
Versatile Mobile Systems (Canada) Inc.
Consolidated Financial Statements
December 31, 2002
(Unaudited - Prepared by Management)

Consolidated Balance Sheets	Statement 1
Consolidated Statement of Operations and Deficit	Statement 2
Consolidated Statement of Cash Flows	Statement 3
Notes to Consolidated Financial Statements	
Supplementary Information	

Versatile Mobile Systems (Canada) Inc.
Consolidated Balance Sheets
(Unaudited - Prepared by Management)
All amounts in \$CAN

	<u>December 31, 2002</u> <u>(unaudited)</u>	<u>June 30, 2002</u>
ASSETS		
Current Assets		
Cash and cash equivalents	892,471	3,009,960
Marketable securities	120,173	120,173
Accounts receivable and prepaid expenses	2,341,572	4,670,541
Inventory	5,250,523	4,038,803
	<u>8,604,739</u>	<u>11,839,477</u>
PROPERTY, PLANT AND EQUIPMENT	320,843	362,217
INTANGIBLE ASSETS	2,651,661	2,749,299
GOODWILL	1,422,010	1,422,010
	<u>12,999,253</u>	<u>16,373,003</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	1,972,954	3,802,718
Current Portion of Deferred Revenue	4,170,870	3,915,774
Current Portion of Deferred Lease Restructuring Costs	138,740	138,740
Current Portion of Long Term Debt	3,845	20,296
	<u>6,286,409</u>	<u>7,877,528</u>
DEFERRED LEASE RESTRUCTURING COSTS	173,370	242,640
	<u>6,459,779</u>	<u>8,120,168</u>
SHAREHOLDERS' EQUITY		
Share capital	55,824,954	55,824,954
Contributed surplus	2,154,762	2,154,762
Deficit	(51,548,690)	(49,698,494)
Foreign currency translation adjustment	108,448	(28,387)
	<u>6,539,474</u>	<u>8,252,835</u>
	<u>12,999,253</u>	<u>16,373,003</u>

APPROVED BY THE DIRECTORS:

DIRECTOR:

"John Hardy"

DIRECTOR:

"Robert Polychron"

Versatile Mobile Systems (Canada) Inc.
Consolidated Statement of Operations and Deficit
(Unaudited - Prepared by Management)
All amounts in \$CAN

	Three months ended December 31		Six months ended December 31	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
SALES	3,861,544	4,068,734	8,590,490	7,157,842
COST OF SALES	2,870,363	2,436,737	6,005,062	4,152,469
	991,181	1,631,997	2,585,428	3,005,373
EXPENSES				
General and administrative	1,005,330	837,900	1,706,808	1,681,434
Research and development	372,130	746,911	1,194,339	1,458,736
Selling and marketing	587,199	855,664	1,299,843	1,755,521
Loss (Gain) on marketable securities	-	(68,848)	-	(68,848)
Amortization of property, plant and equipment	30,434	69,846	105,073	109,023
Amortization of goodwill and intangible assets (note 4(c))	64,692	1,283,228	129,561	2,572,663
	2,059,785	3,724,702	4,435,624	7,508,529
Net loss before income taxes and discontinued operations	(1,068,604)	(2,092,705)	(1,850,196)	(4,503,156)
Provision for (recovery of) future income taxes	-	-	-	(379,587)
Loss before discontinued operations	(1,068,604)	(2,092,705)	(1,850,196)	(4,123,569)
Loss from discontinued operations	-	361,465	-	495,046
LOSS FOR THE PERIOD	(1,068,604)	(2,454,170)	(1,850,196)	(4,618,615)
DEFICIT, BEGINNING OF PERIOD	(50,480,086)	(31,840,542)	(49,698,494)	(29,676,097)
DEFICIT, END OF PERIOD	(51,548,690)	(34,294,712)	(51,548,690)	(34,294,712)
LOSS PER SHARE, basic and diluted	(0.01)	(0.03)	(0.02)	(0.05)

Versatile Mobile Systems (Canada) Inc.
Consolidated Statement of Cash Flows
(Unaudited - Prepared by Management)
All amounts in \$CAN

	Three months ended December 31		Six months ended December 31	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Loss for the period from continuing operations	(1,068,604)	(2,092,705)	(1,850,196)	(4,123,569)
Items not affecting cash				
Amortization of property, plant and equipment	30,434	69,846	105,073	109,023
Amortization of goodwill and intangible assets	64,692	1,283,228	129,561	2,572,663
Deferred revenue	-	2,259	-	11,864
Deferred lease restructuring costs	(34,635)	(40,272)	(69,270)	(51,012)
Unrealized foreign exchange gain	(33,204)	(31,346)	136,835	(5,548)
Other	(62,078)	(12,875)	(62,562)	(33,471)
Future income taxes	-	-	-	(379,587)
	(1,103,395)	(821,865)	(1,610,559)	(1,899,637)
Net change in non-cash working capital items	17,892	(1,108,589)	(473,870)	(1,232,943)
	(1,085,503)	(1,930,454)	(2,084,429)	(3,132,580)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Cash on hand on acquisition of evolutionB	-	-	-	7,072,899
Legal and other charges incurred for evolutionB acquisition	-	-	-	(85,883)
Additions to capital assets	(18,132)	(64,923)	(33,060)	(80,637)
	(18,132)	(64,923)	(33,060)	6,906,379
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Long term debt	-	(35,628)	-	(38,614)
Proceeds from stock options exercised	-	-	-	3,000
Proceeds from share capital and subscriptions issued	-	-	-	1,000,000
	-	(35,628)	-	964,386
Net cash from continuing operations	(1,103,635)	(2,031,005)	(2,117,489)	4,738,186
Net cash used in discontinued operations	-	(337,317)	-	(462,848)
INCREASE (DECREASE) IN CASH and cash equivalents	(1,103,635)	(2,368,322)	(2,117,489)	4,275,338
CASH and cash equivalents, beginning of period	1,996,106	7,264,288	3,009,960	620,628
CASH and cash equivalents, end of period	892,471	4,895,966	892,471	4,895,966
Cash paid for interest expense	243	5,586	1,901	6,887
Cash paid for income taxes	-	-	-	-

Versatile Mobile Systems (Canada) Inc.
Notes to Consolidated Financial Statements
(Unaudited - Prepared by Management)
All amounts in \$CAN

1. Consolidated financial statement presentation:

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report for the year ended June 30, 2002.

2. Comparative figures

Certain reclassifications have been made to prior periods to conform to the current presentation. These relate to the restatement of evolutionB revenues and expenses as discontinued operations.

3. Significant accounting policies:

The accounting policies applied in these interim financial statements are consistent with those applied in the Annual Report, except with respect to the change in accounting policies described below and in note 4.

(a) Intangible assets

Intangible assets acquired individually or with a group of assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Intangible assets with finite useful life relate to acquired software licenses and are amortized over their estimated useful life. The amortization methods and estimated useful lives of intangible assets are reviewed annually.

Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment is recognized in income for the excess, if any.

(b) Goodwill

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

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 the 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 would be required if the carrying amount of the reporting unit exceeds its fair value, in which case the implied fair value of the 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.

(c) Stock-based compensation:

The Company has a stock-based compensation plan. No compensation expense is recognized for this plan when share options and awards are issued to employees as options are issued at the market value of the shares at the date of the grant. Any consideration paid by employees on the exercise of the stock options or purchase of stock is credited to capital stock. The Company discloses the pro forma effect of accounting for these awards under the fair value based method.

Versatile Mobile Systems (Canada) Inc.
Notes to Consolidated Financial Statements (continued)
(Unaudited - Prepared by Management)
All amounts in \$CAN

4. Changes in accounting policies:

(a) Business combinations, goodwill and intangible assets

In August, 2001, the Accounting Standards Board of the CICA issued Handbook Section 1581, Business Combinations, and Section 3062, Goodwill and Other Intangible Assets. Under Section 1581, intangible assets acquired in a business combination should be identified and recognized apart from goodwill. Under Section 3062, intangible assets having indefinite lives are not amortized and are tested for impairment at least annually. Intangible assets with definite lives are amortized over their estimated useful lives.

The Company has adopted Sections 1581 and 3062 effective July 1, 2002. As of the date of adoption, the Company had unamortized goodwill in the amount of \$1,422,010 and unamortized identifiable intangible assets in the amount of \$2,749,299, of which \$2,222,502 have an indefinite useful life and \$526,797 have a finite useful life. The unamortized goodwill and the unamortized intangible assets with an indefinite useful life are no longer being amortized. The unamortized intangible assets with a finite useful life are being amortized over a three year period.

This change in accounting policy resulted in a reduction in amortization expense for goodwill and intangible assets of \$1,214,836 and \$2,429,672 for the three months and six months ended December 31, 2002. In accordance with the requirements of Section 3062, this change in accounting policy is not applied retroactively and the amounts presented for prior periods have not been restated for this change.

(b) Stock-based compensation plans:

In December 2001, The Accounting Standards Board of the CICA issued Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. Under Section 3870, which is effective for for stock-based compensation issued on or after January 1, 2002, and is not required to be applied retroactively, the Company is not required to record compensation expense for stock-based compensation awards granted to employees, except for employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments. The Company has not granted such awards and consequently the adoption of the new standard has had no impact on the figures presented.

(c) Adjusted net loss and loss per share:

Following the adoption of Section 3062 of the CICA Handbook, goodwill and intangible assets with indefinite lives are no longer amortized as outlined in notes 3(a) and 3(b). The following table summarizes the impact of this change in accounting policy for the three months and six months ended December 31, 2002 and 2001:

	Three months ended December 31		Six months ended December 31	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Reported net loss	\$ 1,016,399	\$ 2,454,170	\$ 1,797,991	\$ 4,618,615
Effect of amortization	-	(1,214,836)	-	(2,429,672)
Adjusted net loss	<u>1,016,399</u>	<u>1,239,334</u>	<u>1,797,991</u>	<u>2,188,943</u>
Reported loss per share	\$ 0.01	\$ 0.03	\$ 0.02	\$ 0.05
Effect of amortization	-	(0.01)	-	(0.02)
Adjusted loss per share	<u>0.01</u>	<u>0.02</u>	<u>0.02</u>	<u>0.03</u>