
Versatile Systems Inc.
Consolidated Financial Statements
September 30, 2011

(unaudited - prepared by management)

Consolidated Statements of Financial Position

Consolidated Statements of Operations and Comprehensive Loss

Consolidated Statements of Changes in Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

The interim consolidated financial statements as at and for the period ended September 30, 2011 have not been reviewed or audited by the Company's auditor.

Versatile Systems Inc.

Consolidated Statements of Financial Position

(Unaudited - Prepared by Management)

Expressed in U.S. dollars

September 30, 2011 June 30, 2011 July 1, 2010

ASSETS

Current Assets

Cash and cash equivalents	\$ 563,999	\$ 978,656	1,738,036
Investment in Equus (note 3)	1,810,369	2,311,109	2,203,043
Accounts receivable	5,535,268	7,134,328	10,580,706
Prepaid expenses	253,291	228,062	236,993
Inventory	1,910,121	1,849,635	1,719,477
	<u>10,073,048</u>	<u>12,501,790</u>	<u>16,478,255</u>

Long-term accounts receivable

312,339 401,742 265,612

Capital Assets

221,587 270,437 519,391

Intangible assets (note 4)

5,123,645 5,048,776 6,392,005

Deferred income tax assets (note 9)

7,136,316 7,001,156 6,965,850

Goodwill

9,914,350 9,914,350 9,914,350

\$ 32,781,285 \$ 35,138,251 40,535,463

LIABILITIES

Current Liabilities

Line of credit (note 5)	\$ 724,981	1,007,767	1,353,312
Accounts payable and accrued liabilities	5,878,754	6,823,643	9,955,342
Current portion of deferred revenue	5,449,475	5,670,932	7,432,210
	<u>12,053,210</u>	<u>13,502,342</u>	<u>18,740,864</u>

Deferred Revenue

597,622 649,267 710,269

12,650,832 14,151,609 19,451,133

SHAREHOLDERS' EQUITY

Share Capital (note 6)	54,433,709	54,433,709	54,433,709
Warrants (note 7)	42,000	42,000	186,367
Equity Reserve	4,582,940	4,578,470	4,231,539
Deficit	(37,424,509)	(37,064,598)	(36,965,836)
Accumulated other comprehensive loss	(1,503,687)	(1,002,939)	(801,449)
	<u>20,130,453</u>	<u>20,986,642</u>	<u>21,084,330</u>

\$ 32,781,285 \$ 35,138,251 40,535,463

Approved on behalf of the Board on December 13, 2011:

DIRECTOR: *John Hardy*

DIRECTOR: *Fraser Atkinson*

See Notes to Consolidated Financial Statements

Versatile Systems Inc.

Consolidated Statements of Operations and Comprehensive Loss

(Unaudited - Prepared by Management)

Expressed in U.S. dollars

	Three months ended September 30	
	2011	2010
SALES	\$ 9,039,212	\$ 9,219,050
COST OF SALES	7,248,834	7,115,223
	<u>1,790,378</u>	<u>2,103,827</u>
EXPENSES		
Selling and marketing	1,019,931	1,008,567
General and administrative	961,127	890,450
Research and development	244,110	192,268
Non recurring expenses	-	20,668
Stock-based compensation	4,470	-
Foreign exchange loss	824	2,333
	<u>2,230,462</u>	<u>2,114,286</u>
OPERATING LOSS	(440,084)	(10,459)
Amortization of capital assets	48,419	71,161
Interest expense	5,223	14,970
LOSS BEFORE INCOME TAXES	(493,726)	(96,590)
Current income tax expense	(1,345)	(995)
Deferred income tax benefit	135,160	8,271
NET LOSS	<u>(359,911)</u>	<u>(89,314)</u>
LOSS PER SHARE (basic and diluted)	<u>(\$0.00)</u>	<u>(\$0.00)</u>
Net loss	(359,911)	(89,314)
Other comprehensive loss		
Net change in fair value of available-for-sale investments	(500,748)	(246,609)
Total comprehensive loss	<u>(860,659)</u>	<u>(335,923)</u>

See Notes to Consolidated Financial Statements

Versatile Systems Inc.

Consolidated Statements of Changes in Shareholders' Equity

(Unaudited - Prepared by Management)

Expressed in U.S. dollars

	Share Capital	Warrants	Equity Reserve	Deficit	Accumulated other comprehensive loss	Total
Balance, July 1, 2010	54,433,709	186,367	4,231,539	(36,965,836)	(801,449)	21,084,330
Net loss				(89,314)		(89,314)
Net change in fair value of available-for-sale investments					(246,609)	(246,609)
Balance, September 30, 2010	<u>54,433,709</u>	<u>186,367</u>	<u>4,231,539</u>	<u>(37,055,150)</u>	<u>(1,048,058)</u>	<u>20,748,407</u>
Balance, June 30, 2011	54,433,709	42,000	4,578,470	(37,064,598)	(1,002,939)	20,986,642
Net loss				(359,911)		(359,911)
Net change in fair value of available-for-sale investments					(500,748)	(500,748)
Share-based compensation expense	-	-	4,470	-	-	4,470
Balance, September 30, 2011	<u>54,433,709</u>	<u>42,000</u>	<u>4,582,940</u>	<u>(37,424,509)</u>	<u>(1,503,687)</u>	<u>20,130,453</u>

See Notes to Consolidated Financial Statements

Versatile Systems Inc.

Consolidated Statements of Cash Flows

(Unaudited - Prepared by Management)

Expressed in U.S. dollars

Three months ended September 30

	2011	2010
OPERATING ACTIVITIES		
Net loss	\$ (359,911)	\$ (89,314)
Items not affecting cash		
Amortization of capital assets	52,509	74,252
Stock-based compensation	4,470	-
Unrealized foreign exchange gain	-	495
Deferred income taxes	(135,160)	(8,271)
Cash flow used in operations before other items	(438,092)	(22,838)
Net change in non-cash working capital (note 11)	386,958	173,107
	(51,134)	150,269
INVESTING ACTIVITIES		
Proceeds from disposition of capital assets	1,341	73,094
Intangible assets - contract cost additions	(1,355,780)	(1,629,194)
Amortization of intangible assets	1,280,911	1,604,148
Purchase of capital assets	(7,209)	(39,825)
	(80,737)	8,223
FINANCING ACTIVITIES		
Repayment of line of credit	(282,786)	(433,031)
	(282,786)	(433,031)
Decrease in cash and cash equivalents	(414,657)	(274,539)
Cash and cash equivalents, beginning of period	978,656	1,738,036
Cash and cash equivalents, end of period	<u>\$ 563,999</u>	<u>\$ 1,463,497</u>

Supplemental cash flow information (note 11)

See Notes to Consolidated Financial Statements

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended September 30, 2011

(Unaudited - Prepared by Management)

1. Consolidated financial statement presentation:

The Company previously prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as set out in Part V of the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and required publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011, with early adoption permitted. Accordingly, these unaudited interim consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). In these unaudited interim consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the Company's adoption of IFRS.

As these financial statements represent the Company's initial presentation of its financial position, financial performance and cash flows in accordance with IFRS, they have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, and IFRS 1, "First-Time Adoption of International Financial Reporting Standards" ("IFRS 1"). Subject to certain transition elections disclosed in Note 16, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position as at July 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 11 discloses the impact of the transition to IFRS on the Company's reported financial position and results from operations, including the nature and effect of significant changes in accounting policies from those used in its Canadian GAAP consolidated financial statements for the three months ended September 30, 2010 and the year ended June 30, 2011.

The results of operations for the period ended September 30, 2011 are not necessarily indicative of the results for the full year ending June 30, 2012.

2. Significant Accounting Policies

(a) Principles of consolidation

These consolidated financial statements are prepared in accordance with IFRS 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.

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended September 30, 2011

(Unaudited - Prepared by Management)

(e) Capital assets

The Company records capital assets at acquisition cost. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation period and are treated as changes in accounting estimates. The capital assets are amortized using the straight-line method over the following estimated useful lives:

Automobiles	20% per annum
Computer and office	20% - 33-1/3% per annum
Computer software	33-1/3% per annum
Demonstration	50% per annum
Tenant improvements	Over the remaining term of lease

(f) 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.

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 IFRS. The Company has not capitalized any development costs during 2010 or 2011.

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. All of the Company's intangible assets have finite lives and are amortized over their estimated useful lives using the straight-line method at the following rates:

Deferred contract costs	Average contract term
Purchased technology	3 years
Customers - Perfect	5 years
Intellectual property	18 months
Licences	4 years

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.

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended September 30, 2011

(Unaudited - Prepared by Management)

(g) Income taxes

Deferred income tax is recognized using the liability method, based on temporary differences between consolidated financial statement carrying amounts of assets and liabilities and their respective income tax bases. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The amount of deferred income tax recognized is based on the expected manner and timing of realization or settlement of the carrying amount of assets and liabilities.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets are reviewed at each date of the statement of financial position and amended to the extent that it is no longer probable that the related tax benefit will be realized.

(h) Foreign currency translation

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

The functional currency of all of the Company's subsidiaries is the U.S. dollar. The consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Company.

Foreign currency transactions, including U.S. dollar, Canadian dollar and Great Britain pound operating transactions, are translated to U.S. dollars at the average exchange rate for the month. Monetary assets and liabilities are translated at period-end exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss in the period in which they arise.

(i) 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 change 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.

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.

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended September 30, 2011

(Unaudited - Prepared by Management)

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.

(j) 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.

Post-contract support, or maintenance, revenue associated with certain of the Company's products is recognized on a straight-line basis over the maintenance term, which is generally within the next fiscal year. Revenue not recognized in profit or loss under this policy is classified as deferred revenue in the statement of financial position when amounts have been billed in advance.

(k) 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.

(l) Sales and Marketing

The primary components of sales and marketing are employee compensation, employee benefits, office and communications, travel, and professional services.

(m) Research and development

The primary components of research and development expenses are employee compensation, employee benefits, professional services, communications, and travel.

(n) General and administration

The primary components of general and administration are premise costs, employee compensation, employee benefits, communications, travel, public company administration, insurance, and professional services.

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended September 30, 2011

(Unaudited - Prepared by Management)

(o) 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 equity reserve. 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 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 equity reserve are recorded as share capital on exercise of the options.

(p) Significant accounting estimates

The preparation of these interim consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. The interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

(q) Adoption of Future Accounting Standards

The IASB has issued the following standards, which have not yet been adopted by the Company. Each of the new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its interim consolidated financial statements or whether to early adopt any of the new requirements.

The following is a description of the new standards:

IFRS 9 – "Financial Instruments" ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 Financial Instruments – Recognition and measurement for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss).

The Company has not yet assessed the impact of the adoption of IFRS 9 on its results from operations or its financial position.

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended September 30, 2011

(Unaudited - Prepared by Management)

IFRS 10 – “Consolidation” (“IFRS 10”)

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 “Consolidation—Special Purpose Entities” and parts of IAS 27, “Consolidated and Separate Financial Statements”. The Company does not believe the adoption of IFRS 10 will materially affect its results from operations or its financial position.

IFRS 11 – “Joint Arrangements” (“IFRS 11”)

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation, the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, “Interests in Joint Ventures”, and SIC-13, “Jointly Controlled Entities—Non-monetary Contributions by Ventures”. The Company does not believe the adoption of IFRS 10 will materially affect its results from operations or its financial position.

IFRS 12 – “Disclosure of Interests in Other Entities” (“IFRS 12”)

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities. The Company does not believe the adoption of IFRS 10 will materially affect its results from operations or its financial position.

IFRS 13 – “Fair Value Measurement” (“IFRS 13”)

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and, in many cases, does not reflect a clear measurement basis or consistent disclosures. The Company has not yet assessed the impact of the adoption of IFRS 13 on its results from operations or its financial position.

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 September 30, 2011 was \$1.88 so the unrealized loss for the quarter was \$500,748 and the cumulative unrealized loss was \$1,211,900.

4. Intangible Assets

Intangible assets consists of deferred service contract costs, which is comprised of third party maintenance costs and deferred sales commissions.

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended September 30, 2011

(Unaudited - Prepared by Management)

5. Line of Credit

The Company has a credit line facility for up to \$4,500,000, which is limited to 80% of eligible accounts receivable of a U.S. subsidiary from a U.S. based financial institution. At September 30, 2011 this amounted to \$3,548,623. The line of credit bears interest at the prime rate of lending as published in the Wall Street Journal plus one-half percent and is secured with a first charge on the assets of the U.S. subsidiary.

6. Share Capital

Authorized

Unlimited common shares without par value

Issued and outstanding

Issued and outstanding - June 30, 2011

Issued during the period

Balance - September 30, 2011

	Number of shares	Amount
Issued and outstanding - June 30, 2011	157,285,643	\$ 54,433,709
Issued during the period	-	-
Balance - September 30, 2011	157,285,643	\$ 54,433,709

7. Warrants

Issued and outstanding:

Expiry date	Exercise Price CDN\$	Number of Warrants	Cost
January 22, 2012	\$ 0.30	600,000	\$ 42,000
Balance - September 30, 2011		600,000	\$ 42,000

The effect of any adjustment to the carrying value of the warrants under IFRS would not be material to these financial statements.

8. Stock Options

	Number of Stock Options	Weighted average exercise price CDN\$
Balance - June 30, 2011	10,948,100	\$ 0.12
Granted during the period	-	-
Forfeited during the period	-	-
Expired during the period	-	-
Balance - September 30, 2011	10,948,100	\$ 0.12
Exerciseable - September 30, 2011	10,506,433	\$ 0.12

The estimated fair value of the stock options granted during the year ended June 30, 2011 was estimated on the date of the grant using the Black-Scholes option pricing model with an expected dividend yield of Nil, expected volatility of 84.6%, risk free interest rate of 3.0% and an expected average option term of 1.1 years.

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended September 30, 2011

(Unaudited - Prepared by Management)

9. Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, deferred 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 deferred tax asset to the extent that it is probably that taxable profit will be available against which the deductible temporary difference can be utilized.

	<u>September 30, 2011</u>	<u>June 30, 2011</u>
Deferred income tax assets		
Tax losses and deductions	\$ 9,322,507	\$ 9,185,997
Capital assets	964,355	969,879
Share issuance costs	4,278	4,609
Other	240,346	194,619
	<hr/>	<hr/>
Deferred income tax assets	10,531,486	10,355,104
Valuation allowance	(2,639,519)	(2,598,297)
	<hr/>	<hr/>
Net deferred income tax asset	7,891,967	7,756,807
Deferred income tax liabilities - Goodwill	(755,651)	(755,651)
	<hr/>	<hr/>
Deferred income tax asset	<u>7,136,316</u>	<u>7,001,156</u>

During the three months ended September 30, 2011 the Company recorded a deferred income tax benefit of \$135,160 related to the recognition of deferred income tax assets compared to a deferred income tax benefit of \$8,271 for the comparable period last year.

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended September 30, 2011

(Unaudited - Prepared by Management)

10. Segmented Information

The Company's only reportable segment is the development and sales of computer software, hardware and system integration services.

The Company's assets and sales by geographic area are as follows:

	September 30 2011	June 30 2011	Three months ended September 30	
			2011	2010
	Capital assets, intangible assets and goodwill	Capital assets, intangible assets and goodwill	Revenue	Revenue
<i>U.S. companies</i>				
United States	\$ 15,253,802	\$ 15,224,790	\$ 8,296,498	\$ 8,983,332
Canada	-	-	327,363	31,931
Netherlands	-	-	8,256	6,775
France	-	-	30,389	24,418
United Kingdom	-	-	149,122	36,987
Australia	-	-	17,413	27,803
Other	-	-	6,109	6,955
<i>UK and Canadian companies</i>				
United Kingdom	968	3,588	229,731	100,849
Canada	4,812	5,185	-	-
	<u>15,259,582</u>	<u>15,233,563</u>	<u>9,039,212</u>	<u>9,219,050</u>

During the three months ended September 30, 2011 the Company generated revenue of \$1,234,533 from American Eagle representing 13.7% of the revenue for that period. During the three months ended September 30, 2010 the Company generated revenue of \$1,181,577 from Comcast Cable representing 12.8% of the revenue for that period.

During the three months ended September 30, 2011 the Company purchased products and services from two vendors for \$2,082,484 and \$1,129,619 respectively (2010 - \$3,616,381) representing 28.7% and 15.6% (2010 - 50.8%) of the cost of sales.

11. Supplemental cash flow information

	2011	2010
Cash paid for interest expense	\$ 12,374	\$ 12,064
Cash paid for income taxes	1,423	1,419
<i>The net changes in the non-cash working capital:</i>		
Accounts receivable	1,599,060	3,898,946
Prepaid expenses	(25,229)	(77,209)
Inventory	(60,486)	41,607
Long-term accounts receivables	89,403	38,102
Accounts payable and accrued liabilities	(942,688)	(3,821,833)
Deferred revenue	(273,102)	93,494
	<u>386,958</u>	<u>173,107</u>

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended September 30, 2011

(Unaudited - Prepared by Management)

12. Adoption of IFRS

Overview

The effect of the Company's transition to IFRS, as described in note 2, is summarized as follows: (a) transition elections; (b) reconciliation of equity and comprehensive income (loss) as previously reported under Canadian GAAP to IFRS; (c) explanatory notes; (d) adjustments to the consolidated interim statements of cash flows; and (e) additional IFRS information and disclosures for the year ended June 30, 2011.

Transition elections

The adoption of IFRS requires the application of IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of the Company's first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Company has applied the following transitional exceptions and exemptions to full retrospective application of IFRS in its preparation of an opening IFRS consolidated statement of financial position at July 1, 2010 (the Company's "Transition Date"):

- i) To apply IFRS 2, "Share-based Payments", retrospectively only to awards that were issued after November 7, 2002 and where any portion of said awards had not vested by the Transition Date; and
- ii) To apply IFRS 3, "Business Combinations", prospectively from the Transition Date and, therefore, not restate business combinations that took place prior to the Transition Date. As such, Canadian GAAP balances relating to business combinations entered into before the Transition Date, including acquired intangible assets, have been carried forward without adjustment.

The Company's Transition Date IFRS consolidated statement of financial position is included as comparative information in the consolidated interim statements of financial position in these interim consolidated financial statements.

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended September 30, 2011

(Unaudited - Prepared by Management)

12. Adoption of IFRS (continued)

Reconciliation of Statement of Financial Position at July 1, 2010

	Notes	Canadian GAAP	IFRS Reclassifications	IFRS
ASSETS				
Current Assets				
Cash and cash equivalents		1,738,036		1,738,036
Investment in Equus		2,203,043		2,203,043
Accounts receivable		10,580,706		10,580,706
Current portion of deferred contract costs	(a)	5,793,180	(5,793,180)	-
Prepaid expenses		236,993		236,993
Inventory		1,719,477		1,719,477
Future income tax benefits	(b)	721,975	(721,975)	-
		<u>22,993,410</u>	<u>(6,515,155)</u>	<u>16,478,255</u>
Long-term accounts receivable		265,612		265,612
Deferred contract costs	(a)	598,366	(598,366)	-
Capital Assets		519,391		519,391
Intangible assets	(a)	459	6,391,546	6,392,005
Future income tax benefits	(b)	6,243,875	721,975	6,965,850
Goodwill		9,914,350		9,914,350
		<u>40,535,463</u>	<u>-</u>	<u>40,535,463</u>
LIABILITIES				
Current Liabilities				
Line of credit		1,353,312		1,353,312
Accounts payable and accrued liabilities		9,955,342		9,955,342
Current portion of deferred revenue		7,432,210		7,432,210
		<u>18,740,864</u>		<u>18,740,864</u>
Deferred Revenue		710,269		710,269
		<u>19,451,133</u>		<u>19,451,133</u>
SHAREHOLDERS' EQUITY				
Share Capital		54,433,709		54,433,709
Warrants	(c)	186,367		186,367
Contributed surplus	(d)	4,231,539		4,231,539
Deficit		(36,965,836)		(36,965,836)
Accumulated other comprehensive loss		(801,449)		(801,449)
		<u>21,084,330</u>		<u>21,084,330</u>
		<u>40,535,463</u>		<u>40,535,463</u>

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended September 30, 2011

(Unaudited - Prepared by Management)

12. Adoption of IFRS (continued)

Reconciliation of Statement of Financial Position at June 30, 2011

	Notes	Canadian GAAP	IFRS Reclassifications	IFRS
ASSETS				
Current Assets				
Cash and cash equivalents		\$ 978,656		\$ 978,656
Investment in Equus		2,311,109		2,311,109
Accounts receivable		7,134,328		7,134,328
Current portion of deferred contract costs	(a)	4,469,066	(4,469,066)	-
Prepaid expenses		228,062		228,062
Inventory		1,849,635		1,849,635
Future income tax benefits	(b)	546,252	(546,252)	-
		<u>17,517,108</u>	<u>(5,015,318)</u>	<u>12,501,790</u>
Long-term accounts receivable		401,742		401,742
Deferred contract costs	(a)	579,710	(579,710)	-
Capital Assets		270,437		270,437
Intangible assets	(a)	-	5,048,776	5,048,776
Future income tax benefits	(b)	6,454,904	546,252	7,001,156
Goodwill		9,914,350		9,914,350
		<u>35,138,251</u>	<u>-</u>	<u>35,138,251</u>
LIABILITIES				
Current Liabilities				
Line of credit		1,007,767		1,007,767
Accounts payable and accrued liabilities		6,823,643		6,823,643
Current portion of deferred revenue		5,670,932		5,670,932
		<u>13,502,342</u>		<u>13,502,342</u>
Deferred Revenue		649,267		649,267
		<u>14,151,609</u>		<u>14,151,609</u>
SHAREHOLDERS' EQUITY				
Share Capital		54,433,709		54,433,709
Warrants	(c)	42,000		42,000
Contributed surplus	(d)	4,578,470		4,578,470
Deficit		(37,064,598)		(37,064,598)
Accumulated other comprehensive loss		(1,002,939)		(1,002,939)
		<u>20,986,642</u>		<u>20,986,642</u>
		<u>35,138,251</u>		<u>35,138,251</u>

Versatile Systems Inc.

Notes to Consolidated Financial Statements

For the period ended September 30, 2011

(Unaudited - Prepared by Management)

12. Adoption of IFRS (continued)

Explanatory notes

(a) Intangible assets. Under Canadian GAAP, the Company deferred and amortized deferred contract costs, consisting of third party maintenance costs and deferred sales commissions. These costs were split into their current and long-term portions on the statement of financial position as deferred contract costs. Under IFRS, these costs continue to be deferred; however, they are now presented as a portion of intangible assets. On the Transition Date, \$5,793,180 was reclassified from current deferred contract costs and \$598,366 was reclassified from long-term deferred contract costs to intangible assets. Amortization of those assets remained the same under IFRS as it was under Canadian GAAP.

(b) Deferred income taxes. Under Canadian GAAP, deferred income taxes (future income taxes) were classified as current or long term based on the underlying classification of the item in the statement of financial position on which it was calculated. Under IFRS, deferred income taxes are all long-term. At the Transition Date, the Company reclassified \$721,975 from current to long-term deferred tax assets.

(c) Warrants. Under Canadian GAAP the Warrants were valued at the time that they were issued. IFRS requires that these be revalued at the end of each reporting period. On the Transition Date, the change was not material so no adjustment was made.

(d) Share-based compensation. Under Canadian GAAP, each stock option grant was treated as a single arrangement and compensation expense was determined at the time of grant and amortized over the vesting period, generally 48 months, on a straight-line basis. IFRS requires a separate calculation of compensation expense for awards that vest in instalments. Under Canadian GAAP, forfeitures of the share-based compensation awards could be accounted for in the period in which the forfeitures occurred. Under IFRS, compensation expense differs from Canadian GAAP based on the changing fair values used for each instalment, the application of the forfeiture rate and the timing of recognizing compensation expense. Generally, this results in accelerated expense recognition under IFRS. On the Transition Date, the amount of the additional compensation expense was not material so no adjustment was made.