
Versatile Systems Inc.
Consolidated Financial Statements
September 30, 2010

Consolidated Balance Sheets

Consolidated Statements of Operations and Deficit

Consolidated Statements of Comprehensive (Loss) Income

Consolidated Statements of Cash Flows

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Versatile Systems Inc.

Consolidated Balance Sheets

(Unaudited - Prepared by Management)

Expressed in U.S. dollars

	<u>September 30, 2010</u>	<u>June 30, 2010</u>
	(unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,463,497	\$ 1,738,036
Investment in Equus (note 3)	1,956,434	2,203,043
Accounts receivable	6,681,760	10,580,706
Current portion of deferred contract costs	5,849,050	5,793,180
Prepaid expenses	314,202	236,993
Inventory	1,677,870	1,719,477
Future income tax benefits (note 8)	724,797	721,975
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	18,667,610	22,993,410
Long-term accounts receivable	227,510	265,612
Deferred contract costs	567,542	598,366
Capital Assets	411,734	519,391
Intangible assets	390	459
Future income tax benefits (note 8)	6,249,324	6,243,875
Goodwill	9,914,350	9,914,350
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	\$ 36,038,460	\$ 40,535,463
LIABILITIES		
Current Liabilities		
Line of credit and bank overdraft (note 4)	\$ 920,281	\$ 1,353,312
Accounts payable and accrued liabilities	6,133,799	9,955,342
Current portion of deferred revenue	7,584,658	7,432,210
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	14,638,738	18,740,864
Deferred Revenue	651,315	710,269
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	15,290,053	19,451,133
SHAREHOLDERS' EQUITY		
Share Capital (note 5)	54,433,709	54,433,709
Warrants (note 6)	186,367	186,367
Contributed surplus	4,231,539	4,231,539
Deficit	(37,055,150)	(36,965,836)
Accumulated other comprehensive loss	(1,048,058)	(801,449)
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	20,748,407	21,084,330
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	\$ 36,038,460	\$ 40,535,463

APPROVED BY THE DIRECTORS:

DIRECTOR: *John Hardy*

DIRECTOR: *Fraser Atkinson*

See Notes to Consolidated Financial Statements

Versatile Systems Inc.

Consolidated Statements of Operations and Deficit

(Unaudited - Prepared by Management)

Expressed in U.S. dollars

	Three Months ended September 30	
	2010	2009
SALES	\$ 9,219,050	\$ 11,616,225
COST OF SALES	7,115,223	8,960,921
	<u>2,103,827</u>	<u>2,655,304</u>
EXPENSES		
Selling and marketing	1,008,567	1,361,701
General and administrative	890,450	874,348
Research and development	192,268	246,670
Non recurring expenses	20,668	19,860
Stock-based compensation	-	22,388
Foreign exchange loss	2,333	14,542
	<u>2,114,286</u>	<u>2,539,509</u>
Earnings (loss) before interest, taxes and amortization	(10,459)	115,795
Amortization of capital assets	71,161	66,624
Amortization of intangible assets	-	90,674
Interest expense	14,970	3,769
	<u>(96,590)</u>	<u>(45,272)</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	(96,590)	(45,272)
Current income tax expense	(995)	(1,503)
Future income tax benefit	8,271	-
	<u>(89,314)</u>	<u>(46,775)</u>
NET EARNINGS (LOSS)	(89,314)	(46,775)
DEFICIT, BEGINNING OF PERIOD	(36,965,836)	(35,729,215)
DEFICIT, END OF PERIOD	<u>(37,055,150)</u>	<u>(35,775,990)</u>
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	
	2010	2009
Net earnings (loss)	(89,314)	(46,775)
Other comprehensive (loss) income		
Net change in fair value of available-for-sale investments	(246,609)	-
Comprehensive (loss) income	<u>(335,923)</u>	<u>(46,775)</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

	2010	2009
OPERATING ACTIVITIES		
Net earnings (loss)	\$ (89,314)	\$ (46,775)
Items not affecting cash		
Amortization of capital and intangible assets	74,252	178,125
Stock-based compensation	-	22,388
Unrealized foreign exchange (gain) loss	495	(4,330)
Future income tax benefit	(8,271)	-
Cash flow used in operations before other items	(22,838)	149,408
Net change in non-cash operating balance sheet items	148,061	(2,198,478)
	<u>125,223</u>	<u>(2,049,070)</u>
INVESTING ACTIVITIES		
Short term investments	-	(1,733,277)
Proceeds from disposition of capital assets	73,094	-
Additions to capital assets	(39,825)	(15,852)
	<u>33,269</u>	<u>(1,749,129)</u>
FINANCING ACTIVITIES		
Proceeds from (repayment of) line of credit	(433,031)	3,061,496
	<u>(433,031)</u>	<u>3,061,496</u>
Decrease in cash and cash equivalents	(274,539)	(736,703)
CASH and cash equivalents, beginning of period	1,738,036	2,002,530
CASH and cash equivalents, end of period	<u>\$ 1,463,497</u>	<u>\$ 1,265,827</u>
Supplementary information		
Cash paid for interest expense	\$ 12,064	\$ 542
Cash paid for income taxes	1,419	1,508

See Notes to Consolidated Financial Statements

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended September 30, 2010

(Unaudited - Prepared by Management)

1. Consolidated financial statement presentation:

These unaudited interim consolidated financial statements at September 30, 2010 and the consolidated statements of operations and deficit, comprehensive income (loss) and cash flows for the periods ended September 30, 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, 2010.

The results of operations for the period ended September 30, 2010 are not necessarily indicative of the results for the full year ending June 30, 2011. All amounts herein, including the comparative figures, have been expressed in United States dollars unless otherwise

The financial statements as at and for the period ended September 30, 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. Investment in Equus

The Investment in Equus 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 September 30, 2010 was \$2.38 so the unrealized loss was \$766,269.

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, 2010 this amounted to \$3,465,615. 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, 2010

Issued during the period

Balance - September 30, 2010

	Number of shares	Amount
	157,285,643	\$ 54,433,709
	-	-
	157,285,643	\$ 54,433,709

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Notes to Consolidated Financial Statements
For the period ended September 30, 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 - September 30, 2010		2,595,578	\$ 186,367

7. Stock Options

	Number of Stock Options	Weighted average exercise price CDN\$
Balance - June 30, 2010	7,901,000	\$ 0.45
Granted during the period	-	
Forfeited during the period	(225,000)	\$ 0.10
Expired during the period	(1,515,000)	\$ 0.92
Balance - September 30, 2010	6,161,000	\$ 0.34

During the current quarter 1,515,000 stock options expired and 225,000 stock options were forfeitted.

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended September 30, 2010

(Unaudited - Prepared by Management)

8. 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.

	<u>September 30, 2010</u>	<u>June 30, 2010</u>
	(unaudited)	
Future income tax assets		
Tax losses and deductions	\$ 8,971,800	\$ 8,929,483
Capital assets	1,068,352	1,063,918
Share issuance costs	118,154	115,754
Other	340,845	338,000
	<hr/>	<hr/>
Future income tax assets	10,499,151	10,447,155
Valuation allowance	(2,769,379)	(2,725,655)
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Net Future income tax asset	7,729,772	7,721,500
Future income tax liabilities - Goodwill	(755,651)	(755,650)
	<hr/>	<hr/>
Net Future income tax asset	6,974,121	6,965,850
Less current portion	(724,797)	(721,975)
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Non-current portion of net future income tax asset	\$ 6,249,324	\$ 6,243,875

During the three months ended September 30, 2010 the Company recorded a future income tax benefit of \$8,271 (2009 - Nil) related to the recognition of future income tax assets.

Versatile Systems Inc.
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For the period ended September 30, 2010

(Unaudited - Prepared by Management)

9. 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 2010 (unaudited)	June 30 2010	Three months ended September 30	
			2010 (unaudited)	2009 (unaudited)
	Capital assets, intangible assets and goodwill	Capital assets, intangible assets and goodwill	Revenue	Revenue
<i>U.S. companies</i>				
United States	\$ 10,324,430	\$ 10,431,566	\$ 8,983,332	\$ 11,375,767
Canada			31,931	77,049
Netherlands			6,775	12,025
France			24,418	11,798
United Kingdom			36,987	20,907
Australia			27,803	
Other			6,955	3,616
<i>UK and Canadian companies</i>				
United Kingdom	2,044	2,634	100,849	115,063
Canada	-	-	-	-
	<u>10,326,474</u>	<u>10,434,200</u>	<u>9,219,050</u>	<u>11,616,225</u>

During the three months ended September 30, 2010 the Company generated revenue of \$1,181,577 (2009 - \$1,701,137) from Comcast Cable representing 12.8% (2009 - 14.6%) of the revenue for that period.

During the three months ended September 30, 2010 the Company purchased products and services from one vendor for \$3,616,381 (2009 - \$5,199,475) representing 50.8% (2009 - 58.0%) of the cost of sales.