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**Versatile Systems Inc.**  
**Consolidated Financial Statements**  
**March 31, 2011**

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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

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# Versatile Systems Inc.

## Consolidated Balance Sheets

(Unaudited - Prepared by Management)

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Expressed in U.S. dollars

	<u>March 31, 2011</u>	<u>June 30, 2010</u>
	(unaudited)	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 753,523	\$ 1,738,036
Investment in Equus (note 3)	2,503,701	2,203,043
Accounts receivable	6,550,190	10,580,706
Current portion of deferred contract costs	4,371,749	5,793,180
Prepaid expenses	318,777	236,993
Inventory	1,923,966	1,719,477
Future income tax benefits (note 8)	734,410	721,975
	<u>17,156,316</u>	<u>22,993,410</u>
Long-term accounts receivable	427,941	265,612
Deferred contract costs	715,513	598,366
Capital Assets	318,856	519,391
Intangible assets	-	459
Future income tax benefits (note 8)	6,135,719	6,243,875
Goodwill	9,914,350	9,914,350
	<u>\$ 34,668,695</u>	<u>\$ 40,535,463</u>
<b>LIABILITIES</b>		
Current Liabilities		
Line of credit (note 4)	\$ 1,138,827	\$ 1,353,312
Accounts payable and accrued liabilities	5,527,816	9,955,342
Current portion of deferred revenue	5,943,961	7,432,210
	<u>12,610,604</u>	<u>18,740,864</u>
Deferred Revenue	799,264	710,269
	<u>13,409,868</u>	<u>19,451,133</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (note 5)	54,433,709	54,433,709
Warrants (note 6)	123,058	186,367
Contributed surplus	4,355,754	4,231,539
Deficit	(36,843,347)	(36,965,836)
Accumulated other comprehensive loss	(810,347)	(801,449)
	<u>21,258,827</u>	<u>21,084,330</u>
	<u>\$ 34,668,695</u>	<u>\$ 40,535,463</u>

APPROVED BY THE DIRECTORS:

DIRECTOR: *John Hardy*

DIRECTOR: *Fraser Atkinson*

See Notes to Consolidated Financial Statements

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# Versatile Systems Inc.

## Consolidated Statements of Operations and Deficit

(Unaudited - Prepared by Management)

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*Expressed in U.S. dollars*

	Three months ended March 31		Nine months ended March 31	
	2011	2010	2011	2010
SALES	\$ 11,044,100	\$ 9,795,481	\$ 35,723,183	\$ 32,670,998
COST OF SALES	8,368,414	7,493,702	27,975,533	25,053,835
EXPENSES				
Selling and marketing	1,136,728	1,490,778	3,473,173	4,471,554
General and administrative	829,900	944,266	2,772,247	2,918,759
Research and development	278,226	185,289	749,403	679,043
Non recurring expenses	235,486	525,656	293,657	573,735
Stock-based compensation	60,906	23,585	60,906	69,215
Foreign exchange loss (gain)	21,703	63,698	(9,715)	(10,914)
	<u>2,562,949</u>	<u>3,233,272</u>	<u>7,339,671</u>	<u>8,701,392</u>
Earnings (loss) before interest, taxes and amortization	112,737	(931,493)	407,979	(1,084,229)
Amortization of capital assets	54,485	61,957	173,754	190,868
Amortization of intangible assets	-	90,674	-	272,023
Interest expense (income)	(1,826)	7,781	13,810	21,991
Loss (Gain) on sale of capital assets and investments	625	-	3,200	(4,952)
EARNINGS (LOSS) BEFORE INCOME TAXES	59,453	(1,091,905)	217,215	(1,564,159)
Current income tax recovery (expense)	2,985	(993)	995	(3,741)
Future income tax (expense) benefit	(29,600)	276,048	(95,721)	623,614
NET EARNINGS (LOSS)	<u>32,838</u>	<u>(816,850)</u>	<u>122,489</u>	<u>(944,286)</u>
DEFICIT, BEGINNING OF PERIOD	(36,876,185)	(35,856,651)	(36,965,836)	(35,729,215)
DEFICIT, END OF PERIOD	<u>(36,843,347)</u>	<u>(36,673,501)</u>	<u>(36,843,347)</u>	<u>(36,673,501)</u>
EARNINGS (LOSS) PER SHARE (basic and diluted)	\$0.00	(\$0.01)	\$0.00	(\$0.01)

*See Notes to Consolidated Financial Statements*

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## **Versatile Systems Inc.**

### Consolidated Statements of Comprehensive (Loss) Income

(Unaudited - Prepared by Management)

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*Expressed in U.S. dollars*

	Three Months ended March 31		Nine Months ended March 31	
	2011	2010	2011	2010
Net earnings (loss)	32,838	(816,850)	122,489	(944,286)
Other comprehensive (loss) income				
Net change in fair value of available-for-sale investments	96,296	-	(8,898)	-
Comprehensive (loss) income	<u>129,134</u>	<u>(816,850)</u>	<u>113,591</u>	<u>(944,286)</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	
	2011	2010	2011	2010
<b>OPERATING ACTIVITIES</b>				
Net earnings (loss)	\$ 32,838	\$ (816,850)	\$ 122,489	\$ (944,286)
Items not affecting cash				
Amortization of capital and intangible assets	61,228	171,385	199,077	520,372
Stock-based compensation	60,906	23,585	60,906	69,215
Loss (Gain) on sale of capital assets and investments	625	-	3,200	(4,952)
Unrealized foreign exchange loss	21,624	55,696	1,233	13,157
Future income tax expense (benefit)	29,600	(276,048)	95,721	(623,614)
Cash flow used in operations before other items	206,821	(842,232)	482,626	(970,108)
Net change in non-cash operating balance sheet items	(673,962)	1,211,698	(941,609)	(945,544)
	(467,141)	369,466	(458,983)	(1,915,652)
<b>INVESTING ACTIVITIES</b>				
Short term investments	-	(425,325)	(309,556)	(2,726,160)
Proceeds from disposition of capital assets	4,087	16,033	107,355	23,734
Additions to capital assets	(30,220)	(35,950)	(108,844)	(73,216)
	(26,133)	(445,242)	(311,045)	(2,775,642)
<b>FINANCING ACTIVITIES</b>				
Proceeds from issuance of shares	-	-	-	3,876,257
Share issue costs	-	-	-	(26,291)
Proceeds from (repayment of) line of credit	322,972	(1,790,109)	(214,485)	768,336
	322,972	(1,790,109)	(214,485)	4,618,302
Increase (decrease) in cash and cash equivalents	(170,302)	(1,865,885)	(984,513)	(72,992)
CASH and cash equivalents, beginning of period	923,825	3,795,423	1,738,036	2,002,530
CASH and cash equivalents, end of period	\$ 753,523	\$ 1,929,538	\$ 753,523	\$ 1,929,538
<b>Supplementary information</b>				
Cash paid for interest expense	\$ 4,641	\$ 11,170	\$ 21,634	\$ 25,842
Cash paid for income taxes	-	440	2,469	3,403

*See Notes to Consolidated Financial Statements*

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# Versatile Systems Inc.

## Notes to Consolidated Financial Statements

### For the period ended March 31, 2011

(Unaudited - Prepared by Management)

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#### 1. Consolidated financial statement presentation:

These unaudited interim consolidated financial statements at March 31, 2011 and the consolidated statements of operations and deficit, comprehensive income (loss) and cash flows for the periods ended March 31, 2011 and 2010, 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 periods ended March 31, 2011 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 noted.

The financial statements as at and for the period ended March 31, 2011 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 962,962 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, 2011 was \$2.60 so the unrealized gain for the quarter was \$96,296 and the cumulative unrealized loss was \$528,568.

#### 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, 2011 this amounted to \$3,030,345. 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 - March 31, 2011

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

**Versatile Systems Inc.**  
**Notes to Consolidated Financial Statements**  
**For the period ended March 31, 2011**

(Unaudited - Prepared by Management)

**6. Warrants**

Issued and outstanding:

Expiry date	Exercise Price CDN\$	Number of Warrants	Cost
April 16, 2011	\$ 0.6636	583,770	\$ 81,058
January 22, 2012	\$ 0.30	600,000	42,000
Balance - March 31, 2011		<u>1,183,770</u>	<u>\$ 123,058</u>

During the current quarter 1,411,808 warrants expired and the cost of \$63,309 was recorded to contributed surplus

**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	7,122,100	\$ 0.11
Forfeited during the period	(225,000)	\$ 0.10
Expired during the period	<u>(3,125,000)</u>	<u>\$ 0.94</u>
Balance - March 31, 2011	<u>11,673,100</u>	<u>\$ 0.12</u>

During the current quarter 7,122,100 stock options were granted with an exercise price of \$0.11 and term of five years. During the second quarter 1,610,000 stock options expired. During the first quarter 1,515,000 stock options expired and 225,000 stock options were forfeited.

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**Versatile Systems Inc.**  
**Notes to Consolidated Financial Statements**  
**For the period ended March 31, 2011**

(Unaudited - Prepared by Management)

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**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>March 31, 2011</u>	<u>June 30, 2010</u>
	(unaudited)	
Future income tax assets		
Tax losses and deductions	\$ 8,948,955	\$ 8,929,483
Capital assets	1,080,966	1,063,918
Share issuance costs	126,331	115,754
Other	350,535	338,000
	<hr/>	<hr/>
Future income tax assets	10,506,787	10,447,155
Valuation allowance	(2,881,007)	(2,725,655)
	<hr/>	<hr/>
Net Future income tax asset	7,625,780	7,721,500
Future income tax liabilities - Goodwill	(755,651)	(755,650)
	<hr/>	<hr/>
Net Future income tax asset	6,870,129	6,965,850
Less current portion	(734,410)	(721,975)
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Non-current portion of net future income tax asset	\$ 6,135,719	\$ 6,243,875

During the three months ended March 31, 2011 the Company recorded a future income tax expense of \$29,600 related to the recognition of future income tax assets compared to a future income tax benefit of \$276,048 for the comparable period last year.

**Versatile Systems Inc.**  
**Notes to Consolidated Financial Statements**  
**For the period ended March 31, 2011**

(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:

	March 31 2011 (unaudited)	June 30 2010	Three months ended March 31	
			2011 (unaudited)	2010 (unaudited)
	Capital assets, intangible assets and goodwill	Capital assets, intangible assets and goodwill	Revenue	Revenue
<i>U.S. companies</i>				
United States	\$ 10,228,800	\$ 10,431,566	\$ 10,735,595	\$ 9,637,272
Canada			34,894	8,841
France			22,025	32,390
United Kingdom			37,586	16,884
Germany			18,025	
Other			12,029	34,733
<i>UK and Canadian companies</i>				
United Kingdom	4,406	2,634	183,946	65,361
Canada	-	-	-	-
	10,233,206	10,434,200	11,044,100	9,795,481

For each of the three months ended March 31, 2011 and 2010 the Company did not have a customer where the revenue was more than 10% of the revenue for that quarter.

During the three months ended March 31, 2011 the Company purchased products and services from one vendor for \$1,239,484 (2010 - \$2,205,988) representing 14.4% (2010 - 29.4%) of the cost of sales.