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**Versatile Mobile Systems (Canada) Inc.**  
**Consolidated Financial Statements**  
**March 31, 2004**  
**(Unaudited - Prepared by Management)**

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

**Versatile Mobile Systems (Canada) Inc.**  
**Consolidated Balance Sheets**  
**(Unaudited - Prepared by Management)**

	<u>March 31, 2004</u> <u>(unaudited)</u>	<u>June 30, 2003</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 2,524,988	\$ 1,152,287
Accounts receivable	2,829,931	1,440,340
Prepaid expenses	42,527	64,876
Inventory	1,455,299	1,094,694
	<u>6,852,745</u>	<u>3,752,197</u>
Capital Assets		
Intangible assets	194,015	276,541
Goodwill	125,139	204,066
	<u>3,644,508</u>	<u>3,644,508</u>
	<u>\$ 10,816,407</u>	<u>\$ 7,877,312</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,403,137	\$ 2,322,171
Deferred revenue	225,241	255,772
Current portion of capital lease obligations	15,854	16,663
	<u>2,644,232</u>	<u>2,594,606</u>
Capital Lease Obligations	18,824	30,016
	<u>2,663,056</u>	<u>2,624,622</u>
<b>SHAREHOLDERS' EQUITY</b>		
Common Shares (note 3)	58,383,466	55,824,954
Warrants (note 4)	321,619	-
Contributed surplus	2,162,732	2,154,762
Deficit	(52,366,137)	(52,438,247)
Foreign currency translation adjustment	(348,329)	(288,779)
	<u>8,153,351</u>	<u>5,252,690</u>
	<u>\$ 10,816,407</u>	<u>\$ 7,877,312</u>

**APPROVED BY THE DIRECTORS:**

**DIRECTOR:**                    "John Hardy"

**DIRECTOR:** "Fraser Atkinson"

*See Notes to Consolidated Financial Statements*

**Versatile Mobile Systems (Canada) Inc.**  
**Consolidated Statements of Operations and Deficit**  
**(Unaudited - Prepared by Management)**

	Three months ended March 31		Nine months ended March 31	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
SALES	\$ 4,467,967	\$ 7,710,548	\$ 14,733,209	\$ 16,301,038
COST OF SALES	<u>2,983,965</u>	<u>5,587,276</u>	<u>9,903,315</u>	<u>11,592,338</u>
	<u>1,484,002</u>	<u>2,123,272</u>	<u>4,829,894</u>	<u>4,708,700</u>
EXPENSES				
General and administrative	613,644	963,028	1,906,855	2,749,774
Research and development	274,509	228,196	822,294	1,422,535
Selling and marketing	674,112	951,570	1,952,821	2,251,413
Loss (gain) on marketable securities	-	(14,526)	-	(14,526)
Foreign Exchange (gain) loss	8,325	33,341	14,356	(46,597)
Amortization of capital assets	57,578	16,051	172,715	121,124
Amortization of intangible assets	22,138	62,229	74,934	191,790
Stock-based compensation	7,970	-	7,970	-
Recovery of premise costs	(97,640)	-	(195,280)	-
	<u>1,560,636</u>	<u>2,239,889</u>	<u>4,756,665</u>	<u>6,675,513</u>
NET EARNINGS (LOSS) BEFORE INCOME TAXES	(76,634)	(116,617)	73,229	(1,966,813)
INCOME TAX EXPENSE	-	-	1,119	-
NET EARNINGS (LOSS) FOR THE PERIOD	(76,634)	(116,617)	72,110	(1,966,813)
DEFICIT, BEGINNING OF PERIOD	(52,289,503)	(51,548,690)	(52,438,247)	(49,698,494)
DEFICIT, END OF PERIOD	<u>(\$52,366,137)</u>	<u>(\$51,665,307)</u>	<u>(\$52,366,137)</u>	<u>(\$51,665,307)</u>
NET EARNINGS (LOSS) PER SHARE:				
Basic and diluted	<u>(\$0.00)</u>	<u>(\$0.00)</u>	<u>\$0.00</u>	<u>(\$0.03)</u>

*See Notes to Consolidated Financial Statements*

**Versatile Mobile Systems (Canada) Inc.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited - Prepared by Management)**

	Three months ended March 31		Nine months ended March 31	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>				
Net earnings (loss) for the period	\$ (76,634)	\$ (116,617)	\$ 72,110	\$ (1,966,813)
Items not affecting cash				
Amortization of capital assets	57,578	16,051	172,715	121,124
Amortization of intangible assets	22,138	62,229	74,934	191,790
Stock-based compensation	7,970	-	7,970	-
Deferred lease restructuring costs	-	(34,836)	-	(104,106)
Unrealized foreign exchange	27,916	(195,156)	(59,550)	(58,321)
Other	(6,928)	102,061	1,078	39,499
	<u>32,040</u>	<u>(166,268)</u>	<u>269,257</u>	<u>(1,776,827)</u>
Net change in non-cash working capital items	(416,511)	1,015,451	(1,678,221)	541,581
	<u>(384,471)</u>	<u>849,183</u>	<u>(1,408,964)</u>	<u>(1,235,246)</u>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>				
Proceeds of disposal of capital assets	-	5,600	-	5,600
Additions to capital assets	(17,687)	(78,317)	(87,274)	(111,377)
	<u>(17,687)</u>	<u>(72,717)</u>	<u>(87,274)</u>	<u>(105,777)</u>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>				
Proceeds from Units issued on the private placement	2,220,000	-	3,090,000	-
Share issue costs	(209,079)	-	(216,536)	-
Proceeds from shares issued on exercised stock option:	-	-	6,667	-
Capital lease obligations	(3,617)	-	(11,192)	-
	<u>2,007,304</u>	<u>-</u>	<u>2,868,939</u>	<u>-</u>
<b>INCREASE (DECREASE) IN CASH and cash equivalents</b>	<b>1,605,146</b>	<b>776,466</b>	<b>1,372,701</b>	<b>(1,341,023)</b>
CASH and cash equivalents, beginning of period	919,842	892,471	1,152,287	3,009,960
CASH and cash equivalents, end of period	<u>\$ 2,524,988</u>	<u>\$ 1,668,937</u>	<u>\$ 2,524,988</u>	<u>\$ 1,668,937</u>
Supplementary information				
Cash paid for interest expense	\$ 1,583	\$ 243	\$ 6,429	\$ 1,901
Cash paid for income taxes	-	-	1,119	-
Non cash items				
Brokers warrants	32,889	-	32,889	-

**See Notes to Consolidated Financial Statements**

**Versatile Mobile Systems (Canada) Inc.**  
**Notes to Consolidated Financial Statements**  
**For the period ended March 31, 2004**  
**(Unaudited - Prepared by Management)**

**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 financial statements for the year ended June 30, 2003. These financial statements have not been audited or reviewed by the Company's auditors.

On February 23, 2004 the Company received a certificate of Continuance under the Yukon Business Corporations Act effecting the change of the corporate jurisdiction of the Company from British Columbia to the Yukon.

**2. Changes in 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.

(a) Stock-based compensation:

Prior to July 1, 2003, the Company applied the intrinsic method of accounting prescribed by CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments" ("HB 3870") to employee stock options. Under the intrinsic method, deferred stock-based compensation is recorded if, on the date of grant of the stock option to an employee, the current market value of the underlying common share exceeds the exercise price per share.

The CICA Accounting Standards Board has amended HB3870 to require entities to account for employee stock options using the fair value based method, beginning January 1, 2004. The Company has adopted the fair value method on a prospective basis for all grants made subsequent to June 30, 2003.

Under the fair value based method, compensation cost is measured at fair value at the date of each grant and is expensed over the award's vesting period. The Company has applied the fair value based method to all employee stock options granted on or after July 1, 2003. The previous quarterly results will not be amended, as the amounts are insignificant as the total expense for the 2004 fiscal year is estimated to be \$31,686.

(b) 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.

During the period the Company reviewed the estimated useful lives of the intangible assets. After the review, the Company increased the estimated useful lives of the intangible assets from three years to four years.

**3. Common Shares**

Authorized

500,000,000 common shares without par value

Issued and outstanding

	<b>Number of Shares</b>	<b>Amount</b>
Balance - June 30, 2003	79,897,533	\$ 55,824,954
Common Shares issued on private placements	10,707,935	2,801,270
Share issue costs	-	(249,425)
Common Shares issued on exercise of options	66,666	6,667
Balance - March 31, 2004	<b>90,672,134</b>	<b>\$ 58,383,466</b>

**Versatile Mobile Systems (Canada) Inc.**  
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(a) On December 4, 2003, the Company closed a non-brokered private placement and issued 2,485,713 Units at a price of \$ 0.35 per Unit for gross proceeds of \$870,000. Each Unit consisted of one common share and one common share purchase warrant. Each common share warrant entitles the holder to purchase one common share of the Company for a period of twelve months after the Closing Date at a price of \$0.40 per common share. The Company assigned a value of \$0.30 to each common share and \$0.05 to each warrant.

(b) On March 17, 2004, the Company closed a brokered private placement and issued 8,222,222 Units at a price of \$ 0.27 per Unit for gross proceeds of \$2,220,000. Each Unit consisted of one common share and one-half common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$0.40 per common share until September 17, 2005. The price of \$0.27 per Unit was allocated as to \$0.25 per common share and \$0.02 per half warrant. The agent was paid a commission of \$166,500 and 822,222 broker warrants were issued to the agent entitling them to purchase one common share of the Company at a price of \$0.37 per common share until March 17, 2005. The brokers warrants were assigned a value of \$32,889, which has been recorded as a share issue cost.

**4. Warrants**

Issued and outstanding

	<b>Exercise Price</b>	<b>Expiry Date</b>	<b>Number of Warrants</b>	<b>Amount</b>
Balance - June 30, 2003			-	\$ -
Warrants issued on private placement	\$0.40	04-Dec-04	2,485,713	124,286
Warrants issued on private placement	\$0.40	17-Sep-05	4,111,110	164,444
Broker warrants	\$0.37	17-Mar-05	822,222	32,889
Balance - March 31, 2004			<b>7,419,045</b>	<b>\$ 321,619</b>

**5. Stock Options**

On August 20, 2003, the Company granted employee incentive stock options to acquire a total of 275,000 common shares of the Company exercisable for a period of 4 years at a price of \$ 0.11 per share.

On December 8, 2003, the Company granted employees and a director incentive stock options to acquire a total of 145,000 common shares of the Company exercisable for a period of 4 years at a price of \$ 0.32 per share.

	<b>Number of Shares</b>	<b>Weighted average exercise price</b>
Balance - June 30, 2003	6,795,000	\$ 0.48
Granted	420,000	0.18
Exercised	(66,666)	0.10
Forfeited on January 5, 2004	(10,000)	0.32
Expired on December 18, 2003	(100,000)	1.00
Balance - March 31, 2004	<b>7,038,334</b>	<b>\$ 0.46</b>