

Consolidated financial statements of

Versatile Systems Inc.

June 30, 2011 and 2010

Versatile Systems Inc.

June 30, 2011 and 2010

Table of contents

Independent Auditor's Report	1
Consolidated balance sheets	2
Consolidated statements of operations and deficit	3
Consolidated statements of comprehensive loss	4
Consolidated statements of cash flows	5
Notes to the consolidated financial statements	6-25

Deloitte & Touche LLP
2800 - 1055 Dunsmuir Street
4 Bentall Centre
P.O. Box 49279
Vancouver BC V7X 1P4
Canada

Tel: 604-669-4466
Fax: 604-685-0395
www.deloitte.ca

Independent Auditor's Report

To the Shareholders of Versatile Systems Inc.

We have audited the accompanying consolidated financial statements of Versatile Systems Inc., which comprise the consolidated balance sheets as at June 30, 2011 and 2010, and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the years then ended, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Versatile Systems Inc. as at June 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) Deloitte & Touche LLP

Chartered Accountants
September 8, 2011

Versatile Systems Inc.

Consolidated balance sheets As at June 30, 2011 and 2010

(Expressed in U.S. dollars)

	2011	2010
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	978,656	1,738,036
Investment in Equus (Note 3)	2,311,109	2,203,043
Accounts receivable (Notes 4 and 14 (a))	7,134,328	10,580,706
Current portion of deferred contract costs	4,469,066	5,793,180
Prepaid expenses	228,062	236,993
Inventory	1,849,635	1,719,477
Future income tax benefits (Note 18)	546,252	721,975
	17,517,108	22,993,410
Long-term accounts receivable (Note 4)	401,742	265,612
Deferred contract costs	579,710	598,366
Capital assets (Note 5)	270,437	519,391
Intangible assets (Note 6)	-	459
Future income tax benefits (Note 18)	6,454,904	6,243,875
Goodwill (Note 7)	9,914,350	9,914,350
	35,138,251	40,535,463
Liabilities		
Current liabilities		
Line of credit and bank overdraft (Note 8)	1,007,767	1,353,312
Accounts payable and accrued liabilities (Note 9)	6,823,643	9,955,342
Current portion of deferred revenue	5,670,932	7,432,210
	13,502,342	18,740,864
Deferred revenue	649,267	710,269
	14,151,609	19,451,133
Shareholders' equity		
Share capital (Note 10)	54,433,709	54,433,709
Warrants (Note 11)	42,000	186,367
Contributed surplus (Note 12)	4,578,470	4,231,539
Deficit	(37,064,598)	(36,965,836)
Accumulated other comprehensive loss	(1,002,939)	(801,449)
	20,986,642	21,084,330
	35,138,251	40,535,463

Commitments (Note 17)

Subsequent Event (Note 21)

Approved by the Directors

(Signed) John Hardy

John Hardy, Director

(Signed) Fraser Atkinson

Fraser Atkinson, Director

Versatile Systems Inc.

Consolidated statements of operations and deficit Years ended June 30, 2011 and 2010

(Expressed in U.S. dollars)

	2011	2010
	\$	\$
Sales	45,903,472	44,188,021
Cost of sales	35,774,094	34,151,520
	10,129,378	10,036,501
Expenses		
Selling and marketing	4,659,897	5,969,542
General and administrative	3,702,160	4,058,864
Research and development	960,399	856,787
Non-recurring expenses	492,950	358,811
Stock-based compensation	202,564	93,102
Foreign exchange gain	(787)	(9,181)
	10,017,183	11,327,925
	112,195	(1,291,424)
Amortization of capital assets	225,227	258,742
Amortization of intangible assets	-	332,214
Interest expense	16,426	32,239
Goodwill impairment	-	63,309
Loss (gain) on sale of investments	4,610	(4,952)
Loss before income taxes	(134,068)	(1,972,976)
Current income tax expense	-	(756)
Future income tax benefit	35,306	737,111
Net loss	(98,762)	(1,236,621)
Deficit, beginning of year	(36,965,836)	(35,729,215)
Deficit, end of year	(37,064,598)	(36,965,836)
Loss per share (basic and diluted)	(0.00)	(0.01)
Weighted average number of common shares outstanding, basic and diluted	157,285,643	137,839,068

Versatile Systems Inc.

Consolidated statements of comprehensive loss

Years ended June 30, 2011 and 2010

(Expressed in U.S. dollars)

	2011	2010
	\$	\$
Net loss	(98,762)	(1,236,621)
Other comprehensive loss		
Net change in fair value of available-for-sale investments	(201,490)	(519,670)
Comprehensive loss for the year	(300,252)	(1,756,291)
Accumulated other comprehensive loss, beginning of year	(801,449)	(281,779)
Other comprehensive loss for the year	(201,490)	(519,670)
Accumulated other comprehensive loss, end of year	(1,002,939)	(801,449)

Versatile Systems Inc.

Consolidated statements of cash flows

Years ended June 30, 2011 and 2010

(Expressed in U.S. dollars)

	2011	2010
	\$	\$
Operating activities		
Net loss	(98,762)	(1,236,621)
Items not involving cash		
Amortization of capital and intangible assets	256,075	665,091
Stock-based compensation	202,564	93,102
Goodwill impairment	-	63,309
Loss (gain) on sale of investments and capital assets	4,610	(4,952)
Unrealized foreign exchange gain	(9,532)	(6,978)
Future income tax benefit	(35,306)	(737,111)
Cash flow used in operations before other items	319,649	(1,164,160)
Net change in non-cash operating balance sheet items (Note 20)	(418,517)	(1,538,546)
	(98,868)	(2,702,706)
Investing activities		
Purchase of investment in Equus	(309,556)	(2,722,713)
Proceeds from disposition of capital assets	76,968	57,253
Purchase of capital assets	(82,379)	(99,606)
	(314,967)	(2,765,066)
Financing activities		
Proceeds from issuance of shares	-	3,876,257
Share issue costs	-	(26,291)
(Repayment of) proceeds from line of credit	(345,545)	1,353,312
	(345,545)	5,203,278
Decrease in cash and cash equivalents	(759,380)	(264,494)
Cash and cash equivalents, beginning of year	1,738,036	2,002,530
Cash and cash equivalents, end of year	978,656	1,738,036

Supplemental cash flow information (Note 20)

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

1. Nature of operations

Versatile Systems Inc. ("Versatile-Canada" or the "Company"), which was continued from the Yukon Territories to British Columbia, is primarily engaged in software development and sales of computer software, hardware and system integration services related to wired and wireless mobile business solutions through its wholly-owned subsidiaries, Versatile Acquisition Corporation ("VAC"), Perfect Order, Inc. ("POI"), Versatile Systems, Inc. ("VSI"), Versatile Mobile Systems, Inc. ("VMS-US"), Mobiquity Investments Limited ("MIL"), Versatile Mobile Systems (Europe) Ltd. ("VMS-Europe") and Sagent Solutions. The wholly-owned subsidiaries, Versatile Investments Limited, 596327 B.C. Ltd. and EvolutionB Information Inc. ("EvolutionB"), are inactive.

2. Significant accounting policies

(a) Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and all its wholly-owned subsidiaries. All intercompany balances and transactions are eliminated upon consolidation.

All amounts are expressed in U.S. dollars, unless otherwise stated.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less. Interest earned during the year is recognized in the statement of operations.

(c) Inventory

Inventory consists of kiosk hardware, handheld devices and peripherals used in sales force automation systems. Inventory is valued at the lower of cost and net realizable value, determined on a first-in, first-out basis.

(d) Deferred service contract costs

Deferred service contract costs are amortized on a straight-line basis over the life of the contracts, which range from three months to three years. These deferred amounts relate to third party maintenance costs for third party equipment installed at customer sites and sales commission costs, which have been paid for in advance.

(e) Research and development

Research costs are charged to operations when they are incurred. Development costs are charged to operations in the period incurred unless the Company can demonstrate that a development project meets certain criteria for capitalization and amortization under Canadian generally accepted accounting principles. The Company has not capitalized any development costs during 2010 or 2011.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

2. Significant accounting policies (continued)

(f) *Capital assets*

The Company records capital assets at acquisition cost. The capital assets are amortized using the straight-line method at the following rates:

Automobiles	20% per annum
Computer and office equipment	20% - 33-1/3% per annum
Computer software	33-1/3% per annum
Demonstration equipment	50% per annum
Tenant improvements	Straight-line over remaining term of lease

(g) *Goodwill and intangible assets*

Goodwill represents the excess of the purchase price of an acquired business over the fair values of the identifiable net assets acquired.

Intangible assets acquired, either individually or with a group of assets, are initially recognized and measured at cost. Intangible assets acquired in a business combination that meet the specified criteria for recognition, apart from goodwill, are initially recognized and measured at fair value. Intangible assets with finite lives are amortized over their estimated useful lives using the straight-line method at the following rates:

Purchased technology	33-1/3% per annum
Customers - Perfect Order	20% per annum
Intellectual property	66% per annum
Licences	25% per annum

The amortization method and estimated useful lives of intangible assets are reviewed annually. In the case of Sagent Solutions the estimated useful life was reduced from 60 months to 30 months.

Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of a reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is only required when the carrying amount of the reporting unit exceeds its fair value, in which case the implied fair value of a reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of operations before extraordinary items and discontinued operations.

At June 30, 2010 the Company recorded a charge of \$63,309 related to the impairment of goodwill from its acquisition of Sagent Solutions.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

2. Significant accounting policies (continued)

(h) *Income taxes*

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities and are measured using substantively enacted tax rates expected to be in effect when the differences are expected to be reversed. A valuation allowance is recorded against any future tax asset to the extent that it is not more likely than not that the future income tax asset will be realized.

(i) *Foreign currency translation*

The U.S. dollar is the reporting and functional currency for the Company.

The functional currency of all self-sustaining subsidiaries is the U.S. dollar.

The Company employs the temporal method of translation for its integrated operations. Under this method, monetary assets and liabilities denominated in a currency other than the recording entity's functional currency are translated at the year-end rates and all other assets and liabilities are translated at applicable historical exchange rates. Revenue and expense items are translated at the rate of exchange in effect at the date the transactions are recognized in income, with the exception of amortization which is translated at the historical rate for the associated asset. Realized exchange gains and losses and currency translation adjustments are included in the statement of operations.

(j) *Financial instruments*

The Company's classification and measurement basis of its financial instruments are as follows:

Instrument	Classification	Measurement basis
Cash and cash equivalents	Held for trading	Fair value
Investment in Equus	Available for sale	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Line of credit and bank overdraft	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost

Changes in fair value of instruments classified as held for trading are recorded in the statement of operations. Changes in fair value of instruments classified as available for sale are recorded in other comprehensive income unless the decline in fair value is considered other than temporary, in which case it is recorded in the statement of operations. All amounts carried at amortized cost are calculated using the effective interest rate method.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

2. Significant accounting policies (continued)

(j) *Financial instruments (continued)*

Available-for-sale securities are reviewed periodically for possible other-than-temporary impairment and more frequently when economic or market concerns warrant such evaluation. The review includes an analysis of the facts and circumstances of the investment including the severity of loss, the financial position and near term prospects of the investment, the length of time the fair value has been below cost, management's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value and management's market view and outlook.

The Company classifies and discloses 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 has 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.

(k) *Revenue recognition*

Revenue on sales of hardware products is recognized when delivered to the customer. The Company recognizes revenue from the sale of software products on delivery of the product or performance of the services if persuasive evidence of an agreement with the customer exists, the price is fixed and determinable, collection is probable, and there are no ongoing obligations of the Company to provide future services.

Revenue from projects which include significant modification or customization of software is recognized using the percentage of completion method of accounting, whereby revenue and profit in the period are based on the ratio of costs incurred to total estimated costs of the project. Costs include all direct costs and certain indirect costs related to the projects. A provision is made for the entire amount of future estimated losses, if any, for contracts in progress. Revenue from professional services is recognized on a percentage of completion basis. Maintenance revenue is recognized over the term of the related agreement on a straight-line basis. Deferred revenues represent amounts invoiced in excess of revenues recognized.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

2. Significant accounting policies (continued)

(k) *Revenue recognition (continued)*

The Company also sells products and services containing multiple elements, which may include a combination of the above. These revenues are recognized in accordance with EIC 142, *Revenue Arrangements with Multiple Elements*. For sales involving multiple elements, the Company determines if the elements within the arrangement can be separated amongst its different elements, using guidance under Canadian generally accepted accounting principles; that is, (i) the product or service has value to the customer on a standalone basis; (ii) objective, reliable and verifiable evidence of fair value exists; and (iii) the undelivered elements are not essential to the functionality of the delivered elements. Under this guideline, the Company recognizes revenue for each element based on relative fair values.

(l) *Warranty costs*

Warranty costs that are not otherwise covered by suppliers are accrued upon the recognition of the related revenue, based on the Company's best estimate, with reference to past experience.

(m) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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. Significant estimates are used in determining, but are not limited to, the assessment of the carrying values of allowances for unrecoverable accounts receivable and long-lived assets, the valuation of stock-based compensation, warrants, accrued warranty costs, going concern, and future income tax assets. Actual results could differ from those estimates.

(n) *Stock-based compensation*

The Company has an employee stock option plan ("Option Plan"). The Company records the estimated fair value of the grants as compensation expense over the benefit period with a corresponding credit to contributed surplus. The Company recognizes the stock-based compensation expense for all employee and non-employee stock-based compensation transactions using a fair value based method. The fair value of stock-based payments to non-employees is periodically re-measured until the earlier of: completion of the services provided there is a firm commitment to complete the services or the vesting date and any change therein is recognized over the service period. For stock options exercised, consideration paid plus the fair value of options previously recorded as contributed surplus are recorded as share capital on exercise of the options.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

2. Significant accounting policies (continued)

(o) *Earnings (loss) per share*

The Company presents the basic (loss) earnings per share data for its common shares, calculated by dividing the (loss) earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The diluted earnings per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding for the year, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period. During the year ended June 30, 2011 and 2010 all outstanding stock options and warrants were anti-dilutive.

(p) *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.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

2. Significant accounting policies (continued)

(p) *Adoption of future accounting standards (continued)*

Convergence with International Financial Reporting Standards

Canadian public companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for financial years beginning on or after January 1, 2011 ("Changeover Date"). Effective July 1, 2011, the Company will adopt IFRS as the basis for preparing its consolidated financial statements. The Company will issue its financial results for the quarter ended September 30, 2011 prepared on an IFRS basis and provide comparative data on an IFRS basis as required.

3. Investment in Equus

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.

	% of ownership	Cost \$	Fair value \$	Cumulative losses \$
Equus Total Return, Inc.	9.1%	3,032,269	2,311,109	(721,160)

4. Accounts receivable

Included in accounts receivable is an amount receivable from customers with monthly payment terms over a three year period. The total amount of the receivable is carried at amortized cost of \$660,647 (2010 - \$513,405), of which \$258,905 (2010 - \$247,793) has been classified as current.

5. Capital assets

	2011		
	Cost \$	Accumulated amortization \$	Net book value \$
Automobiles	10,005	9,338	667
Computer and office equipment	1,766,547	1,523,033	243,514
Kiosk equipment	80,907	59,009	21,898
Computer software	628,486	628,486	-
Tenant improvements	115,117	110,759	4,358
	2,601,062	2,330,625	270,437

As at June 30, 2011, equipment held for leasing purposes with a cost of \$80,907 (2010 - \$245,931) and accumulated amortization of \$59,009 (2010 - \$135,008) is included in capital assets.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

5. Capital assets (continued)

			2010
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Automobiles	10,005	7,170	2,835
Computer and office equipment	1,698,326	1,304,454	393,872
Kiosk equipment	245,931	135,008	110,923
Computer software	628,486	628,313	173
Tenant improvements	115,056	103,468	11,588
	2,697,804	2,178,413	519,391

6. Intangible assets

The carrying amounts of the amortized intangible assets as at June 30, 2011 and 2010 are as follows:

			2011
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Customers	1,813,509	1,813,509	-
Purchased technology	1,211,969	1,211,969	-
Intellectual property	451,250	451,250	-
Other intangibles	1,400	1,400	-
Licences	522,402	522,402	-
	4,000,530	4,000,530	-

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

6. Intangible assets (continued)

	2010		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Customers	1,813,509	1,813,509	-
Purchased technology	1,211,969	1,211,969	-
Intellectual property	451,250	451,250	-
Other intangibles	1,400	941	459
Licences	522,402	522,402	-
	4,000,530	4,000,071	459

7. Goodwill

The carrying amounts of the goodwill for the years ended June 30, 2011 and 2010 are as follows:

	2011		
	Cost	Accumulated amortization and impairment	Net book value
	\$	\$	\$
Goodwill			
Perfect Order	7,195,380	-	7,195,380
Sagent Solutions	63,309	63,309	-
VMS-US	10,875,882	8,156,912	2,718,970
	18,134,571	8,220,221	9,914,350

	2010		
	Cost	Accumulated amortization and impairment	Net book value
	\$	\$	\$
Goodwill			
Perfect Order	7,195,380	-	7,195,380
Sagent Solutions	63,309	63,309	-
VMS-US	10,875,882	8,156,912	2,718,970
	18,134,571	8,220,221	9,914,350

No amortization for goodwill has been recorded for 2011 or 2010. During the current fiscal year ended June 30, 2011, the Company performed an assessment of the carrying value of the goodwill recorded in connection with the acquisition of VMS-US and Perfect Order and determined that there was no impairment of the value. At June 30, 2010 the Company recorded a charge of \$63,309 related to the impairment of goodwill from its acquisition of Sagent Solutions.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

8. Line of credit and bank overdraft

The Company has a credit line facility for up to \$5,800,000 from a U.S. based financial institution. The line of credit bears interest at the State of New York prime rate of lending and is secured with a first charge on the assets of VAC, VSI and POI. As at June 30, 2011, the Company had drawings of \$1,007,767 (2010 - \$1,353,312) under its line of credit and had a bank overdraft of \$Nil (2010 - \$Nil). During the current fiscal year, the interest on the line of credit amounted to \$27,887 (2010 - \$30,425).

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 invoice date. At June 30, 2011, the financial covenants for these facilities included requirements for debt coverage of 1.2 and minimum tangible net worth of \$4,800,000, which the Company met.

Subsequent to year-end, this credit facility was replaced by a new facility as described in Note 21.

9. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is \$1,471,435 and \$1,209,736 (2010 - \$3,246,018) owing to two major suppliers.

10. Share capital

Authorized

Unlimited common shares without par value

Issued and outstanding

	Number of shares	Amount \$
Balance, June 30, 2009	118,285,643	50,583,743
Shares issued for cash, net of share issue costs	39,000,000	3,849,966
Balance, June 30, 2010 and 2011	157,285,643	54,433,709

During the 2010 fiscal year, the Company issued 39,000,000 common shares for cash consideration of \$3,876,257 and incurred share issue costs of \$26,291.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

11. Warrants

The following warrants were outstanding:

Expiry date	Exercise price	Number of warrants				Amount
		Balance, June 30, 2010	Expired	Issued	Balance, June 30, 2011	
	Cdn\$					\$
March 31, 2011	0.5690	1,411,808	(1,411,808)	-	-	-
April 6, 2011	0.6636	583,770	(583,770)	-	-	-
January 22, 2012	0.3000	600,000	-	-	600,000	42,000
		2,595,578	(1,995,578)	-	600,000	42,000

Expiry date	Exercise price	Number of warrants				Amount
		Balance, June 30, 2009	Expired	Issued	Balance, June 30, 2010	
	Cdn\$					\$
March 31, 2011	0.5690	1,411,808	-	-	1,411,808	63,309
April 6, 2011	0.6636	583,770	-	-	583,770	81,058
January 22, 2012	0.3000	600,000	-	-	600,000	42,000
		2,595,578	-	-	2,595,578	186,367

During the current fiscal year, 1,995,578 warrants expired.

12. Contributed surplus

Contributed surplus consists of the following:

	\$
Balance, June 30, 2009	4,138,437
Stock-based compensation	93,102
Balance, June 30, 2010	4,231,539
Expired warrants	144,367
Stock-based compensation	202,564
Balance, June 30, 2011	4,578,470

During the year ended June 30, 2011, 1,995,578 warrants expired, resulting in their ascribed value of \$144,367 being recorded as contributed surplus.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

13. Stock options

Under the Company's stock option plan, the Company is authorized to grant stock options to employees, officers and directors to purchase up to 15,728,564 (2010 - 15,728,564) common shares. The exercise price of each option is not less than the market price of the Company's stock on the date of grant, and the exercise period is to a maximum term of five years. Options granted under this plan have vesting periods of up to three years.

A summary of stock option activity for the years ended June 30, 2011 and 2010 is presented below:

	Number of options	average exercise price Cdn\$	Number of options	average exercise price Cdn\$
Outstanding, beginning of year	7,901,000	0.45	9,160,000	0.42
Granted	7,122,100	0.11	-	-
Exercised	-	-	-	-
Forfeited	(950,000)	0.11	(123,300)	0.27
Expired	(3,125,000)	0.94	(1,135,700)	0.28
Outstanding, end of year	10,948,100	0.12	7,901,000	0.45
Exercisable, end of year	10,506,433	0.12	7,376,000	0.47

The following table summarizes information about stock options issued and exercisable at June 30, 2011:

Exercise price Cdn\$	Number of options outstanding	Options outstanding	Options exercisable
		Weighted average remaining contractual life (years)	Number of options exercisable
0.30	560,000	0.56	560,000
0.10	3,766,000	1.97	3,691,000
0.11	6,622,100	4.65	6,255,433
	10,948,100		10,506,433

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

13. Stock options (continued)

During the current fiscal year, 7,122,100 stock options were granted at an exercise price above the market price of a common share. The options granted had an exercise price of Cdn\$0.11 and a weighted average fair value of Cdn\$0.033.

For the year ended June 30, 2011, the Company has recognized \$202,564 (2010 - \$93,102) in stock-based compensation for stock options granted to employees. There were no options granted to non-employees during the year ended June 30, 2011. The estimated fair value of each stock option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	2010
Expected dividend yield	0.0%	0.0%
Expected volatility	84.6%	74.8%
Risk-free interest rate	3.0%	3.0%
Expected average option term (years)	1.1	1.1

14. Financial risk management and financial instruments

This section provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk and interest rate risk, and how the Company manages those risks.

(a) Credit risk exposure

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. Concentration of credit risk, with respect to accounts receivable is considered to be limited due to the credit quality of the customers comprising the Company's customer base. The Company performs ongoing credit evaluations of its customers' financial condition to determine the need for an allowance for doubtful accounts. The Company has not experienced significant credit losses to date. The maximum amount of credit risk exposure is limited to the carrying amounts of these balances in the consolidated financial statements.

Accounts receivable, excluding the non-current receivable described in Note 4, as at June 30 are summarized as follows:

	2011	2010
	\$	\$
Current	6,237,810	8,050,717
Overdue		
31 - 60 days	650,446	760,147
61 - 90 days	380,249	1,704,648
Over 90 days	(77,832)	121,039
Less allowance for doubtful accounts	(56,345)	(55,845)
	7,134,328	10,580,706

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

14. Financial risk management and financial instruments (continued)

(a) Credit risk exposure (continued)

In establishing the appropriate provisions for accounts receivables, assumptions are made with respect to the future collectibility of the receivables. Assumptions are based on an individual assessment of a customer's credit quality as well as subjective factors and trends. The following table reflects the movement in the allowance for doubtful accounts:

	2011	2010
	\$	\$
Opening balance	55,845	66,268
Change in the provision	500	2,000
Less receivable write-offs	-	(12,423)
Closing balance	56,345	55,845

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's objective of managing liquidity risk is to maintain sufficient resources to pursue its growth strategy. The Company manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions outside of the ordinary course of business including proposals on major investments. The Company's financial liabilities are comprised primarily of accounts payable. The Company generates cash from its operations and maintains available credit facilities to support the liquidity requirements of the business.

(c) Foreign currency risk

The Company's functional and reporting currency is the U.S. dollar. Foreign currency risk is primarily related to the Company's operations in Canada and the UK. The Company's UK operations are conducted primarily in pound Sterling and the Canadian operations in Canadian dollars. The operations of the wholly-owned subsidiaries are consolidated in U.S. dollars. For the Company's foreign currency transactions, fluctuations in the respective exchange rates relative to the U.S. dollar will create volatility in the Company's cash flows and the reported amounts of sales, cost of goods sold and general and administrative expenses on a period-to-period basis and compared with operating budgets and forecasts. Additional earnings variability arises from the translation of monetary assets and liabilities denominated in foreign currencies at the rates of exchange at each balance sheet date, the impact of which is reported as a foreign exchange gain or loss in the determination of net income (loss) for the period. The Company's sales are primarily transacted in U.S. dollars with some sales in pound Sterling. A 1% change in the Canadian dollar exchange rate would not have a material impact on the net income.

(d) Interest rate risk exposure

Financial instruments that potentially subject the Company to interest rate risk consist primarily of its line of credit.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

14. Financial risk management and financial instruments (continued)

(e) *Fair values of financial instruments*

The carrying value of accounts receivable, line of credit and bank overdraft, and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term nature of these instruments.

The fair value of both cash and cash equivalents and the investment in Equus which is publicly traded is determined by the quoted market values for the investment, a Level 1 valuation methodology (Note 2(j)).

15. Capital disclosures

The Company's objective of managing capital is to ensure sufficient liquidity to pursue its growth strategy. The Company's capital is composed of cash and cash equivalents, line of credit and bank overdraft, and shareholders' equity. At June 30, 2011 the Company also had unused credit facilities. The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures. The Company currently funds these requirements out of the cash flow from operations. The Company monitors its cash flow continuously and is subject to covenants related to its credit facilities. The Company has complied with all covenant requirements without exception.

16. Related party transactions

During the current year, the Company granted incentive stock options to directors to acquire 5,622,100 common shares of the Company with an exercise price of Cdn\$0.11 per share.

During the year ended June 30, 2010, the Company issued 39,000,000 common shares to a director of the Company and to a Company controlled by another director of the Company. These shares were issued at fair value.

17. Commitments

As at June 30, 2011, future minimum lease payments for premises and equipment are as follows:

2012	475,736
2013	319,966
2014	320,114
2015	314,186
2016	234,525
Thereafter	140,172
	<hr/>
	1,804,699

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

18. Income taxes

The Company has tax losses and deductions available to offset future taxable income in various jurisdictions for the following approximate amounts:

	\$
Canada	671,335
United Kingdom	10,270,911
United States	17,689,555

Tax losses and deductions which may be taken in the United States expire as follows:

Tax deductions which may be taken from 2012 to 2020	4,886,146
2021	941,118
2022	1,025,046
2023	477,803
2024	1,045,650
2025	1,265,169
2026	472,150
2028	148,117
2029	2,947,390
2030	3,275,109
2031	1,205,857
	<hr/> 17,689,555

VMS-US, VAC, VSI and POI file a consolidated US federal tax return. As these companies have been profitable, the Company expects that the net operating losses will be utilized in full. Consequently, there is no valuation allowance for these companies. During the year, the Company recorded \$35,306 for the income tax benefit related to the recognition of future income tax assets. To the extent that the Company expects to generate sufficient profits in the following fiscal period, and utilize the tax benefit of the losses, that portion has been classified as current. Each company files separate State tax returns so these losses are not available to VAC, POI or VSI on the various state tax returns.

The tax deductions which may be taken from 2012 to 2020 relate to the 338 election for the acquisition of Perfect Order in 2005 for the excess values of the assets over their book values primarily representing goodwill.

The tax losses in Canada expire in 2012 and 2021. The tax losses in the United Kingdom can be carried forward indefinitely subject to the tax authority's approval. A full valuation allowance has been provided against the potential tax benefits of the United Kingdom losses.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

18. Income taxes (continued)

The tax effects of temporary differences that give rise to significant portions of future income tax assets and future income tax liabilities as at June 30, 2011 and 2010 at the statutory enacted rates are as follows:

	2011	2010
	\$	\$
Future income taxes		
Future income tax assets		
Tax losses and deductions	9,185,997	8,929,483
Capital assets	969,879	1,063,918
Share issuance costs	4,609	115,754
Other	194,619	338,000
Future income tax assets	10,355,104	10,447,155
Valuation allowance	(2,598,297)	(2,725,655)
Net future income tax asset	7,756,807	7,721,500
Future income tax liabilities		
Goodwill	(755,651)	(755,650)
Net future income tax asset	7,001,156	6,965,850
Less: Current portion	(546,252)	(721,975)
Non-current portion of net future income tax	6,454,904	6,243,875

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. As management believes there is sufficient uncertainty regarding the realization of future tax assets relating to the UK losses a full valuation allowance has been provided.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

18. Income taxes (continued)

The following table sets forth a reconciliation of the effective tax rate to the statutory rates:

	2011	2010
	\$	\$
Tax at the statutory tax rate of 27.5% (2010 - 29.25%)	(36,869)	(557,095)
Foreign tax rate differential	29,592	(304,729)
Effect of foreign exchange losses	-	8,839
True-up to income tax returns	135,131	119,558
Permanent differences	8,582	12,140
Expiry of previously recognized benefit of prior year losses	141,299	174,368
Use of prior year losses	-	(291,137)
Change in tax rates	(169,958)	242,443
Changes in valuation allowance	(127,357)	(140,742)
Other	(15,726)	-
	(35,306)	(736,355)
Future income tax recovery	35,306	737,111
Current income tax expense	-	(756)
	35,306	736,355

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

19. Segmented information

The operating segments of the Company have been aggregated into one reportable segment based on their similar economic characteristics. The Company's only reportable segment is the development and sales of computer software, hardware and system integration services.

The Company's capital assets, intangible assets and goodwill and sales by geographic area are as follows:

	2011		2010	
	Capital assets, intangible assets and goodwill	Revenue	Capital assets, intangible assets and goodwill	Revenue
	\$	\$	\$	\$
U.S. companies				
United States	10,176,014	44,583,359	10,431,566	43,217,692
Canada	-	361,848	-	276,039
Netherlands	-	31,115	-	45,183
France	-	90,664	-	158,162
United Kingdom	-	138,019	-	64,511
Australia	-	65,636	-	-
Other	-	75,337	-	74,924
UK and Canadian companies				
United Kingdom	3,588	557,494	2,634	351,510
Canada	5,185	-	-	-
	10,184,787	45,903,472	10,434,200	44,188,021

Revenue is attributable to the geographic area dependent on the location of the customer.

During the year ended June 30, 2011, the Company did not have any customers with revenues exceeding 10% of sales. During the year ended June 30, 2010 the Company earned revenue of \$5,808,432 from one customer representing 13.1% of revenue.

During the year ended June 30, 2011, the Company purchased products and services for \$11,680,313 (2010 - \$14,973,237) from a vendor, representing 32.7% (2010 - 43.9%) of the cost of sales.

Versatile Systems Inc.

Notes to the consolidated financial statements

June 30, 2011 and 2010

(Expressed in U.S. dollars)

20. Supplemental cash flow information

	2011	2010
	\$	\$
Cash paid for interest	31,314	37,027
Cash paid for taxes	2,820	3,843

The changes in the non-cash operating balance sheet items are as follows:

	2011	2010
	\$	\$
Accounts receivable	3,446,378	(2,172,613)
Current portion of deferred contract costs	1,324,114	(47,687)
Work in progress	-	65,134
Prepaid expenses	8,931	49,716
Inventory	(130,158)	(315,720)
Long-term receivable	(136,130)	(152,831)
Long-term portion of deferred contract costs	18,656	204,880
Accounts payable and accrued liabilities	(3,128,028)	1,420,658
Current portion of deferred revenue	(1,761,278)	(322,941)
Long-term portion of deferred revenue	(61,002)	(267,142)
	(418,517)	(1,538,546)

The cash and cash equivalents consists almost entirely of cash.

21. Subsequent Event

On August 10, 2011 the Company entered into an agreement with a U.S. financial institution for a credit line facility for up to \$4,500,000 from a U.S. based financial institution. The line of credit is secured with a first charge on the assets of VSI. The amount that may be advanced under the credit line is limited to 80% of eligible accounts receivable of VSI less than 90 days from invoice date. The financial covenants for these facilities included requirements for debt coverage of 1.25 and debt to tangible net worth of 1.75.