Versatile Systems Inc.
Management Discussion and Analysis
Three months ended September 30, 2010

The following management discussion and analysis of the consolidated results of operations and financial condition of Versatile Systems Inc. (the "Company" or "Versatile") is made as of October 28, 2010 on the consolidated financial statements and notes for the three months ended September 30, 2010.

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and are stated in United States dollars unless otherwise specified. The unaudited interim consolidated financial statements and management discussion and analysis have been reviewed and approved by the Company's Audit Committee as directed by the Company's Board of Directors.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions, which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Forward-Looking Statements

This document may contain forward-looking statements relating to Versatile's operations or to the environment in which it operates, which are based on Versatile's operations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or are beyond Versatile's control. A number of important factors including those set forth in other public filings could cause actual outcomes and results to differ materially from those expressed in these forward looking statements. Consequently readers should not place any undue reliance on such forward-looking statements. In addition, these forward looking statements relate to the date on which they are made. Versatile disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

Non-GAAP Disclosure

EBITDA is defined by the Company as net earnings before interest, income taxes, depreciation and amortization. The Company has included information concerning EBITDA because it believes that it may be used by certain investors as one measure of the Company's financial performance. EBITDA is not a measure of financial performance under Canadian GAAP and is not necessarily comparable to similarly titled measures used by other companies. EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with Canadian GAAP) as a measure of liquidity.

In addition, the Company has included information concerning its cash flow from operations as it may be used by certain investors as a measure of the Company's financial performance.

Overview

The Company's core business is developing solutions that solve customers' problems in the storage, security, transmission and collection of mission critical data. The Company's proprietary software applications, the *Mobiquity*™ Solution Suite, are a key component of this solution. This enables companies to improve the sales, marketing and distribution of their products. The Company delivers wireless/wired solutions to the consumer packaged goods, retail, financial, pharmaceutical, healthcare, and logistics verticals through an integrated combination of licensed software, professional services, and the re-sale of mobile and storage related hardware. The Company also offers maintenance and support via a 24 hour call centre.

Highlights of the First quarter

Highlights of the Company's operations for the quarter included:

- Cash and cash equivalents at September 30, 2010 was $1,463,497 compared to $1,738,036 at June 30, 2010;
- Revenue for the three months ended September 30, 2010 was $9,219,050 compared to $11,616,225 for the same quarter last year;
- The EBITDA loss for the quarter was $10,459 compared to an EBITDA loss of $207,195 for the previous quarter and an EBITDA of $115,795 for the same quarter last year;
- The Net Loss for the quarter amounted to $89,314 ($0.00 per share) compared to a Net Loss for the previous quarter of $292,335 ($0.00 per share) and a Net Loss of $46,775 ($0.00 per share) for the same period last year;
- The cash flow generated from operating activities amounted to $125,223 for the three months ended September 30, 2010 compared to cash flow used in operating activities of $2,049,070 for the same period last year, an improvement of $2,174,293;
- The research and development expense for the quarter amounted to $192,268 compared to $246,670 for the same quarter last year;
- Deferred revenue at September 30, 2010 was $8,235,973 (of which $7,584,658 is expected to be recognized in the next four quarters) compared to $8,260,060 at September 30, 2009;
- 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; and
- The Company generated revenue of $1,181,577 from Comcast, $447,201 from Verizon, $371,041 from Hershey and $296,681 from Motorola.

Review of the First quarter

Revenue for the three months ended September 30, 2010 was $9,219,050 compared to $11,616,225 for the same quarter last year, a decrease of $2,397,175. During the current quarter the Company generated revenue of $1,181,577 from Comcast, $447,201 from Verizon, $371,041

from Hershey and $296,681 from Motorola. While the Company had repeat business from its existing customer base including Comcast, Hershey, Motorola, ASAP Software, Thermo Fisher, and various retailers, universities and government organizations, the Company has been impacted by the overall macro-economic environment and continues to experience a slowdown in orders from customers for routine expenditures on infrastructure.

The EBITDA Loss for the quarter was $10,459 compared to an EBITDA of $115,795 for the same quarter last year.

During the current quarter the Company recorded a Non-recurring expense consisting of an additional provision of $20,668 (2009 – $19,860) primarily for legal costs, for transactions occurring in prior periods.

During the quarter the Company had a future income tax benefit of $8,271 compared to no future income tax expense or benefit for the same quarter last year.

The Net Loss for the quarter amounted to $89,314 ($0.00 per share) compared to a Net Loss of $46,775 ($0.00 per share) for the same period last year.

Cost of sales

Cost of sales for the quarter amounted to $7,115,223 resulting in a gross profit of $2,103,827 or 22.8% of sales as compared to $8,960,921 resulting in a gross profit of $2,655,304 or 22.9% of sales for the same quarter last year.

At September 30, 2010 the Company had an inventory provision of $171,480 (June 30, 2010 - $172,169).

General and administrative

General and administrative expenses for the quarter amounted to $890,450 compared to $874,348 for the same quarter last year, an increase of $16,102. As a percentage of sales the general and administrative expenses were 9.7% in the quarter compared to 7.5% in the same quarter last year.

Technology Investment

Over the past ten years the Company has made a significant investment in the form of expenses to advance the abilities of its technology and resulting service offering. This investment does not contribute directly to revenues during the period that the research and development expenses are incurred.

Research and development expense for the quarter amounted to $192,268 compared to $246,670 for the same quarter last year. The significant expense item in this category is salary and benefit costs. As a percentage of sales the research and development expenses are 2.1% in the quarter compared to 2.1% in the same quarter last year. The decrease in the overall expenditures on

research and development expense can be attributed to the reduction in the number of research and development projects.

During the current quarter the Company's technology investment related to enhanced product functionality and requirements from various partners:

For the *Mobiquity Route*™ these included the following:

- Expanding catalog assignments (multiple catalogs per customer);
- Providing regional assignments and regional data filtering;
- Expanding price controls with wholesale and retail prices for each product;
- Compound product lookups on mobile devices; and
- Host initiated Discount Management Module with multiple sub-discounts per item.

For the *Mobiquity Kiosk™*, these included the following:

- Improving the content management/delivery infrastructure to enhance system stability and performance;
- Improving event collection and reporting system to allow customers the ability to generate detailed reports on application activity;
- Improving administrative services to allow for improved remote configuration, monitoring and reporting; and
- Integrating Voice over IP (VoIP) functionality into the Kiosk platform.

For the *Mobiquity Transaction Engine 3.0™* these included the following:

- Implementing database performance enhancements;
- Enhancing the system self-monitoring tools;
- Architecting and designing an improved reporting framework; and
- Implementing adaptor performance enhancements.

During the current period, the Company incurred $111,281 for research and development activities related to *Mobiquity Route*™ and related mobile software products.

During the current period, the Company incurred $55,786 for research and development activities related to *Mobiquity Transaction Engine 3.0™* and *Mobiquity Kiosk™*.

Selling and marketing expenses

Selling and marketing expense for the quarter amounted to $1,008,567 compared to $1,361,701 for the same quarter last year, a decrease of $353,134. Selling and marketing expenses includes salaries, commissions, advertising, trade shows and promotion costs to support the various sales initiatives. As a percentage of sales the selling and marketing expenses are 10.9% in the quarter compared to 11.7% in the same quarter last year. As a percentage of gross profit the selling and marketing expenses were 47.9% in the quarter compared to 51.3% in the same quarter last year. There were no significant changes in the selling and marketing activities during the quarter.

Future Income Tax Benefits

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.

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' taxable income. As a result, future income tax assets were fully provided for.

During the 2006 fiscal year, the Company determined that the U.S. subsidiaries were generating sufficient profits such that they were *more likely than not* to utilize 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.

For the three months ended September 30, 2010 the Company recorded a future income tax benefit of $8,271 compared to no benefit or expense for the same quarter last year.

To the extent that the Company expects to generate sufficient profits in the following fiscal period, that portion of the Future income tax benefits have been classified as current.

Amortization

The amortization of capital assets and intangible assets for the quarter amounted to $74,252 (2009 - $178,125), which includes $8,088 of amortization classified with the cost of sales for Kiosks deployed pursuant to various subscription agreements and does not include $4,997 of amortization of Kiosks held in inventory.

Foreign Exchange Gain

The foreign exchange loss for the quarter amounted to $2,333 compared to a foreign exchange loss of $14,542 for the same quarter last year. The loss was primarily due to the fluctuation in the U.S. dollar against the Canadian dollar in the quarter.

Summary of Quarterly Results

The table below provides a summary of certain selected unaudited financial information from the Consolidated Statements of Operations for the most recent eight fiscal quarters comprising the Company's preceding two years:

	Q2 2009 Dec 08	Q3 2009 Mar 09	Q4 2009 Jun 09	Q1 2010 Sept 09	Q2 2010 Dec 09	Q3 2010 Mar 10	Q4 2010 Jun 10	Q1 2011 Sept 10
Revenue	12,327,064	10,877,354	11,609,822	11,616,225	11,259,292	9,795,481	11,517,023	9,219,050
Cost of Sales	9,287,669	8,553,367	8,614,785	8,960,921	8,599,212	7,493,702	9,097,685	7,115,223
Gross Profit	3,039,395	2,323,987	2,995,037	2,655,304	2,660,080	2,301,779	2,419,338	2,103,827
Expenses:								
General and administrative (including foreign exchange)	1,202,013	898,936	987,696	888,890	1,010,991	1,007,964	1,141,838	892,783
Non recurring expenses	372,177	160,158	(110,823)	19,860	28,219	525,656	(214,924)	20,668
Research and Development	391,088	278,701	186,568	246,670	247,084	185,289	177,744	192,268
Selling and Marketing	1,717,311	1,515,711	1,685,829	1,361,701	1,619,075	1,490,778	1,497,988	1,008,567
Stock-based compensation	2,753	2,696	12,719	22,388	23,242	23,585	23,887	-
	3,685,342	2,856,202	2,761,989	2,539,509	2,928,611	3,233,272	2,626,533	2,114,286
Earnings (loss) before interest taxes and amortization	(645,947)	(532,215)	233,048	115,795	(268,531)	(931,493)	(207,195)	(10,459)
Amortization	(178,081)	(182,273)	(124,066)	(157,298)	(152,962)	(152,631)	(128,065)	(71,161)
Interest	(354)	1,648	(5,520)	(3,769)	(10,441)	(7,781)	(10,248)	(14,970)
Goodwill impairment	-	-	-	-	-	-	(63,309)	-
Gain on sale of investments	-	-	-	-	4,952	-	-	-
Income taxes	291,211	139,885	279,930	(1,503)	346,321	275,055	116,482	7,276
Net Earnings (loss)	(533,171)	(572,955)	383,392	(46,775)	(80,661)	(816,850)	(292,335)	(89,314)
Per share, basic and diluted	(0.00)	(0.00)	0.00	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)

The Company's revenues and earnings fluctuate from quarter to quarter. A number of factors can cause such fluctuations, including the timing of substantial orders, the timing of releases of new products, timing of the deployment of solutions and delays by customers. Because the Company's operating expenses are determined based on anticipated sales, are generally fixed and are incurred throughout each fiscal quarter, any of the factors listed above can cause significant variations in the Company's revenues and earnings in any given quarter. Thus, the Company's quarterly results are not necessarily indicative of the Company's overall business, results of operations and financial condition.

Over the past three years the Company has improved its financial position while maintaining selling, marketing, general and administration expenses at relatively the same level as revenue.

Financial position

The working capital as of September 30, 2010 was $4,028,872, a decrease of $223,674 compared to the working capital of $4,252,546 at June 30, 2010.

Cash and cash equivalents at September 30, 2010 was $1,463,497 compared to $1,738,036 at June 30, 2010.

The cash flow generated from operating activities amounted to $125,223 for the three months ended September 30, 2010 compared to cash flow used in operating activities of $2,049,070 for the same period last year, an improvement of $2,174,293.

The Company has a credit line facility of $5,800,000, which is limited to 70% of eligible accounts receivable of certain U.S. subsidiaries from a U.S. based financial institution. 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 VAC, VSI and POI. At September 30, 2010 the

amount drawn on the line of credit was $920,281 a decrease of $433,020 from the amount drawn at June 30, 2010 of $1,353,301.

The amount that may be advanced under the credit line is limited to 70% of eligible accounts receivable of VAC, POI and VSI less than 90 days from the invoice date. At September 30, 2010 this amounted to $3,465,615. At September 30, 2010 the financial covenants for these companies include the requirement of a minimum Tangible Net worth of $4,800,000. The companies met this test.

Included in accounts payable and accrued liabilities is $1,835,768 owing to a major supplier.

Investment in Equus Total Return, Inc.

The Investment in Equus is held by Mobiquity Investments Limited ("Mobiquity") and consists of 822,031 shares of Equus Total Return, Inc. which is a public company trading on the NYSE under the symbol EQS (the "Fund"). The share price as at September 30, 2010 was $2.38 so the unrealized loss was $766,269.

On April 14, 2010 Mobiquity filed a Schedule 13D/A (Amendment No. 1) with the U.S. Securities and Exchange Commission and reported that the Fund had agreed to nominate Fraser Atkinson, Alessandro Benedetti, John Hardy and Bertrand des Pallieres as directors of the Fund (the "Nominees") and to support the election of the Nominees at the Fund's Annual Meeting scheduled to be held on May 12, 2010. On April 13, 2010, the Fund filed a definitive proxy statement on Schedule 14A with the Securities and Exchange Commission to, among other things, solicit stockholders of the Fund to vote in favor of the Nominees selected by the Reporting Persons, along with the other nominees for director in connection with the Fund's 2010 Annual Meeting.

On May 20, 2010 the Inspector of Elections who attended the Annual Meeting of the Equus stockholders held on May 12, 2010 certified that Fraser Atkinson, Alessandro Benedetti, John Hardy and Bertrand des Pallieres had been elected to the Board of Directors of Equus.

On June 8, 2010 John Hardy was appointed Executive Chairman and Fraser Atkinson was appointed Chairman of the Audit Committee.

On August 13, 2010 Equus released its results for the second quarter. The net asset value of Equus at June 30, 2010 was $4.28 per share.

Capital Expenditures

During the three months ended September 30, 2010 the additions to capital assets amounted to $39,825 (2009 - $15,852). Substantially all of the capital expenditures relate to the costs of Kiosks that have been deployed under various subscription agreements.

Share Capital

As of October 28, 2010 the Company had 157,285,643 common shares issued and outstanding.

Stock Options

The Company can grant up to 15,728,564 of the issued shares pursuant to its stock option plan.

	Number of shares	Weighted average exercise price CDN$
Outstanding – June 30, 2010	7,901,000	0.45
Granted	-	
Forfeited	(225,000)	0.10
Expired	(1,515,000)	0.92
Exercised	-	
Outstanding – September 30, 2010	6,161,000	0.34

For the three months ended September 30, 2010, the Company had no stock-based compensation charge (2009 - $23,388) for vesting of stock options granted to employees, consultants, directors and officers of the Company in prior years.

Warrants

The details of the outstanding warrants at September 30, 2010 are as follows:

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		2,595,578	186,367

Related Party Transactions

During the current quarter, the Company paid consulting fees and salaries, which are included in the general and administration expense, of $242,364 to four Directors and Officers of the Company (2009 - $184,600 was paid to three Directors and Officers of the Company).

Risk Factors

The securities of the Company should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in this Management

Discussion & Analysis prior to making an investment in the Company. In addition to the other information presented in this Management Discussion & Analysis, the following risk factors should be given special consideration when evaluating an investment in the Company's securities.

Operating History

The Company's predecessor company commenced operations in March 1987 to distribute and sell Maximizer products in European countries, as well as provide consulting services and Customer Relationship Management ("CRM") solutions to companies. In January 1997, the Company changed its focus to research and development of CRM software. The Company purchased Versatile Mobile Systems on September 19, 2000, Perfect Order, Inc. and Versatile Systems, Inc. on April 26, 2005 and Sagent Solutions on December 28, 2007. The Company may face many of the risks and uncertainties encountered by early-stage companies in rapidly evolving markets.

History of Losses

The Company had a history of losses up to September 30, 2005 and since that time has had varying results, but has an accumulated deficit of $37,055,150 to September 30, 2010. Although the Company has decreased its operating expenses (excluding non recurring expenses) the Company cannot be assured that it can consistently maintain profitable operations.

No Certainty of Future Profitability

The Company's product revenues are not predictable with any significant degree of certainty and future product revenues may differ from historical patterns. If customers cancel or delay orders, it can have a material adverse impact on the Company's revenues and results of operations from quarter to quarter. Because the Company's results of operations may fluctuate from quarter to quarter, investors should not assume that results of operations in future periods can be predicted based on results of operations in past periods.

Even though the Company's revenues are difficult to predict, the Company's expense levels are based in part on future revenue projections. Many of the Company's expenses are fixed and, accordingly, the Company cannot quickly reduce spending if revenues are lower than expected.

Competitive Market

The market for the Company's software is intensely competitive, fragmented and rapidly changing. Some of the Company's actual and potential competitors are larger, established companies that have greater technical, financial and marketing resources. In addition, as the Company develops new products, particularly applications focused on electronic commerce or specific industries, it may begin competing with companies with whom it has not previously competed. It is also possible that new competitors will enter the market or that the Company's competitors will form alliances that may enable them to rapidly increase market share.

Increased competition may result in price reductions, lower gross margins or loss of the Company's market share, any of which could materially adversely affect its business, financial condition and operating results.

Technological Change

The market for the Company's solutions is characterized by rapidly changing technology and evolving industry standards. The market is affected by changes in end user requirements and frequent new product introductions and enhancements. The Company's products embody complex technology and may not always be compatible with current and evolving technical standards and products, developed by others. Failure or delays by the Company to meet or comply with the requisite and evolving industry or user standards could have a material adverse effect on the Company's business, results of operations and financial condition. The Company's ability to anticipate changes in technology, technical standards and product offerings will be a significant factor in the Company's ability to compete. There can be no assurance that the Company will be successful in identifying, developing, manufacturing and marketing products that will respond to technological change, evolving standards or individual wireless communications service provider standards or requirements. The Company's business will be adversely affected if the Company incurs delays in developing new products or enhancements or if such products or enhancements do not gain market acceptance. In addition, there can be no assurance that products or technologies developed by others will not render the Company's products or technologies non-competitive or obsolete.

Limited Sales and Support Infrastructure

The Company's future revenue growth will depend in large part on its ability to successfully expand its direct sales force and its customer support capability. The Company may not be able to successfully manage the expansion of these functions or to recruit and train additional direct sales, consulting and customer support personnel.

If the Company is unable to hire and retain additional highly skilled direct sales personnel, it may not be able to increase its license revenue to the extent necessary to achieve profitability. If the Company is unable to hire highly trained consulting and customer support personnel, it may be unable to meet customer demands. The Company is unlikely to be able to increase its revenues as planned if it fails to expand its direct sales force or its consulting and customer support staff. Even if the Company is successful in expanding its direct sales force and customer support capability, the expansion may not result in revenue growth.

Dependence on Business Alliances

A key element of the Company's business strategy is the formation of corporate alliances with leading companies. The Company is currently investing and plans to continue to invest significant resources to develop these relationships. The Company believes that its success in penetrating new markets for its products will depend in part on its ability to maintain these relationships and to cultivate additional or alternative relationships. There can be no assurance that the Company will be able to develop additional corporate alliances with such companies,

that existing relationships will continue or be successful in achieving their purposes or that such companies will not form competing arrangements.

Dependence on Key Personnel

The Company's success depends largely upon the continued service of its executive officers and other key management, sales and marketing and technical personnel. The loss of the services of one or more of the Company's executive officers or other key employees could have a material adverse effect on its business, results of operations or financial condition.

The Company's future success also depends on its ability to attract and retain highly qualified personnel. The competition for qualified personnel in the computer software and Internet markets is intense, and the Company may be unable to attract or retain highly qualified personnel in the future. In addition, due to intense competition for qualified employees, it may be necessary for the Company to increase the level of compensation paid to existing and new employees to the degree that operating expenses could be materially increased.

Management of Growth

The Company expects to experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. The Company's future will depend in part on the ability of its officers and other key employees to implement and improve its financial and management controls, reporting systems and procedures on a timely basis and to expand, train and manage its employee workforce. There can be no assurance that the Company will be able to effectively manage such growth. The Company's failure to do so could have a material adverse effect upon the Company's business, prospects, results of operation and financial condition.

Integration of Newly Acquired Businesses or Technology

The Company may expand its operations through acquisitions of additional businesses or technology. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses or technology or successfully integrate acquired businesses or technology into the Company without substantial expense, delay or other operational or financial problems. Further, acquisitions may involve a number of additional risks, including diversion of management's attention, failure to retain key acquired personnel, unanticipated events or circumstances, legal liabilities and amortization of acquired intangible assets, some or all of which could have a material adverse effect on the Company's business, financial condition and results of operation. In addition, there can be no assurance that acquired businesses, if any, will achieve anticipated revenues and earnings. The failure of the Company to manage its acquisition strategy successfully could have a material adverse effect on the Company's business, financial condition and results of operation.

Potential Fluctuations in Quarterly Financial Results

The Company's quarterly financial results may be affected by the timing of new releases of its products and/or substantial customer orders. The Company's operating expenses are based on anticipated revenue levels in the short term, are relatively fixed, and are incurred throughout the quarter. As a result, if expected revenues are not realized on a timely basis as anticipated, the Company's financial results could be materially and adversely affected. These or other factors, including possible delays in the shipment of new products, may influence quarterly financial results in the future. Accordingly, there may be significant variation in the Company's quarterly financial results.

International Sales

Sales outside of the United States currently represent less than 10% of the Company's total gross revenues. The Company believes that its continued growth and profitability will require additional expansion of its sales in international markets. To the extent that the Company is unable to expand international sales in a timely and cost effective manner, the Company's business, results of operations and financial condition could be materially and adversely affected. In addition, even with the successful recruitment of additional personnel and international resellers, there can be no assurance that the Company will be successful in maintaining or increasing international market demand for the Company's products.

Currency Exchange Rate Risk

The Company's results have been stated in U.S. dollars as a substantial portion of the Company's revenues and a material portion of its expenses are denominated in US dollars.

Dependence on Proprietary Technology and Limited Patent and Trademark Protection

The Company relies on a combination of copyright and trademark laws, trade secret, confidentiality procedures and contractual provisions to protect its proprietary rights. Unauthorized parties may attempt to copy aspects of the Company's products or obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's product is difficult, time-consuming and costly as is the pursuing of patents in each jurisdiction in which the Company carries on business. Although the Company is unable to determine the extent to which piracy of its software product exists, software piracy is a possibility. In addition, the laws of certain countries in which the Company's products may be licensed do not protect its product and intellectual property rights to the same extent as the laws do in Canada or the United States. There is no assurance that the Company's means of protecting its proprietary rights will be adequate or the Company's competitors will not independently develop similar technology, the effect of either of which may be materially adverse to the Company's business, results of operations and financial condition.

Risk of Third Party Claims for Infringement

The Company is not aware that its product infringes the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by the Company or its licensees with respect to current or future products. The Company expects that software product developers will increasingly be subject to such claims as the number of products and competitors in the Company's industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements which, if required, may not be available on terms acceptable to the Company. Any of the foregoing could have a materially adverse effect on the Company's business, results of operations and financial condition.

Lengthy Sales and Implementation Cycle

The adoption of the Company's product generally involves a significant commitment of resources by potential customers. As a result, the Company's sales process is often subject to delays associated with lengthy approval processes by potential customers. For these and other reasons, the sales cycle associated with the license of the Company's product varies substantially from customer to customer and typically lasts between 6 to 12 months during which time the Company may devote significant time and resources to a prospective customer, including costs associated with multiple site visits, product demonstrations and feasibility studies, and experience a number of significant delays over which the Company has no control. Any significant or ongoing failure by the Company to ultimately achieve such sales could have a material adverse effect on the Company's business, results of operations and financial condition. In addition, following license sales, the implementation period is expected to involve a time period for customer training and integration with the customer's existing systems. A successful implementation program requires a close working relationship between the Company, the customer and, generally, third party consultants and system integrators who assist in the process. There can be no assurance that delays or difficulties in the implementation process for any given customer will not have a material adverse effect on the Company's business, results of operations and financial condition.

Risk of System Defects

System development involves the integration of the Company's proprietary software and software of others into the customer's operating systems. There can be no assurance that defects and errors will not be found in the Company's product when integrated with other products or systems. Any such defects and errors could result in adverse customer reactions, negative publicity regarding the Company and its product or damages. Consequently, there could be a material adverse effect on the Company's business, results of operations and financial condition.

Requirements for New Capital

As a growing business, the Company typically needs more capital than it has available to it or can expect to generate through the sale of its products. In the past, the Company has had to raise,

by way of debt and equity financing, considerable funds to meet its capital needs. There is no guarantee that the Company will be able to continue to raise funds needed for its business. Failure to raise the necessary funds in a timely fashion will limit the Company's growth.

Critical Accounting Estimates

General

Unless otherwise specified in the discussion of the specific critical accounting estimates, the Company is not aware of trends, commitments, events, or uncertainties that it reasonably expects to materially affect the methodology or assumptions associated with the critical accounting estimates, subject to the circumstances identified above.

Changes are made to assumptions underlying all critical accounting estimates to reflect current economic conditions and updating of historical information used to develop the assumptions, where applicable. Unless otherwise specified in the discussion of the specific critical accounting estimates, it is expected that no material changes in overall financial performance and financial statement line items would arise either from reasonably likely changes in material assumptions underlying the estimate or within a valid range of estimates, from which the recorded estimate was selected.

All critical accounting estimates are uncertain at the time of making the estimate.

Accounts Receivable

Allowance for doubtful accounts

The Company considers the business area that gives rise to the accounts receivable, maintains procedures for granting credit terms on sales transactions and performs specific account identification when determining its allowance for doubtful accounts. This accounting estimate is in respect of the accounts receivable line item on the Company’s consolidated balance sheet comprising approximately 19% of total assets as at September 30, 2010. In the event the future results were to adversely differ from management’s best estimate of the allowance for doubtful accounts, the Company could experience a bad debt charge in the future. Such a bad debt charge would not result in a cash outflow.

The estimate of the Company’s allowance for doubtful accounts could materially change from period to period due to the allowance being a function of the balance and composition of accounts receivable, which can vary on a month-to-month basis. The variance in the balance of accounts receivable can arise from a variance in the amount and composition of operating revenues and from variances in accounts receivable collection performance.

Inventories

Provision for inventory obsolescence

The Company determines its provision for inventory obsolescence based upon historical experience, expected inventory turnover, inventory aging and current condition, and current and future expectations with respect to product offerings.

Assumptions underlying the provision for inventory obsolescence include the activity levels over previous fiscal years, and the expected inventory requirements and inventory composition necessary to support these future sales and offerings. The estimate of the Company's provision for inventory obsolescence could materially change from period to period due to changes in product offerings and consumer acceptance of those products.

This accounting estimate is in respect of the inventory line item on the Company's consolidated balance sheet comprising approximately 5% of total assets as at September 30, 2010. If the provision for inventory obsolescence was inadequate, the Company could experience a charge to direct cost of sales in the future. Such an inventory obsolescence charge would not result in a cash outflow.

Long-Lived Assets

The accounting estimates for long-lived assets that include capital assets, purchased technology, intellectual property, customer contracts and licenses, in aggregate, represent approximately 1% of the Company's total assets as at September 30, 2010, presented in its consolidated balance sheet. If the Company's estimated useful lives of assets were different as a result of changes in facts and circumstances, the Company could experience increased or decreased charges for amortization and the Company could potentially experience future material impairment charges in respect of its recovery of long-lived assets.

The estimated useful lives of capital assets are determined by a continuing program of asset life studies. The recoverability of capital assets is significantly impacted by the estimated useful lives. Assumptions underlying the estimated useful lives of capital assets include timing of technological obsolescence, competitive pressures and future infrastructure utilization plans. In the event management's best estimate of the useful lives of capital assets was adversely affected, the Company could potentially experience a charge to amortization expense in the future. Such a charge to amortization would not result in a cash outflow.

The purchased technology, intellectual property, customer contracts and licenses were fully amortized in the 2010 fiscal year.

Future Income Tax Benefits

The amount recorded for Future Income Tax Benefits represents approximately 19% of the Company's assets as at September 30, 2010, presented in its consolidated balance sheet. If the Company determines that the valuation allowances relating to the loss carry forwards and tax deductions should be increased, the Company could experience a reduction in the recorded future income tax benefits.

The Company determined that because VSI, POI, VAC and VMS-US were expected to generate sufficient profits that it was more likely than not that the losses would be fully utilized and the deductions attributable to these companies would be fully utilized. Consequently, there is no valuation allowance for these companies. The difference between the value of these tax benefits less the valuation allowance is the amount of the future income tax asset that is recorded by the Company.

Goodwill

The accounting estimates for goodwill represents approximately 28% of the Company's total assets as at September 30, 2010, presented in its consolidated balance sheet. If the future were to adversely differ from management's best estimate to recover the Company's investments in its goodwill, the Company could potentially experience future material impairment losses in respect of its goodwill. The impairment losses would be recognized and presented as a separate line item in the consolidated statements of loss and deficit. Impairment losses to goodwill would not result in a cash outflow.

Changes in accounting policies

Adoption of new accounting standards in the current fiscal year:

On July 1, 2009, the Company adopted the changes made by the Canadian Institute of Chartered Accountants ("CICA") to Handbook Section 3862, "Financial Instruments - Disclosures", whereby an entity is required to classify and disclose the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:
Level 1 – Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

On July 1, 2009, the Company adopted the requirements of CICA Handbook Section 3064, Goodwill and Intangible Assets. The new standard provides guidance on when expenditures qualify for recognition as intangible assets. The adoption of this standard did not have a significant impact on the financial statements.

Adoption of future accounting standards:

In January 2009, the CICA issued Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests".

Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards. Section 1582 is applicable for any business combinations with acquisition dates on or after July 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning July 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time. The Company does not expect the adoption of these standards will have a material impact on its consolidated financial statements.

In December 2009, the CICA issued Emerging Issues Committee Abstract ("EIC") 175, "Multiple Deliverable Revenue Arrangements", replacing EIC 142, "Revenue Arrangements with Multiple Deliverables". This abstract was amended to (1) exclude from the application of the updated guidance those arrangements that would be accounted for in accordance with ASC 985-605 (formerly Financial Accounting Standards Board Statement of Position 97-2), "Software Revenue Recognition" as amended by Accounting Standards Update 2009-14; (2) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) require in situations where a vendor does not have vendor-specific objective evidence or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

Key International Financial Reporting Standards (IFRS) conversion dates

According to dates set out by the AcSB, the Company will be required to begin publicly reporting under IFRS in the fiscal year ending June 30, 2012. Because of the need to present comparative financial information, the Company will need to create its first IFRS compliant balance sheet as at July 1, 2010. For the fiscal year ending June 30, 2011, the Company will need to prepare information for financial statements and note disclosures under both Canadian GAAP and IFRS in order to meet Canadian GAAP reporting requirements that year and to allow for comparative information to be presented in 2012.

The Company has not yet completed a full evaluation of the adoption of IFRS and its impact on its financial position and results of operations. The full evaluation and an implementation plan will be completed during the ensuing fiscal year. The evaluation and implementation plan will address the impact of IFRS, among others, on:

- accounting policies, including policies permitted under IFRS and implementation decisions such as whether changes will be applied on a retrospective or a prospective basis;
- Information technology and data systems;
- Controls and procedures; and
- Financial reporting expertise, training requirements and the need for assistance from outside expertise.

Additional information relating to the Company can be found on the Canadian Securities Administrators System for Electronic Document Analysis and Retrieval (SEDAR), located at www.sedar.com