501)	(35,729,215)
Accumulated other comprehensive loss	(281,779)	(281,779)
	<u>21,872,398</u>	<u>18,897,553</u>
	<u>\$ 34,191,236</u>	<u>\$ 36,161,102</u>

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 March 31		Nine Months ended March 31	
	2010	2009	2010	2009
SALES	\$ 9,795,481	\$ 10,877,354	\$ 32,670,998	\$ 37,508,269
COST OF SALES	7,493,702	8,553,367	25,053,835	28,391,787
	<u>2,301,779</u>	<u>2,323,987</u>	<u>7,617,163</u>	<u>9,116,482</u>
EXPENSES				
General and administrative	944,266	899,421	2,918,759	3,500,901
Selling and marketing	1,490,778	1,515,711	4,471,554	5,002,847
Research and development	185,289	278,701	679,043	1,094,541
Non recurring expenses	525,656	160,158	573,735	532,335
Foreign exchange (gain) loss	63,698	(485)	(10,914)	(97,244)
Stock-based compensation	23,585	2,696	69,215	8,692
	<u>3,233,272</u>	<u>2,856,202</u>	<u>8,701,392</u>	<u>10,042,072</u>
Earnings (loss) before interest, taxes and amortization	(931,493)	(532,215)	(1,084,229)	(925,590)
Amortization of capital assets	61,957	91,598	190,868	248,904
Amortization of intangible assets	90,674	90,675	272,023	272,024
Interest expense	7,781	(1,648)	21,991	27,794
Gain on sale of investments	-	-	(4,952)	-
	<u>(1,091,905)</u>	<u>(712,840)</u>	<u>(1,564,159)</u>	<u>(1,474,312)</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	(1,091,905)	(712,840)	(1,564,159)	(1,474,312)
Current income tax expense	(993)	(43,748)	(3,741)	(64,292)
Future income tax benefit	276,048	183,633	623,614	489,093
	<u>(816,850)</u>	<u>(572,955)</u>	<u>(944,286)</u>	<u>(1,049,511)</u>
NET EARNINGS (LOSS)	(816,850)	(572,955)	(944,286)	(1,049,511)
DEFICIT, BEGINNING OF PERIOD	(35,856,651)	(35,539,652)	(35,729,215)	(35,063,096)
	<u>(36,673,501)</u>	<u>(36,112,607)</u>	<u>(36,673,501)</u>	<u>(36,112,607)</u>
DEFICIT, END OF PERIOD	(36,673,501)	(36,112,607)	(36,673,501)	(36,112,607)
EARNINGS (LOSS) PER SHARE (basic and diluted)	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.01)

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 March 31		Nine Months ended March 31	
	2010	2009	2010	2009
Net earnings (loss)	(816,850)	(572,955)	(944,286)	(1,049,511)
Other comprehensive (loss) income				
Foreign currency translation adjustments	0	(24,608)	0	(400,500)
Comprehensive (loss) income	<u>(816,850)</u>	<u>(597,563)</u>	<u>(944,286)</u>	<u>(1,450,011)</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 March 31		Nine Months ended March 31	
	2010	2009	2010	2009
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net earnings (loss)	\$ (816,850)	\$ (572,955)	\$ (944,286)	\$ (1,049,511)
Items not affecting cash				
Amortization of capital and intangible assets	171,385	182,273	520,372	527,256
Stock-based compensation	23,585	2,696	69,215	8,692
Gain on sale of investments	-	-	(4,952)	-
Unrealized foreign exchange loss (gain)	55,696	(2,501)	13,157	33,531
Future income tax benefit	(276,048)	(183,633)	(623,614)	(489,093)
Cash flow from (used in) operations before other items	(842,232)	(574,120)	(970,108)	(969,125)
Net change in non-cash working capital items	1,211,698	309,926	(945,544)	2,138,591
	369,466	(264,194)	(1,915,652)	1,169,466
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Short term investments	(425,325)	-	(2,726,160)	-
Proceeds from disposition of capital assets	16,033	1,820	23,734	1,820
Additions to capital assets	(35,950)	(24,472)	(73,216)	(234,461)
	(445,242)	(22,652)	(2,775,642)	(232,641)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Proceeds from issuance of shares	-	-	3,876,257	-
Share issue costs	-	-	(26,291)	-
Purchase of company shares	-	709	-	(24,379)
Proceeds from (Repayment of) line of credit	(1,790,109)	-	768,336	(74,942)
Repayment of bank overdraft	-	-	-	(127,214)
Repayment of Promissory Notes	-	-	-	(40,000)
	(1,790,109)	709	4,618,302	(266,535)
Effect of foreign exchange rate on cash	-	15,269	-	(69,650)
Increase in cash and cash equivalents	(1,865,885)	(270,868)	(72,992)	600,640
CASH and cash equivalents, beginning of period	3,795,423	2,371,513	2,002,530	1,500,005
CASH and cash equivalents, end of period	\$ 1,929,538	\$ 2,100,645	\$ 1,929,538	\$ 2,100,645
Supplementary information				
Cash paid for interest expense	\$ 11,170	\$ 757	\$ 25,842	\$ 26,558
Cash paid for income taxes	440	54,089	3,403	84,694

See Notes to Consolidated Financial Statements

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended March 31, 2010

(Unaudited - Prepared by Management)

1. Consolidated financial statement presentation:

These unaudited interim consolidated financial statements at March 31, 2010 and the consolidated statements of operations and deficit, comprehensive income (loss) and cash flows for the periods ended March 31, 2010 and 2009, 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 March 31, 2010 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 March 31, 2010 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 822,031 shares of Equus Total Return, Inc. which is a public company trading on the NYSE under the symbol EQS. The share price as at March 31, 2010 was \$2.81 so the unrealized loss was \$416,253.

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 March 31, 2010 this amounted to \$2,390,592. 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 second quarter

Less share issue costs

Balance - March 31, 2010

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

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended March 31, 2010

(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 - March 31, 2010		<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 - March 31, 2010	<u>7,981,000</u>	<u>\$ 0.44</u>

During the first quarter 600,000 stock options expired and in the second quarter 579,000 stock options expired.

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 March 31, 2010

(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>March 31, 2010</u>	<u>June 30, 2009</u>
	(unaudited)	
Future income tax assets		
Tax losses and deductions	\$ 8,909,872	\$ 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	10,654,648	10,122,834
Valuation allowance	(3,046,644)	(3,138,444)
	<hr/>	<hr/>
Net Future income tax asset	7,608,004	6,984,390
Future income tax liabilities - Goodwill	(755,651)	(755,651)
	<hr/>	<hr/>
Net Future income tax asset	6,852,353	6,228,739
Less current portion	(944,843)	(944,843)
	<hr/>	<hr/>
Non-current portion of net future income tax asset	\$ 5,907,510	\$ 5,283,896

During the three months ended March 31, 2010 the Company recorded a future income tax benefit of \$276,048 (2009 - \$183,633) related to the recognition of future income tax assets.

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended March 31, 2010

(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:

	March 31	June 30	Three months ended	
	2010	2009	March 31	2009
	(unaudited)		(unaudited)	(unaudited)
	Capital assets, intangible assets and goodwill	Capital assets, intangible assets and goodwill	Revenue	Revenue
<i>U.S. companies</i>				
United States	\$ 10,622,060	\$ 11,104,620	\$ 9,637,272	\$ 10,765,407
Canada			8,841	27,686
Netherlands			16,579	-
France			32,390	21,038
United Kingdom			16,884	-
Other			18,154	-
<i>UK and Canadian companies</i>				
United Kingdom	3,547	3,950	65,361	63,223
Canada	-	2,046	-	-
	<u>10,625,607</u>	<u>11,110,616</u>	<u>9,795,481</u>	<u>10,877,354</u>

During the three months ended March 31, 2010 and 2009 the Company did not generate revenue from any one customer for more than 10% of the total revenue for the period.

During the three months ended March 31, 2010 the Company purchased products and services from one vendor for \$2,205,988 (2009 - \$4,704,496) representing 29.4% (2009 - 55.0%) of the cost of sales.