Consolidated financial statements of

Versatile Systems Inc.

June 30, 2010 and 2009

Versatile Systems Inc.

June 30, 2010 and 2009

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Auditors' Report

To the Shareholders of
Versatile Systems Inc.

We have audited the consolidated balance sheets of Versatile Systems Inc. (the "Company") as at June 30, 2010 and 2009 and the consolidated statements of operations and deficit, comprehensive loss and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2010 and 2009 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) Deloitte & Touche LLP

Chartered Accountants
September 8, 2010

Versatile Systems Inc.

Consolidated balance sheets
as at June 30, 2010 and 2009

(Expressed in U.S. dollars)

	2010	2009
	$	$
Assets		
Current assets		
Cash and cash equivalents	**1,738,036**	2,002,530
Investment in Equus (Note 3)	**2,203,043**	-
Accounts receivable (Notes 4 and 14 (a))	**10,580,706**	8,408,093
Current portion of deferred contract costs	**5,793,180**	5,745,493
Prepaid expenses	**236,993**	286,709
Inventory	**1,719,477**	1,468,891
Future income tax benefits (Note 18)	**721,975**	944,843
	22,993,410	18,856,559
Long-term accounts receivable (Note 4)	**265,612**	112,781
Deferred contract costs	**598,366**	803,246
Capital assets (Note 5)	**519,391**	794,008
Intangible assets (Note 6)	**459**	332,953
Future income tax benefits (Note 18)	**6,243,875**	5,283,896
Goodwill (Note 7)	**9,914,350**	9,977,659
	40,535,463	36,161,102
Liabilities		
Current liabilities		
Line of credit and bank overdraft (Note 8)	**1,353,312**	-
Accounts payable and accrued liabilities (Note 9)	**9,955,342**	8,530,987
Current portion of deferred revenue	**7,432,210**	7,755,151
	18,740,864	16,286,138
Deferred revenue	**710,269**	977,411
	19,451,133	17,263,549
Shareholders' equity		
Share capital (Note 10)	**54,433,709**	50,583,743
Warrants (Note 11)	**186,367**	186,367
Contributed surplus (Note 12)	**4,231,539**	4,138,437
Deficit	**(36,965,836)**	(35,729,215)
Accumulated other comprehensive loss	**(801,449)**	(281,779)
	21,084,330	18,897,553
	40,535,463	36,161,102

Commitments (Note 17)

Approved by the Directors

(Signed) John Hardy

John Hardy, Director

(Signed) Fraser Atkinson

Fraser Atkinson, Director

Versatile Systems Inc.
Consolidated statements of operations and deficit
years ended June 30, 2010 and 2009
(Expressed in U.S. dollars)

	2010	2009
	$	$
Sales	**44,188,021**	49,118,091
Cost of sales	**34,151,520**	37,006,572
	10,036,501	12,111,519
Expenses		
Selling and marketing	**5,969,542**	6,688,676
General and administrative	**4,058,864**	4,649,659
Research and development	**856,787**	1,281,109
Non-recurring expenses	**358,811**	421,512
Stock-based compensation	**93,102**	21,411
Foreign exchange gain	**(9,181)**	(258,306)
	11,327,925	12,804,061
Loss before interest, taxes, amortization and other	**(1,291,424)**	(692,542)
Amortization of capital assets	**258,742**	282,296
Amortization of intangible assets	**332,214**	362,698
Interest expense	**32,239**	33,314
Goodwill impairment	**63,309**	-
Gain on sale of investments	**(4,952)**	-
Loss before income taxes	**(1,972,976)**	(1,370,850)
Current income tax expense	**(756)**	(144,855)
Future income tax benefit	**737,111**	849,586
Net loss	**(1,236,621)**	(666,119)
Deficit, beginning of year	**(35,729,215)**	(35,063,096)
Deficit, end of year	**(36,965,836)**	(35,729,215)
Loss per share (basic and diluted)	**(0.01)**	(0.01)
Weighted average number of common shares outstanding, basic and diluted	**137,839,068**	118,676,969

Versatile Systems Inc.
Consolidated statements of comprehensive loss
years ended June 30, 2010 and 2009
(Expressed in U.S. dollars)

	2010	2009
	$	$
Net loss	**(1,236,621)**	(666,119)
Other comprehensive loss		
Net change in fair value of available-for-sale investments	**(519,670)**	-
Foreign currency translation adjustments	**-**	(224,565)
Comprehensive loss	**(1,756,291)**	(890,684)

See accompanying notes to the consolidated financial statements.

Versatile Systems Inc.

Consolidated statements of cash flows
years ended June 30, 2010 and 2009
(Expressed in U.S. dollars)

	2010	2009
	$	$
Operating activities		
Net loss	**(1,236,621)**	(666,119)
Items not involving cash		
Amortization of capital and intangible assets	**665,091**	704,833
Stock-based compensation	**93,102**	21,411
Goodwill impairment	**63,309**	-
(Gain) loss on sale of investments and capital assets	**(4,952)**	234
Unrealized foreign exchange gain	**(6,978)**	(194,359)
Future income tax benefit	**(737,111)**	(849,586)
Cash flow used in operations before other items	**(1,164,160)**	(983,586)
Net change in non-cash operating balance sheet items (Note 20)	**(1,538,546)**	2,051,380
	(2,702,706)	1,067,794
Investing activities		
Purchase of investment in Equus	**(2,722,713)**	-
Proceeds from disposition of capital assets	**57,253**	1,820
Purchase of capital assets	**(99,606)**	(267,393)
	(2,765,066)	(265,573)
Financing activities		
Proceeds from issuance of shares	**3,876,257**	-
Share issue costs	**(26,291)**	-
Purchase of company shares	**-**	(24,379)
Proceeds from (repayment of) line of credit	**1,353,312**	(74,942)
Repayment of bank overdraft	**-**	(127,214)
Repayment of promissory notes	**-**	(40,000)
	5,203,278	(266,535)
Effect of foreign exchange rate on cash	**-**	(33,161)
(Decrease) increase in cash and cash equivalents	**(264,494)**	502,525
Cash and cash equivalents, beginning of year	**2,002,530**	1,500,005
Cash and cash equivalents, end of year	**1,738,036**	2,002,530

Supplemental cash flow information (Note 20)

1. Nature of operations

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

2. Significant accounting policies

(a) *Basis of presentation*

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and all its wholly-owned subsidiaries, VAC, POI, VSI, VMS-US, MIL, VMS-Europe, 596327 B.C. Ltd., EvolutionB, Sagent Solutions, Mobiquity Systems, Inc. and Versatile Investments Limited. All intercompany balances and transactions are eliminated upon consolidation.

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

(b) *Cash and cash equivalents*

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

(c) *Inventory*

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

(d) *Deferred service contract costs*

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

(e) *Research and development*

Research costs are charged to operations when they are incurred. Development costs are charged to operations in the period incurred unless the Company can demonstrate that a development project meets certain criteria for capitalization and amortization under Canadian generally accepted accounting principles. The Company has not capitalized any development costs during 2009 or 2010.

(Expressed in U.S. dollars)

2. Significant accounting policies (continued)

(f) Capital assets

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

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

(g) Goodwill and intangible assets

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

(h) Income taxes

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

The Company determined that because VSI, POI, VAC and VMS-US are expected to generate sufficient profits that it is more likely than not that the losses will be fully utilized and the deductions attributable to these companies will be fully utilized. Consequently, there is no valuation allowance for these companies. The difference between the value of these tax benefits less the valuation allowance is the amount of the future income tax asset that is recorded by the Company. During the year, the Company recorded $737,111 for the income tax benefit related to the recognition of future income tax assets. To the extent that the Company expects to generate sufficient profits in the following fiscal period, and utilize the tax benefit of the losses, that portion has been classified as current.

(i) Foreign currency translation

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

The functional currency of all self-sustaining subsidiaries is the U.S. dollar and the functional currency of the integrated UK subsidiary is the Pound Sterling.

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

(j) Financial Instruments

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

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

Changes in fair value of instruments classified as held for trading are recorded in the statement of operations. Changes in fair value of instruments classified as available for sale are recorded in other comprehensive income unless the 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.

2. Significant accounting policies (continued)

(j) Financial Instruments (continued)

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

(k) Revenue recognition

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

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

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

(l) Warranty costs

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

(m) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions, which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Significant estimates are used in determining, but are not limited to, the assessment of the carrying values of allowances for unrecoverable accounts receivable and long-lived assets, the valuation of stock-based compensation, warrants, accrued warranty costs and future income tax assets. Actual results could differ from those estimates.

2. Significant accounting policies (continued)

(n) Stock-based compensation

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

During the current fiscal year, the Company recognized $93,102 (2009 - $21,411) in compensation expense and additional contributed surplus for stock options granted to employees. A description of the Company's stock-based compensation plan is disclosed in Note 13.

(o) Adoption of new accounting standards in 2010

On July 1, 2009, the Company adopted the changes made by the Canadian Institute of Chartered Accountants ("CICA") to Handbook Section 3862, *Financial Instruments - Disclosures,* whereby an entity is required to classify and disclose the fair value *measureme*nts using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

- Level 1 - Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The required disclosures are included in Note 14 (d).

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

(Expressed in U.S. dollars)

2. Significant accounting policies (continued)

(p) *Adoption of future accounting standards*

In January 2009, the CICA issued Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards. Section 1582 is applicable for any business combinations with acquisition dates on or after July 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning July 1, 2011. Early adoption of this section is permitted. If the Company chooses to early adopt any one of these sections, the other two sections must also be adopted at the same time. The Company does not expect the adoption of these standards will have a material impact on its consolidated financial statements.

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

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

3. Investment in Equus

Investment in Equus consists of 822,031 shares of Equus Total Return, Inc. which is a public company trading on the NYSE under the symbol EQS.

	% of Ownership	Cost	Fair value	Cumulative losses
		$	$	$
Equus Total Return, Inc.	9.3%	2,722,713	2,203,043	(519,670)

4. Accounts receivable

Included in accounts receivable is an amount receivable from customers with monthly payment terms over a three year period. The total amount of the receivable is carried at amortized cost of $513,405 (2009 - $196,410), of which $247,793 (2009 - $83,629) has been classified as current.

(Expressed in U.S. dollars)

5. Capital assets

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

As at June 30, 2010, equipment held for leasing purposes with a cost of $245,931 (2009 - $249,355) and accumulated amortization of $135,008 (2009 - $60,873) is included in capital assets.

			2009
	Cost	Accumulated amortization	Net book value
	$	$	$
Automobiles	10,005	5,169	4,836
Computer and office equipment	2,610,605	2,041,144	569,461
Kiosk equipment	249,655	60,873	188,782
Demonstration equipment	104,339	104,339	-
Computer software	106,084	100,844	5,240
Tenant improvements	120,569	94,880	25,689
	3,201,257	2,407,249	794,008

6. Intangible assets

The carrying amounts of the amortized intangible assets as at June 30, 2010 and 2009 are as follows:

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

(Expressed in U.S. dollars)

6. Intangible assets (continued)

			2009
	Cost	Accumulated amortization	Net book value
	$	$	$
Customers	1,813,509	1,481,298	332,211
Purchased technology	1,211,969	1,211,969	-
Intellectual property	451,250	451,250	-
Other intangibles	3,791	3,314	742
Licences	522,402	522,402	-
	4,002,921	3,670,233	332,953

7. Goodwill

The carrying amounts of the goodwill for the years ended June 30, 2010 and 2009 are as follows:

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

			2009
	Cost	Accumulated amortization	Net book value
	$	$	$
Goodwill			
Perfect Order	7,195,380	-	7,195,380
Sagent Solutions	63,309	-	63,309
VMS-US	10,875,882	8,156,912	2,718,970
	18,134,571	8,156,912	9,977,659

No amortization for goodwill has been recorded for 2010 or 2009. During the current fiscal year ended June 30, 2010, the Company performed an assessment of the carrying value of the goodwill recorded in connection with the acquisition of VMS-US, Perfect Order and Sagent Solutions. At June 30, 2010 the Company recorded a charge of $63,309 related to the impairment of goodwill from its acquisition of Sagent Solutions.

(Expressed in U.S. dollars)

8. Line of credit and bank overdraft

The Company has a credit line facility for up to $5,800,000 from a U.S. based financial institution. The line of credit bears interest at the State of New York prime rate of lending and is secured with a first charge on the assets of VAC, VSI and POI. As at June 30, 2010, the Company had drawings of $1,353,312 (2009 - $Nil) under its line of credit and had a bank overdraft of $Nil (2009 - $Nil). During the current fiscal year, the interest on the line of credit amounted to $30,425 (2009 - $1,445).

The amount that may be advanced under the credit line is limited to 70% of eligible accounts receivable of VAC, POI and VSI less than 90 days from invoice date. At June 30, 2010, the financial covenants for these facilities included requirements for debt coverage of 1.2 and minimum tangible net worth of $4,800,000, which the Company met.

9. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is $3,246,018 (2009 - $2,943,223) owing to a major supplier.

10. Share capital

Authorized

Unlimited common shares without par value

Issued and outstanding

	Number of shares	Amount
		$
Balance, June 30, 2008	121,148,643	51,808,079
Less: Shares repurchased and cancelled	(2,863,000)	(1,224,336)
Balance, June 30, 2009	118,285,643	50,583,743
Shares issued for cash, net of share issue costs	39,000,000	3,849,966
Balance, June 30, 2010	157,285,643	54,433,709

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

During the 2009 fiscal year, the Company acquired 304,000 common shares at a cost of $24,379. On June 17, 2009, the Company cancelled 304,000 shares and on July 14, 2008 cancelled 2,559,000 shares that had been held in Treasury at the previous year end.

(Expressed in U.S. dollars)

11. Warrants

The following warrants were outstanding:

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

		Number of warrants				
Expiry date	Exercise price	Balance, June 30, 2008	Expired	Issued	Balance, June 30, 2009	Amount
	Cdn$					$
March 31, 2009	0.3800	1,411,808	(1,411,808)	-	-	-
March 31, 2009	0.4140	1,411,808	(1,411,808)	-	-	-
March 31, 2011	0.5690	1,411,808	-	-	1,411,808	63,309
April 6, 2011	0.6636	583,770	-	-	583,770	81,058
January 22, 2012	0.3000	600,000	-	-	600,000	42,000
		5,419,194	(2,823,616)	-	2,595,578	186,367

During the 2009 fiscal year, 2,823,616 warrants expired.

12. Contributed surplus

Contributed surplus consists of the following:

	$
Balance, June 30, 2008	3,188,496
Shares repurchased and cancelled	744,932
Expiration of warrants	183,598
Stock-based compensation	21,411
Balance, June 30, 2009	4,138,437
Stock-based compensation	93,102
Balance, June 30, 2010	4,231,539

During the year ended June 30, 2009, 2,823,616 warrants expired, resulting in their ascribed value of $183,598 being recorded as contributed surplus.

(Expressed in U.S. dollars)

13. Stock options

Under the Company's stock option plan, the Company is authorized to grant stock options to employees, officers and directors to purchase up to 15,728,564 (2009 - 10,800,000) common shares. The exercise price of each option is not less than the market price of the Company's stock on the date of grant, and the exercise period is to a maximum term of five years. Options granted under this plan have vesting periods of up to three years.

A summary of stock option activity for the years ended June 30, 2010 and 2009 is presented below:

		2010		2009
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		Cdn$		Cdn$
Outstanding, beginning of year	**9,160,000**	**0.42**	8,768,200	0.53
Granted	**-**	**-**	4,241,000	0.10
Exercised	**-**	**-**	-	-
Forfeited	**(123,300)**	**0.27**	(179,200)	0.75
Expired	**(1,135,700)**	**0.28**	(3,670,000)	0.30
Outstanding, end of year	**7,901,000**	**0.45**	9,160,000	0.42
Exercisable, end of year	**7,376,000**	**0.47**	4,717,333	0.72

The following table summarizes information about stock options issued and exercisable at June 30, 2010:

		Options outstanding	Options exercisable
Exercise price	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
Cdn$			
0.10	4,216,000	2.97	3,691,000
0.30	560,000	1.56	560,000
0.92	1,515,000	0.23	1,515,000
0.96	1,610,000	0.35	1,610,000
	7,901,000		7,376,000

(Expressed in U.S. dollars)

13. Stock options (continued)

During the current fiscal year no stock options were granted. During the year ended June 30, 2009, 4,241,000 stock options were granted at an exercise price above the market price of a common share. The options granted in 2009 had an exercise price of Cdn$0.10 and a weighted average fair value of Cdn$0.025.

For the year ended June 30, 2010, the Company has recognized $93,102 (2009 - $21,411) in stock-based compensation for stock options previously granted to employees. There were no options granted to non-employees during the year ended June 30, 2009. The estimated fair value of each stock option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2009
Expected dividend yield	0.00%
Expected volatility	74.8%
Risk-free interest rate	3.0%
Expected average option term (years)	1.11

14. Financial risk management and financial instruments

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

(a) Credit risk exposure

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

Accounts receivable as at June 30 are summarized as follows:

	2010	2009
	$	$
Current	**8,050,717**	7,313,889
Overdue		
31 - 60 days	**760,147**	1,115,391
61 - 90 days	**1,704,648**	25,773
Over 90 days	**121,039**	19,308
Less allowance for doubtful accounts	**(55,845)**	(66,268)
	10,580,706	8,408,093

14. Financial risk management and financial instruments (continued)

(a) Credit risk exposure (continued)

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

	2010	2009
	$	$
Opening balance	**66,268**	215,535
Change in the provision	**2,000**	(141,887)
Less receivable write-offs	**(12,423)**	(7,380)
Closing balance	**55,845**	66,268

(b) Liquidity risk

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

(c) Foreign currency risk

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

(d) Interest rate risk exposure

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

(Expressed in U.S. dollars)

14. Financial risk management and financial instruments (continued)

(e) Fair values of financial instruments

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

The fair value of the investment in Equus which is publicly traded is determined by the quoted market values for the investment, a Level 1 valuation methodology (Note 3); as is cash and cash equivalents.

15. Capital disclosures

The Company's objective of managing capital is to ensure sufficient liquidity to pursue its growth strategy. The Company's capital is composed of cash and cash equivalents and shareholders' equity. The Company also has unused credit facilities for up to $5,800,000. The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures. The Company currently funds these requirements out of the cash flow from operations. The Company monitors its cash flow continuously and is subject to covenants related to its credit facilities. The Company has complied with all covenant requirements without exception.

16. Related party transactions

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

During the year ended June 30, 2009, the Company granted incentive stock options to directors to acquire 3,616,000 common shares of the Company with an exercise price of Cdn$0.10 per share.

17. Commitments

As at June 30, 2010, future minimum lease payments for premises and equipment are as follows:

	$
2011	823,158
2012	294,729
2013	-
2014	-
2015	-
	1,117,887

(Expressed in U.S. dollars)

18. Income taxes

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

	$
Canada	280,382
United Kingdom	9,369,894
United States	17,739,228

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

	$
2021	941,118
2022	1,025,046
2023	477,803
2024	1,045,650
2025	1,263,761
2027	472,150
2026	418,457
2028	98,632
2029	2,947,390
2030	3,613,479
Tax deductions which may be taken from 2011 to 2020	5,435,742
	17,739,228

VMS-US, VAC, VSI and POI file a consolidated federal tax return. As these companies have been profitable, the Company expects that the net operating losses will be utilized in full. Consequently these financial statements reflect the future income tax benefits relating to these losses. Each company files separate State tax returns so these losses are not available to VAC, POI or VSI on the various state tax returns.

The tax deductions which may be taken from 2011 to 2020 relate to the 338 election for the acquisition of Perfect Order in 2005 for the excess values of the assets over their book values primarily representing goodwill.

The tax losses in Canada expire in 2015. The tax losses in the United Kingdom can be carried forward indefinitely subject to the tax authority’s approval. A full valuation allowance has been provided against the potential tax benefits of the United Kingdom losses.

(Expressed in U.S. dollars)

18. Income taxes (continued)

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

	2010	2009
	$	$
Future income taxes		
Future income tax assets		
Tax losses and deductions	**8,929,483**	8,378,058
Capital assets	**1,063,918**	1,134,697
Share issuance costs	**115,754**	217,338
Other	**338,000**	392,741
Future income tax assets	**10,447,155**	10,122,834
Valuation allowance	**(2,725,655)**	(3,138,444)
Net future income tax asset	**7,721,500**	6,984,390
Future income tax liabilities		
Goodwill	**(755,650)**	(755,651)
Net future income tax asset	**6,965,850**	6,228,739
Less: Current portion	**(721,975)**	(944,843)
Non-current portion of net future income tax	**6,243,875**	5,283,896

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

(Expressed in U.S. dollars)

18. Income taxes (continued)

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

	2010	2009
	$	$
Tax at the statutory tax rate of 29.25% (2009 - 30.25%)	**(557,095)**	(414,682)
Foreign tax rate differential	**(304,729)**	(245,305)
Effect of foreign exchange losses	**8,839**	(60,009)
True-up to income tax returns	**119,558**	(275,317)
Permanent differences	**12,140**	15,297
Expiry of previously recognized benefit of prior year losses	**174,368**	457,976
Use of prior year losses	**(291,137)**	(260,183)
Change in tax rates	**242,443**	-
Changes in valuation allowance	**(140,742)**	77,852
	(736,355)	(704,371)
Future income tax recovery	**737,111**	849,586
Current income tax expense	**(756)**	(144,855)
	736,355	704,731

(Expressed in U.S. dollars)

19. Segmented information

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

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

	2010		2009	
	Capital assets, intangible assets and goodwill	**Revenue**	Capital assets, intangible assets and goodwill	Revenue
	$	**$**	$	$
U.S. companies				
United States	**10,431,566**	**43,217,692**	11,104,620	48,197,162
Canada	**-**	**276,039**	-	117,059
Netherlands	**-**	**45,183**	-	-
France	**-**	**158,162**	-	250,927
United Kingdom	**-**	**64,511**	-	31,751
Japan	**-**	**-**	-	20,448
Other	**-**	**74,924**	-	48,863
UK and Canadian companies				
United Kingdom	**2,634**	**351,510**	3,950	419,342
Canada	**-**	**-**	2,046	-
	10,434,200	**44,188,021**	11,110,616	49,085,552

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

During the year ended June 30, 2010, the Company earned revenue of $5,808,432 from one customer representing 13.1% of revenue. During the year ended June 30, 2009, the Company did not have revenue from any customer exceeding 10% of sales.

During the year ended June 30, 2010, the Company purchased products and services for $14,973,237 (2009 - $19,037,053) from a vendor, representing 43.9% (2009 - 51.8%) of the cost of sales.

(Expressed in U.S. dollars)

20. Supplemental cash flow information

	2010	2009
	$	$
Cash paid for interest	**37,027**	121,327
Cash paid for taxes	**3,843**	139,474

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

	2010	2009
	$	$
Accounts receivable	**(2,172,613)**	3,434,661
Current portion of deferred contract costs	**(47,687)**	(826,789)
Work in progress	**65,134**	(11,477)
Prepaid expenses	**49,716**	22,352
Inventory	**(315,720)**	567,354
Long-term receivable	**(152,831)**	(86,259)
Long-term portion of deferred contract costs	**204,880**	247,448
Accounts payable and accrued liabilities	**1,420,658**	(2,173,343)
Current portion of deferred revenue	**(322,941)**	1,172,558
Long-term portion of deferred revenue	**(267,142)**	(295,125)
	(1,538,546)	2,051,380

The cash and cash equivalents consists of almost entirely cash.