

Versatile Mobile Systems (Canada) Inc.

Consolidated Financial Statements
June 30, 2003 and 2002

Auditors' Report

To the Shareholders of Versatile Mobile Systems (Canada) Inc.

We have audited the consolidated balance sheets of **Versatile Mobile Systems (Canada) Inc.** as at June 30, 2003 and 2002 and the consolidated statements of operations and deficit and cash flows for 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, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

“PricewaterhouseCoopers LLP”

Chartered Accountants

Vancouver, British Columbia
July 28, 2003

Versatile Mobile Systems (Canada) Inc.

Consolidated Balance Sheets

As at June 30, 2003 and 2002

	2003 \$	2002 \$
Assets		
Current assets		
Cash and cash equivalents	1,152,287	3,009,960
Marketable securities	-	120,173
Accounts receivable	1,440,340	4,642,878
Prepaid expenses	64,876	27,663
Inventory	1,094,694	4,038,803
	<u>3,752,197</u>	<u>11,839,477</u>
Capital assets (note 4)	276,541	409,421
Intangible assets (note 5)	204,066	479,597
Goodwill (note 6)	3,644,508	3,644,508
	<u>7,877,312</u>	<u>16,373,003</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,322,171	3,802,718
Deferred revenue (note 7)	255,772	3,915,774
Current portion of deferred lease restructuring costs	-	138,740
Current portion of capital lease obligations (note 8)	16,663	20,296
	<u>2,594,606</u>	<u>7,877,528</u>
Deferred lease restructuring costs	-	242,640
Capital lease obligations (note 8)	30,016	-
	<u>2,624,622</u>	<u>8,120,168</u>
Shareholders' Equity		
Share capital (note 9)	55,824,954	55,824,954
Contributed surplus	2,154,762	2,154,762
Deficit	(52,438,247)	(49,698,494)
Foreign currency translation adjustment	(288,779)	(28,387)
	<u>5,252,690</u>	<u>8,252,835</u>
	<u>7,877,312</u>	<u>16,373,003</u>
Nature of operations (note 1)		
Commitments (note 14)		

Approved by the Board of Directors

"John A. Hardy" Director

"Robert P. Polychron" Director

The accompanying notes are an integral part of these consolidated financial statements.

Versatile Mobile Systems (Canada) Inc.

Consolidated Statements of Operations and Deficit For the years ended June 30, 2003 and 2002

	2003 \$	2002 \$
Sales	20,596,215	16,033,453
Cost of sales	14,838,352	9,700,814
	<u>5,757,863</u>	<u>6,332,639</u>
Expenses		
General and administrative	3,567,837	3,681,009
Selling and marketing	2,732,892	3,109,486
Research and development	1,675,837	3,114,258
Amortization of intangible assets	249,431	3,027,993
Amortization of capital assets	190,869	433,725
Write-down of capital assets	95,276	-
(Gain) loss on marketable securities	(14,526)	134,402
Amortization of goodwill	-	1,896,012
	<u>8,497,616</u>	<u>15,396,885</u>
Loss before income taxes and discontinued operations	<u>(2,739,753)</u>	<u>(9,064,246)</u>
Provision for (recovery of) income taxes		
Current	-	112,886
Future	-	(379,587)
	<u>-</u>	<u>(266,701)</u>
Loss before discontinued operations	<u>(2,739,753)</u>	<u>(8,797,545)</u>
Discontinued operations (note 17)		
Loss from discontinued operations	-	(10,966,296)
Loss on disposal of operations	-	(258,556)
	<u>-</u>	<u>(11,224,852)</u>
Loss for the year	<u>(2,739,753)</u>	<u>(20,022,397)</u>
Deficit - Beginning of year	<u>(49,698,494)</u>	<u>(29,676,097)</u>
Deficit - End of year	<u>(52,438,247)</u>	<u>(49,698,494)</u>
Loss per share		
Basic and diluted	<u>(0.03)</u>	<u>(0.12)</u>
From discontinued operations - basic and diluted	<u>-</u>	<u>(0.15)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Versatile Mobile Systems (Canada) Inc.

Consolidated Statements of Cash Flows

For the years ended June 30, 2003 and 2002

	2003 \$	2002 \$
Cash flows from operating activities		
Loss for the year from continuing operations	(2,739,753)	(8,797,545)
Items not affecting cash		
Amortization of capital assets	190,869	433,725
Write-down of capital assets	95,276	-
Amortization of goodwill and intangible assets	249,431	4,924,005
Gain on disposal of capital assets	-	(14,201)
Deferred revenue	-	(239,765)
Deferred lease restructuring costs	(242,640)	(120,483)
Unrealized foreign exchange gain	(260,392)	(33,589)
Other	48,440	(56,394)
Future income taxes	-	(379,587)
	(2,658,769)	(4,283,834)
Net change in non-cash working capital items	946,685	23,853
	(1,712,084)	(4,259,981)
Cash flows from investing activities		
Cash on hand on acquisition of EvolutionB	-	7,072,899
Legal and other charges incurred for EvolutionB acquisition	-	(85,883)
Proceeds of disposal of capital assets	5,600	68,175
Additions to capital assets	(114,994)	(112,044)
	(109,394)	6,943,147
Cash flows from financing activities		
Repayment of capital lease obligations	(36,195)	(41,754)
Proceeds from stock options exercised	-	3,000
Proceeds from share capital and subscriptions issued	-	1,000,000
	(36,195)	961,246
Net cash from continued operations	(1,857,673)	3,644,412
Net cash used in discontinued operations	-	(1,255,080)
(Decrease) increase in cash and cash equivalents	(1,857,673)	2,389,332
Cash and cash equivalents - Beginning of year	3,009,960	620,628
Cash and cash equivalents - End of year	1,152,287	3,009,960
Supplemental cash flow information (note 18)		

The accompanying notes are an integral part of these consolidated financial statements.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

1 Nature of operations

Versatile Mobile Systems (Canada) Inc. (the company) 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 Mobile Systems Inc. (VMS-US) and Versatile Mobile Systems (Europe) Ltd. (VMS-Europe). The operations of the wholly owned subsidiary, EvolutionB Information Inc. (EvolutionB) were discontinued in 2002.

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The company has accumulated losses amounting to \$52,438,247 and a current year loss of \$2,739,753 (2002 - \$8,797,545 before discontinued operations). The ability of the company to continue as a going concern is dependent upon its ability to generate sales, maintain its margins, control costs and to obtain additional financing as may be required. Management continues to monitor costs and revenue generating activities to improve net cash flows. Management believes these actions make use of the going concern basis appropriate; however, it is not possible at this time to predict the outcome of these matters. If the going concern basis is not appropriate, adjustments may be necessary in the carrying amounts and/or classification of assets, liabilities and expenses in these financial statements.

2 Significant accounting policies

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 - VMS-US, VMS-Europe, 596327 B.C. Ltd. (inactive) and EvolutionB (inactive). All intercompany accounts and transactions are eliminated on consolidation.

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 is recognized immediately into income.

Marketable securities

Marketable securities consist of shares held in publicly traded companies. Marketable securities are valued at lower of cost or market value.

Inventory

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

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

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Research and development

Research costs are expensed as incurred. Development costs are charged as an expense in the period incurred unless the company believes that a development project meets certain criteria under Canadian generally accepted accounting principles for deferral and amortization. The company has not capitalized any development costs during the year.

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
Tenant improvements	straight-line over remaining term of lease

Goodwill and intangible assets

Effective July 1, 2002, the company adopted CICA Handbook Section 1581, "Business Combinations" (Section 1581), and Section 3062, "Goodwill and Other Intangible Assets" (Section 3062). Under Section 1581, intangible assets acquired in a business combination should be identified and recognized apart from goodwill. Under Section 3062, goodwill and 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.

As of the date of adoption, the company had unamortized goodwill in the amount of \$3,644,508 and unamortized identifiable intangible assets in the amount of \$479,597 that have a finite useful life. The unamortized goodwill is no longer being amortized. The unamortized intangible assets with a finite useful life are being amortized over a three-year period.

The change in accounting policy resulted in a reduction in amortization expense for goodwill of \$3,644,508 for the year ended June 30, 2003. In accordance with the requirements of Section 3062, this change in accounting is not applied retroactively and the amounts presented for prior periods have not been restated for this change.

Income taxes

The company follows the liability method of accounting for income taxes. Under the liability 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 more likely than not that the future income tax asset will not be realized.

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Foreign currency translation

Foreign monetary assets and liabilities are translated into Canadian dollars at the rates of exchange in effect at the balance sheet date. Foreign non-monetary items are translated at rates in effect on the dates the assets were acquired or liabilities assumed. Revenue and expenses are translated using the rate in effect on the date of the transaction, except amortization of capital assets which is translated at the same rates as the assets to which it applies. Gains and losses on translation are taken into income when incurred.

Assets and liabilities of self-sustaining foreign operations are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Revenue and expense items are translated at average exchange rates prevailing during the year. Any corresponding foreign exchange gains and losses are deferred and disclosed separately as part of shareholders' equity.

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 exists of an agreement with the customer, 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, on contracts in progress.

Maintenance revenue is recognized over the term of the related agreement.

Deferred revenues represent amounts invoiced in excess of revenues recognized.

Warranty costs

Warranty costs are accrued upon the recognition of the related revenue, based on the company's best estimate, with reference to past experience.

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. Actual results could differ from those estimates.

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Financial instruments

The fair values of cash and cash equivalents, marketable securities, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

Loss per share

Loss per common share is computed using the weighted average number of common shares outstanding during the year, less contingently issuable shares (note 9) being 79,207,533 in the current year (2002 - 75,213,521). Diluted loss per common share has not been disclosed as the effect of common shares issuable upon the exercise of options or warrants would be anti-dilutive.

Stock-based compensation

The company has a stock compensation plan, which is described in note 11. In November 2001, the CICA issued Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments" (Section 3870). Section 3870 sets out a fair-value based method for the recognition, measurement and disclosure of certain stock-based compensation and other stock-based payments made in exchange for goods and services. The standard encourages the use of a fair-value based method for all awards granted to employees, but only requires the use of a fair-value based method for direct awards of stock, stock appreciation rights, and awards that call for settlement in cash of other assets. Awards that a company has the ability to settle in stock are recorded as equity, whereas awards that the company is required to or has a practice of settling in cash are recorded as liabilities. This section applies to certain awards outstanding on the date of adoption and all awards granted on or after July 1, 2002.

The company accounts for all stock options granted to employees, including directors, under the intrinsic value method, whereby the excess, if any, of the quoted market price of the company's shares at the date of the grant over the exercise price of the stock option is recorded as stock-based compensation expense. As the exercise price of options granted is greater than the market value on the date of the grant, the company has determined that the application of the accounting policy did not affect reported results of operations for the year ended June 30, 2003.

3 Acquisition

On August 31, 2001, pursuant to a purchase agreement dated July 31, 2001, the company purchased the assets of EvolutionB Corp. EvolutionB Corp. provided mobile and wired workgroup software solutions through its Synergy software suite and provided information technology consulting services through its Information & Communications Technology (ICT) group.

The consideration for the purchase was 23,000,000 common shares of the company. Additionally, 250,000 common shares and warrants to purchase 150,000 common shares were issued in consideration of finders' fees. The value of the common shares issued was determined based on the market price of the company's common shares at the date the terms of the acquisition were announced.

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The acquisition was accounted for using the purchase method and, accordingly, the consolidated financial statements include the results of operations from August 31, 2001.

Concurrent with the closing of the purchase, management implemented a restructuring plan for the purchased Synergy business. This plan involved the involuntary termination of some employees and the sale of some current assets and liabilities. In addition, as part of this restructuring the company provided for the lease costs of office space no longer required. The restructuring was completed in October 2001 and the costs associated with this were reflected in the liabilities of the acquired business at August 31, 2001.

The fair value of the assets acquired and liabilities assumed at the date of acquisition, based on consideration paid was as follows:

	\$
Current assets	7,458,623
Capital assets	426,560
Prepaid support costs	<u>343,334</u>
Total assets other than goodwill	8,228,517
Goodwill - not tax deductible	<u>9,841,279</u>
Total assets acquired	<u>18,069,796</u>
Current liabilities	1,216,913
Lease restructuring costs	<u>492,000</u>
Total liabilities assumed	<u>1,708,913</u>
Net assets acquired	<u>16,360,883</u>
Consideration paid and acquisition costs	
Common shares	16,100,000
Common shares for finder's fee	175,000
Legal and other charges	<u>85,883</u>
	<u>16,360,883</u>

4 Capital assets

	<u>2003</u>		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Automobiles	5,390	5,390	-
Computer and office equipment	1,253,470	1,062,420	191,050
Computer software	85,986	40,456	45,530
Tenant improvements	48,833	8,872	39,961
	<u>1,393,679</u>	<u>1,117,138</u>	<u>276,541</u>

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

	2002		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Automobiles	6,065	6,065	-
Computer and office equipment	1,476,472	1,140,087	336,385
Computer software	70,770	23,566	47,204
Tenant improvements	30,246	4,414	25,832
	<u>1,583,553</u>	<u>1,174,132</u>	<u>409,421</u>

As at June 30, 2003, assets under capital lease with a cost of \$66,211 (2002 - \$84,912) and accumulated amortization of \$25,755 (2002 - \$21,087) are included in capital assets.

5 Intangible assets

Intangible assets acquired either 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 value.

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

The carrying amounts of the intangible assets for the years ended are as follows:

	2003		
	Recorded	Accumulated	Net
	value	amortization	\$
	\$	\$	
Amortized intangible assets			
Licenses	703,937	499,871	204,066
	<u>703,937</u>	<u>499,871</u>	<u>204,066</u>
			2002
	Recorded	Accumulated	Net
	value	amortization	\$
	\$	\$	
Amortized intangible assets			
Licenses	792,071	312,474	479,597
	<u>792,071</u>	<u>312,474</u>	<u>479,597</u>

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

6 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.

The carrying amounts of the goodwill for the years ended are as follows:

	2003		
	Recorded value	Accumulated amortization	Net
	\$	\$	\$
Goodwill	14,578,033	10,933,525	3,644,508
	<hr/>		
	2002		
	Recorded value	Accumulated amortization	Net
	\$	\$	\$
Goodwill	14,578,033	10,933,525	3,644,508

On March 31, 2002, the company performed an assessment of the carrying value of the goodwill recorded in connection with its acquisition of EvolutionB Corp. The assessment was initiated due to the deteriorating business environment for hosted wireless solutions on which EvolutionB's products were based. The result of this analysis was that the company determined the book value of the goodwill would not be recovered through estimated undiscounted future cash flows and this impairment in value was significant and other than temporary. This resulted in a charge to loss from discontinued operations of \$9,841,279 in the period related to the impairment of goodwill. Subsequent to this determination, the company decided to discontinue the remaining operations of this business effective June 30, 2002.

During the current year, the company performed an assessment of the carrying value of the goodwill recorded in connection with the acquisition of VMS-US. The assessment showed that no impairment charge was required for the year ended June 30, 2003.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

7 Deferred revenue

Substantially all of the deferred revenue in 2002 related to one customer in connection with amounts invoiced in advance of delivery of the goods or services.

8 Capital lease obligations

The company leases certain computer and office equipment under capital leases, which are collateralized by the assets financed by these leases. The future minimum lease payments of assets under capital leases are as follows:

	2003 \$	2002 \$
2003	-	20,250
2004	21,401	678
2005	10,941	-
2006	10,051	-
2007	10,051	-
2008	4,188	-
	<hr/>	<hr/>
	56,632	20,928
Less: Amount representing interest rates between 12.50% and 15.25% (2002 - 11% and 18%)	(9,953)	(632)
	<hr/>	<hr/>
	46,679	20,296
Less: Current portion	(16,663)	(20,296)
	<hr/>	<hr/>
	30,016	-
	<hr/>	<hr/>

Interest expense on capital lease obligations for the year ended June 30, 2003 is \$4,948 (2002 - \$7,469).

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2003 and 2002

9 Share capital

Authorized

100,000,000 common shares without par value

Issued and outstanding

	Number of shares	Amount \$
Balance - June 30, 2001	55,211,461	38,546,954
Shares issued upon exercise of stock options	7,500	3,000
Private placement during the year	1,428,572	1,000,000
Shares issued as consideration for the acquisition of EvolutionB	23,250,000	16,275,000
Balance - June 30, 2002	79,897,533	55,824,954
Shares issued during the year	-	-
Balance - June 30 2003	79,897,533	55,824,954

On July 11, 2001, a private placement of 1,428,572 shares was undertaken at \$0.70 per share for proceeds of \$1,000,000. All shares were issued to a director of the company.

On August 30, 2001, the company issued 23,000,000 common shares pursuant to the acquisition of EvolutionB for deemed proceeds of \$16,100,000. An additional 250,000 common shares, for deemed proceeds of \$175,000, and warrants to purchase 150,000 common shares were issued in consideration of finders' fees. The value of the common shares issued was determined based on the market price of the company's common shares at the date the terms of the acquisition were announced.

Of the issued and outstanding shares, 690,000 are being held in trust for employees of VMS-Europe pursuant to a trust agreement in 1993 which provides, in part, that these shares cannot be traded or otherwise dealt with without the approval of the board of directors of the company, nor can these shares be released from the trust until a prescribed amount of earnings has been generated and then only after payment to the company by the beneficial holders of \$1 per share.

The common shares issued to the former shareholders of VMS-US are subject to a three-year escrow agreement where one-third were released at each anniversary date after closing of the acquisition. During the year ended June 30, 2003, the balance of 868,476 shares were released. As at June 30, 2003, no shares remained in escrow.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

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10 Warrants

The following warrants were outstanding:

Expiry date	Exercise price \$	Balance - June 30, 2001	Expired	Issued	Balance - June 30, 2002	Expired	Issued	Balance - June 30, 2003
August 31, 2002	0.70	-	-	150,000	150,000	150,000	-	-

11 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 7,500,000 common shares. The exercise price of each option is 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, 2003 and 2002 is presented below:

	2003		2002	
	Number of shares	Weighted average exercise price \$	Number of shares	Weighted average exercise price \$
Outstanding - Beginning of year	5,179,000	0.94	4,230,500	1.19
Granted	3,475,000	0.10	2,085,000	0.50
Exercised	-	-	(7,500)	0.40
Forfeited	(1,666,000)	0.95	(1,129,000)	1.09
Expired	(193,000)	1.75	-	-
Outstanding - End of year	<u>6,795,000</u>	0.48	<u>5,179,000</u>	0.94
Options exercisable at year-end	<u>3,276,667</u>	0.89	<u>2,901,966</u>	1.25

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The following table summarizes information about stock options outstanding at June 30, 2003:

Range of exercise prices \$	Options outstanding			Options exercisable	
	Number outstanding at June 30, 2003	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at June 30, 2003	Weighted average exercise price \$
0.10 - 1.00	5,820,000	2.87	0.30	2,301,667	0.60
1.01 - 2.00	725,000	1.49	1.25	725,000	1.25
2.01 - 2.50	250,000	1.69	1.69	250,000	2.50
	6,795,000	2.68	0.48	3,276,667	0.89

Under the intrinsic value method, the company has not recognized any compensation expense for stock options issued to its employees during the year. Had the company determined compensation expense for stock option grants to employees during the year based on the fair value method, the company's pro forma loss for the year would have increased by \$114,000 to \$2,853,753 and pro forma loss per share for the year would have been \$0.04. The fair value of each stock option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

- dividend yield of 0%
- expected volatility of 133%
- risk-free interest rate of 3%
- expected lives of the stock options of five years.

12 Financial instruments

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 are considered to be limited due to the credit quality of the customers comprising the company's customer base. The maximum amount of credit risk exposure is limited to the carrying amounts of these balances in the consolidated financial statements.

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.

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13 Related party transactions

During the year, the following amounts were paid to directors and officers of the company or companies controlled by these directors and officers:

	2003 \$	2002 \$
Consulting fees and salaries (included with General and administration expense and Selling and marketing expense)	681,129	578,050

In addition, company-related expense reimbursements paid to directors and officers in the year totalled \$169,939 (2002 - \$204,939).

14 Commitments

As at June 30, 2003, future minimum lease payments for certain facilities and equipment are as follows:

	\$
2004	463,848
2005	92,899

15 Income taxes

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

	\$
Canada	16,387,000
United Kingdom	11,983,000
United States	3,790,000

Tax losses in Canada expire as follows:

	\$
2004	573,000
2005	1,285,000
2006	1,693,000
2007	5,065,000
2008	3,491,000
2009	2,705,000
2010	1,575,000
	<u>16,387,000</u>

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Tax losses in the United States expire as follows:

	\$
2020	702,000
2021	1,364,000
2022	1,381,000
2023	343,000
	<u>3,790,000</u>

The tax losses in the United Kingdom can be carried forward indefinitely subject to the tax authority's approval. The potential tax benefits of the losses have not been recognized in the financial statements.

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

	2003 \$	2002 \$
Tax at the statutory tax rate of 38.6% (2002 - 40%)	(1,057,545)	(8,115,639)
Difference in tax rates in other jurisdictions	196,094	382,258
Tax effect of goodwill not deductible for tax purposes	-	4,694,916
Tax effect of expenses that are not deductible for income tax purposes	8,349	81,678
Future income tax asset not recognized	(26,884)	1,173,632
Change in tax rates	879,986	1,516,454
	<u>-</u>	<u>(266,701)</u>

The tax effects of temporary differences that give rise to significant portions of future income tax assets and future income tax liabilities at the enacted rate of 35% are as follows:

	2003 \$	2002 \$
Future income taxes		
Future income tax assets		
Tax losses	9,446,149	10,264,245
Capital assets	475,530	307,437
Share issuance costs	108,069	228,636
Other	389,134	583,577
	<u>10,418,882</u>	<u>11,383,895</u>
Valuation allowance	(9,641,006)	(10,606,019)
Net future income tax asset	777,876	777,876
Future income tax liabilities		
Goodwill	(777,876)	(777,876)
	<u>-</u>	<u>-</u>
Net future income tax liability	-	-

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16 Segmented information

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

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

	2003		2002	
	Capital assets, intangible assets and goodwill \$	Revenue \$	Capital assets, intangible assets and goodwill \$	Revenue \$
United States	4,087,043	20,082,789	4,299,784	14,638,957
United Kingdom	2,802	464,500	8,318	1,360,767
Canada	35,270	48,926	225,424	33,729
	<u>4,125,115</u>	<u>20,596,215</u>	<u>4,533,526</u>	<u>16,033,453</u>

Revenue is attributable to the geographic area dependent on the location of the office responsible for the sale.

17 Discontinued operations

On June 30, 2002 (the measurement date), the company ceased its ICT operations which it acquired during the year ended June 30, 2002 (note 3). The ICT group provided information technology consulting services.

Pursuant to CICA recommendation, Section 3475, "Discontinued Operations," the revenues, costs and expenses, and cash flows of the ICT business operations were segregated in the accompanying consolidated statements of operations and deficit and consolidated statements of cash flows, and reported as discontinued operations.

The results of discontinued operations, presented in the accompanying consolidated statement of operations and deficit, were as follows:

	2003 \$	2002 \$
Revenues	-	161,766
Loss from discontinued operations - including amortization and goodwill write-down totalling \$nil (2002 - \$9,969,772)	-	10,966,296
Loss on disposal of operations - net of income taxes of \$nil	-	258,556

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The assets and liabilities of discontinued operations at the end of the year were as follows:

	2003 \$	2002 \$
Cash	1,430	-
Accounts receivable	-	8,588
Other current assets	-	24,897
	<hr/>	<hr/>
Total assets of discontinued operations	1,430	33,485
	<hr/>	<hr/>
Current liabilities	282,527	368,169
	<hr/>	<hr/>
Total liabilities of discontinued operations	282,527	368,169

The assets and liabilities of discontinued operations at the end of the year were not segmented on the accompanying consolidated balance sheets.

18 Supplemental cash flow information

	2003 \$	2002 \$
Cash paid for taxes	-	-
Cash paid for interest	11,261	15,098
Non-cash investing and financing activities		
Common shares issued for acquisition or EvolutionB	-	16,275,000
Assets acquired under capital lease	66,211	-

19 Comparative figures

Certain prior year amounts have been reclassified to conform with the presentation adopted in the current year.

