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**Versatile Systems Inc.**  
**Management Discussion and Analysis**  
**Three months ended September 30, 2011**

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The following management discussion and analysis of the consolidated results of operations and financial condition of Versatile Systems Inc. (the “Company” or “Versatile”) is made as of December 13, 2011 on the unaudited interim consolidated financial statements and notes for the three months ended September 30, 2011.

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and are stated in United States dollars unless otherwise specified. The unaudited interim consolidated financial statements and management discussion and analysis have been reviewed and approved by the Company’s Audit Committee as directed by the Company’s Board of Directors.

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

### **Forward-Looking Statements**

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

### **Non-GAAP Disclosure**

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

In addition, the Company has included information concerning its cash flow from operations before the net change in non-cash operating balance sheet items as it may be used by certain investors as a measure of the Company's financial performance.

## **Overview**

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

## **Adoption of International Financial Reporting Standards (IFRS)**

The Company adopted IFRS during the current reporting period. The effect of the Company's transition to IFRS, as described in the notes to the interim consolidated financial statements as at and for the period ended September 30, 2011, 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"):

- 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
- 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 following provides a reconciliation of the Company's working capital under IFRS and under the previous Canadian GAAP

	30-Sep-11	30-Jun-11	01-Jul-11
Current Assets - IFRS	10,073,048	12,501,790	16,478,255
Add back deferred contract costs	4,588,704	4,469,066	5,793,180
Add back deferred income taxes	539,701	546,252	721,975
Current Assets - Canadian GAAP	15,201,453	17,517,108	22,993,410
Current Liabilities - IFRS and Canadian GAAP	- 12,053,210	- 13,502,342	- 18,740,864
Working Capital - Canadian GAAP	3,148,243	4,014,766	4,252,546

Reconciliation of Statement of Financial Position at July 1, 2010

	Notes	Canadian GAAP	IFRS Reclassifications	IFRS
<b>ASSETS</b>				
<b>Current Assets</b>				
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)	-
		22,993,410	(6,515,155)	16,478,255
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
		40,535,463	-	40,535,463
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
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
		18,740,864		18,740,864
Deferred Revenue		710,269		710,269
		19,451,133		19,451,133
<b>SHAREHOLDERS' EQUITY</b>				
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)
		21,084,330		21,084,330
		40,535,463		40,535,463

*Reconciliation of Statement of Financial Position at June 30, 2011*

	Notes	Canadian GAAP	IFRS Reclassifications	IFRS
<b>ASSETS</b>				
<b>Current Assets</b>				
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>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
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>
<b>SHAREHOLDERS' EQUITY</b>				
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>

**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.

### **Highlights of the First quarter**

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

- Revenue for the three months ended September 30, 2011 was \$9,039,212 compared to \$9,219,050 for the same quarter last year, a decrease of \$179,838;
- The cash flow used in operations amounted to \$51,134 for the three months ended September 30, 2011 compared to cash flow generated from operations of \$150,269 for the same period last year;
- The research and development expense for the quarter amounted to \$244,110 compared to \$192,268 for the same quarter last year;
- In order to save costs, the Company relocated to a smaller facility in Mechanicsburg, PA incurring a one-time cost of \$65,040. This move will lead to a reduction in premise costs of approximately \$200,000 per annum;
- Deferred revenue at September 30, 2011 was \$6,047,097 (of which \$5,449,475 is expected to be recognized in the next four quarters) compared to \$6,320,199 at June 30, 2011;
- 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; and
- The Company generated revenue of \$1,234,534 from American Eagle, \$672,263 from Motorola, \$530,643 from Comcast, \$400,701 from Thermo Fisher, \$399,989 from Eastman Kodak, and \$304,193 from a school district.

## **Review of the first quarter**

Revenue for the three months ended September 30, 2011 was \$9,039,212 compared to \$9,219,050 for the same quarter last year, a decrease of \$179,838. During the current quarter the Company generated revenue of \$1,234,534 from American Eagle, \$672,263 from Motorola, \$530,643 from Comcast, \$400,701 from Thermo Fisher, \$399,989 from Eastman Kodak, and \$304,193 from a school district. The Company also had repeat business from its existing customer base consisting of various retailers, universities and government organizations.

The EBITDA loss for the quarter was \$440,084 compared to an EBITDA loss of \$10,459 for the same quarter last year.

During the quarter the Company had a deferred income tax benefit of \$135,160 compared to a deferred income tax benefit of \$8,271 for the same quarter last year.

The Net Loss for the quarter amounted to \$359,911 (\$0.00 per share) compared to a Net Loss of \$89,314 (\$0.01 per share) for the same period last year.

### *Cost of sales*

Cost of sales for the quarter amounted to \$7,248,834 resulting in a gross profit of \$1,790,378 or 19.8% of sales as compared to \$7,115,223 resulting in a gross profit of \$2,103,827 or 22.8% of sales for the same quarter last year. The lower gross profit was due to several larger orders with lower margins.

At September 30, 2011 the Company had an inventory provision of \$173,508 (June 30, 2011 - \$168,364).

### *General and administrative*

General and administrative expenses for the quarter amounted to \$961,127 compared to \$890,450 for the same quarter last year. The increase of \$70,677 relates to the moving costs of \$65,040 that were incurred during the quarter for the move of the premises in Mechanicsburg, PA. As a percentage of sales the general and administrative expenses were 10.6% in the quarter compared to 9.7% in the same quarter last year.

### *Technology Investment*

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

Research and development expense for the quarter amounted to \$244,110 compared to \$192,268 for the same quarter last year. The significant expense item in this category is salary and benefit

costs. As a percentage of sales the research and development expenses are 2.7% in the quarter compared to 2.1% in the same quarter last year.

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

For the *Mobiquity Route*<sup>TM</sup> these included the following:

- Developing return tracking, which allows users to record totes and quantity of boxes for credit transactions on pick up items;
- Improving the management console;
- Improving the mobile application; and
- Developing a Bluetooth wand scanner to allow the device to be used with the route accounting software.

For Self-service, these included the following:

- Developing a new operating system for the Versatile Self-Service platform providing improved performance, stability and hardware/application support;
- Developing enhanced text formatting and font control, localized content and security controls for the Versatile Smart Sign interactive digital signage platform; and
- Improving video performance and stability for the Versatile Smart Sign platform.

For the *Mobiquity Transaction Engine 3.0*<sup>TM</sup> these included the following:

- Implementing a more flexible reporting engine that allows users to quickly create and customize reports;
- Enhancing the audit of data capture and display and providing instant feedback to authorized users of changes to data; and
- Implementing additional alert capture functionality to meet specific requirements from security departments.

During the current period, the Company incurred \$129,294 for research and development activities related to *Mobiquity Route*<sup>TM</sup> and related mobile software products.

During the current period, the Company incurred \$72,362 for research and development activities related to *Mobiquity Transaction Engine 3.0*<sup>TM</sup>, *Mobiquity Kiosk*<sup>TM</sup> and Autostore.

#### *Selling and marketing expenses*

Selling and marketing expense for the quarter amounted to \$1,019,931 compared to \$1,008,567 for the same quarter last year, an increase of \$11,364. Selling and marketing expenses includes salaries, commissions, advertising, trade shows and promotion costs to support the various sales initiatives. As a percentage of sales the selling and marketing expenses are 11.2% in the quarter compared to 10.9% in the same quarter last year. There were no significant changes in the selling and marketing activities during the quarter.

### *Deferred Income Tax Assets*

For the three months ended September 30, 2011 the Company recorded a deferred income tax benefit of \$135,160 compared to a deferred income tax benefit of \$8,271 for the same quarter last year.

In accordance with IFRS all of the deferred income tax assets have been classified as long term.

### *Amortization*

The amortization of capital assets for the quarter amounted to \$52,509 (2010 - \$74,252), which includes \$4,090 of amortization classified with the cost of sales for Kiosks deployed pursuant to various subscription agreements.

### *Foreign Exchange Loss*

The foreign exchange loss for the quarter amounted to \$824 compared to a foreign exchange loss of \$2,333 for the same quarter last year. The loss was primarily due to the fluctuation in the U.S. dollar against the Canadian dollar in the quarter.

## **Summary of Quarterly Results**

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

	Q2 2010 Dec 09	Q3 2010 Mar 10	Q4 2010 Jun 10	Q1 2011 Sept 10	Q2 2011 Dec 10	Q3 2011 Mar 11	Q4 2011 Jun 11	Q1 2012 Sept 11
Revenue	11,259,292	9,795,481	11,517,023	9,219,050	15,460,033	11,044,100	10,180,289	9,039,212
Cost of Sales	8,599,212	7,493,702	9,097,685	7,115,223	12,491,896	8,368,414	7,798,561	7,248,834
Gross Profit	2,660,080	2,301,779	2,419,338	2,103,827	2,968,137	2,675,686	2,381,728	1,790,378
Expenses:								
General and administrative (including foreign exchange)	1,010,991	1,007,964	1,141,838	892,783	1,018,146	851,603	938,841	961,951
Non recurring expenses	28,219	525,656	(214,924)	20,668	37,503	235,486	199,293	-
Research and Development	247,084	185,289	177,744	192,268	278,909	278,226	210,996	244,110
Selling and Marketing	1,619,075	1,490,778	1,497,988	1,008,567	1,327,878	1,136,728	1,186,724	1,019,931
Stock-based compensation	23,242	23,585	23,887	-	-	60,906	141,658	4,470
	2,928,611	3,233,272	2,626,533	2,114,286	2,662,436	2,562,949	2,677,512	2,230,462
Earnings (loss) before interest taxes and amortization	(268,531)	(931,493)	(207,195)	(10,459)	305,701	112,737	(295,784)	(440,084)
Amortization	(152,962)	(152,631)	(128,065)	(71,161)	(48,108)	(54,485)	(51,473)	(48,419)
Interest	(10,441)	(7,781)	(10,248)	(14,970)	(666)	1,826	(2,616)	(5,223)
Goodwill impairment	-	-	(63,309)	-	-	-	-	-
Gain (loss) on sale	4,952	-	-	-	(2,575)	(625)	(1,410)	-
Income taxes	346,321	275,055	116,482	7,276	(75,387)	(26,615)	130,032	133,815
Net Earnings (loss)	<u>(80,661)</u>	<u>(816,850)</u>	<u>(292,335)</u>	<u>(89,314)</u>	<u>178,965</u>	<u>32,838</u>	<u>(221,251)</u>	<u>(359,911)</u>
Per share, basic and diluted	(0.00)	(0.01)	(0.00)	(0.00)	0.00	0.00	(0.00)	(0.00)

The Company's revenues and earnings fluctuate from quarter to quarter. A number of factors can cause such fluctuations, including the timing of substantial orders, the timing of releases of

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

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

### **Financial position**

Cash and cash equivalents at September 30, 2011 was \$563,999 compared to \$978,656 at June 30, 2011.

As at September 30, 2011 the Company had a credit line facility of \$4,500,000, which was limited to 80% of eligible accounts receivable of the Company's subsidiary Versatile Systems, Inc. from a U.S. based financial institution. The line of credit bears interest at the prime rate of lending as published in the Wall Street Journal plus one-half percent and is secured with a first charge on the assets of Versatile Systems, Inc. At September 30, 2011 the amount drawn on the line of credit was \$724,981, a decrease of \$282,786 from the amount drawn at June 30, 2011 of \$1,007,767.

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 the invoice date. At September 30, 2011 this amounted to \$3,548,623.

The cash flow used in operations amounted to \$51,134 for the three months ended September 30, 2011 compared to cash flow generated from operations of \$150,269 for the same period last year.

### **Investment in Equus**

The Investment in Equus is held by the Company's wholly owned subsidiary, Mobiquity Investments Limited ("Mobiquity") and consists of 962,962 shares of Equus Total Return, Inc. which is a public company trading on the NYSE under the symbol EQS (the "Fund"). The share price as at September 30, 2011 was \$1.88 so the unrealized loss for the quarter was \$500,748 and the cumulative unrealized loss was \$1,211,900. The Company believes that the cumulative unrealized loss is temporary and is not a permanent impairment in the value of the Investment.

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

On November 11, 2010 Equus released its results for the third quarter of the 2010 fiscal year. The net asset value of Equus at September 30, 2010 was \$3.55 per share.

Between November 24, 2010 and December 21, 2010 Mobiquity purchased an additional 140,931 shares of Equus at a cost of \$309,556.

On March 18, 2011 Equus released its results as at and for the year ended December 31, 2010. The net asset value of Equus at December 31, 2010 was \$4.29 per share.

On June 2, 2011, Equus appointed Alessandro Benedetti the Fund's Executive Chairman and John Hardy the Chief Executive Officer.

On August 15, 2011 Equus released its results for the second quarter of the 2011 fiscal year. The net asset value of Equus at June 30, 2011 was \$3.92 per share.

On November 14, 2011 Equus released its results for the third quarter of the 2011 fiscal year. The net asset value of Equus at September 30, 2011 was \$3.69 per share.

### **Capital Expenditures**

During the three months ended September 30, 2011 the additions to capital assets amounted to \$7,209 (2010 – \$39,825). The decrease in the capital expenditures relate to the decline in the Kiosks that have been deployed under subscription agreements.

### **Share Capital**

As of December 13, 2011 the Company had 157,285,643 common shares issued and outstanding.

### **Stock Options**

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

	Number of shares	Weighted average exercise price CDN\$
Outstanding – June 30, 2011	10,948,100	0.12
Granted	-	
Forfeited	-	
Expired	-	
Outstanding – September 30, 2011	10,948,100	0.12

For the three months ended September 30, 2011 there was no activity with stock options.

### **Warrants**

The Company has 600,000 issued and outstanding warrants at September 30, 2011 with an exercise price of CDN \$0.30, which expire on January 22, 2012.

## **Off Balance Sheet Arrangements**

The Company has not entered into any off balance sheet arrangements other than standard office lease arrangements

## **Related Party Transactions**

During the current quarter, the Company paid consulting fees and salaries, which are included in the general and administration expense, of \$153,284 to three Directors and Officers of the Company (2010 - \$242,364 was paid to four Directors and Officers of the Company).

## **Risk Factors**

The securities of the Company should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in this Management Discussion & Analysis prior to making an investment in the Company. In addition to the other information presented in this Management Discussion & Analysis, the following risk factors should be given special consideration when evaluating an investment in the Company's securities.

### *Operating History*

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

### *History of Losses*

The Company had a history of losses up to September 30, 2005 and since that time has had varying results, but has an accumulated deficit of \$37,424,509 to September 30, 2011. Although the Company has decreased its operating expenses the Company cannot be assured that it can consistently maintain profitable operations.

### *No Certainty of Future Profitability*

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

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

#### *Competitive Market*

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

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

#### *Technological Change*

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

#### *Limited Sales and Support Infrastructure*

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

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

#### *Dependence on Business Alliances*

A key element of the Company's business strategy is the formation of corporate alliances with leading companies. The Company is currently investing and plans to continue to invest significant resources to develop these relationships. The Company believes that its success in penetrating new markets for its products will depend in part on its ability to maintain these relationships and to cultivate additional or alternative relationships. There can be no assurance that the Company will be able to develop additional corporate alliances with such companies, that existing relationships will continue or be successful in achieving their purposes or that such companies will not form competing arrangements.

#### *Dependence on Key Personnel*

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

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

#### *Management of Growth*

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

### *Integration of Newly Acquired Businesses or Technology*

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

### *Potential Fluctuations in Quarterly Financial Results*

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

### *International Sales*

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

### *Currency Exchange Rate Risk*

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

### *Dependence on Proprietary Technology and Limited Patent and Trademark Protection*

The Company relies on a combination of copyright and trademark laws, trade secret, confidentiality procedures and contractual provisions to protect its proprietary rights.

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

#### *Risk of Third Party Claims for Infringement*

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

#### *Lengthy Sales and Implementation Cycle*

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

### *Risk of System Defects*

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

### *Requirements for New Capital*

As a growing business, the Company typically needs more capital than it has available to it or can expect to generate through the sale of its products. In the past, the Company has had to raise, by way of debt and equity financing, considerable funds to meet its capital needs. There is no guarantee that the Company will be able to continue to raise funds needed for its business. Failure to raise the necessary funds in a timely fashion will limit the Company's growth.

## **Critical Accounting Estimates**

### *General*

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

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

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

### *Accounts Receivable*

#### Allowance for doubtful accounts

The Company considers the business area that gives rise to the accounts receivable, maintains procedures for granting credit terms on sales transactions and performs specific account identification when determining its allowance for doubtful accounts. This accounting estimate is in respect of the accounts receivable line item on the Company's consolidated balance sheet comprising approximately 18% of total assets as at September 30, 2011. In the event the future results were to adversely differ from management's best estimate of the allowance for doubtful

accounts, the Company could experience a bad debt charge in the future. Such a bad debt charge would not result in a cash outflow.

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

### *Inventories*

#### Provision for inventory obsolescence

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

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

This accounting estimate is in respect of the inventory line item on the Company's consolidated balance sheet comprising approximately 6% of total assets as at September 30, 2011. If the provision for inventory obsolescence was inadequate, the Company could experience a charge to direct cost of sales in the future. Such an inventory obsolescence charge would not result in a cash outflow.

### *Long-Lived Assets*

The accounting estimates for long-lived assets that include capital assets, deferred service contracts, purchased technology, intellectual property, customer contracts and licenses, in aggregate, represent approximately 16% of the Company's total assets as at September 30, 2011, presented in its consolidated balance sheet. If the Company's estimated useful lives of assets were different as a result of changes in facts and circumstances, the Company could experience increased or decreased charges for amortization and the Company could potentially experience future material impairment charges in respect of its recovery of long-lived assets.

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

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

#### *Deferred Income Tax Benefits*

The amount recorded for Deferred Income Tax Assets represents approximately 22% of the Company's assets as at September 30, 2011, presented in its consolidated financial position. If the Company determines that the valuation allowances relating to the loss carry forwards and tax deductions should be increased, the Company could experience a reduction in the recorded future income tax benefits.

The Company determined that because VSI, POI, VAC and VMS-US were expected to generate sufficient profits that it was probable that the losses would be fully utilized and the deductions attributable to these companies would be fully utilized. Consequently, there is no valuation allowance for these companies. The difference between the value of these tax benefits less the valuation allowance is the amount of the deferred income tax asset that is recorded by the Company.

#### *Goodwill*

The accounting estimates for goodwill represents approximately 30% of the Company's total assets as at September 30, 2011, presented in its consolidated balance sheet. If the future were to adversely differ from management's best estimate to recover the Company's investments in its goodwill, the Company could potentially experience future material impairment losses in respect of its goodwill. The impairment losses would be recognized and presented as a separate line item in the consolidated statements of loss and deficit. Impairment losses to goodwill would not result in a cash outflow.

### **Changes in accounting policies**

Adoption of 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.

#### *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.

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