



ANNUAL INFORMATION FORM

VERSATILE MOBILE SYSTEMS (CANADA) INC.

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CORPORATE STRUCTURE

Incorporation

Versatile Mobile Systems (Canada) Inc. (the "Company") was incorporated under the *Company Act* (British Columbia) on September 28, 1955 under the name "Alice Lake Mines Limited (Non-Personal Liability)" as a specially limited company. The Company converted to a limited company under the name "Alice Lake Mines Limited" effective as of December 21, 1982. The Company changed its name to "Consolidated Alice Lake Mines Limited" effective as of October 29, 1993, to "International Sales Information Systems Inc." effective as of June 1, 1994 and to "Versatile Mobile Systems (Canada) Inc." effective as of September 18, 2000.

The Company's head office is located at Suite 1601 – 750 West Pender Street, Vancouver, British Columbia V6C 2T8. The Company's registered and records office is located at 2100 - 1075 Georgia Street West, Vancouver, British Columbia V6E 3G2. The Company also maintains offices in Seattle, Washington and in Woking, United Kingdom. See "Narrative Description of the Business - Offices".

Intercorporate Relationships

As at the financial year ended June 30, 2004, the Company had four subsidiaries. The Company carries on business in the United States primarily through its United States subsidiary, Versatile Mobile Systems, Inc. ("Versatile U.S.") and in the United Kingdom primarily through its U.K. subsidiary, Versatile Mobile Systems (Europe) Ltd. ("Versatile Europe"). The particulars regarding the Company's subsidiaries are as follows:

Name of Subsidiary	Percentage (%) Interest Held by the Company	Date of Incorporation	Jurisdiction of Incorporation
Versatile Mobile Systems, Inc. ⁽¹⁾	100%	May 17, 2000	Washington, U.S.A.
Versatile Mobile Systems (Europe) Ltd.	100%	March 12, 1987	United Kingdom
596327 B.C. Ltd. ⁽²⁾	100%	November 24, 1999	British Columbia, Canada
EvolutionB Information Inc. ⁽²⁾	100%	November 15, 1995	British Columbia, Canada

⁽¹⁾ Incorporated under the name "Versatile Acquisition Corp." in order to facilitate the acquisition of the business of former Versatile Systems, Inc., which latter company was incorporated on December 15, 1994. At the time of the acquisition, Versatile Systems, Inc. was merged into Versatile Acquisition Corp. and ceased to exist and Versatile Acquisition Corp. assumed the name Versatile Systems, Inc. On August 14, 2000, the name of the surviving entity was changed to "Versatile Mobile Systems, Inc." See "General Development of the Business".

⁽²⁾ This is a holding company acquired pursuant to the EvolutionB Acquisition Agreement. See "Acquisitions and Dispositions". 596327 B.C. Ltd. owns 100% of EvolutionB Information Inc., a British Columbia company, which was the principal Canadian operating company of the EvolutionB group. These operations were discontinued by the Company effective June 30, 2002 and the Company disposed of the remaining assets of EvolutionB and took a write-down on capital assets of \$95,276. During the year, the Company vacated the premises subleased by EvolutionB. At June 30, 2003 the discontinued operations had assets of \$1,430 and liabilities of \$282,527. Both of these companies are dormant.

Unless the context otherwise requires, references in this Annual Information Form to the "Company" and "Versatile" include Versatile Mobile Systems (Canada) Inc. and each of its subsidiaries.

GENERAL DEVELOPMENT OF THE BUSINESS

The Company's core business is developing mobile business solutions that enable companies to improve the sales, marketing and distribution of their products by extending the supply chain beyond the traditional enterprise. The Company delivers wireless mobile solutions to the consumer packaged goods ("CPG") and logistics industries through an integrated combination of licensed software, professional services, and the re-sale of mobile-computing devices and related hardware.

The Company offers software applications as a key area of the mobile business solution. These software applications are in the Supply Chain Management ("SCM") and mobile Customer Relationship Management ("CRM") areas operating in a wired or wireless environment.

The Company's European base of operations commenced in 1987 to distribute and sell Maximizer products in European countries. Maximizer was a contact manager application program designed to keep track of salesmen's contacts, customers and related administrative functions. The Company implemented a restructuring plan in January 1997 to minimize, and ultimately close all Maximizer related offices in the United Kingdom, France, Switzerland and Italy.

In connection with the restructuring, the Company focussed on the research and development of proprietary products in the mobile CRM market. The initial product suite developed by the Company for the CRM market was called "SalesPOINT" which was developed by the Company in late 1996 in the United Kingdom and subsequently installed at the Company's first customer site in the United Kingdom in October 1996. Since 1996, the product has been continuously enhanced at the Company's research and development facility located in Woking, United Kingdom and has been installed at additional customer sites in several European countries, Australia and New Zealand. The Company continues to sell SalesPOINT (under the "SalesSupervisor" brand), and continues to provide maintenance and related help desk support services for this product.

To expand into the North American market, the Company decided to acquire a complementary business. In June 2000, the Company acquired all of the outstanding shares of Versatile U.S. for consideration of U.S.\$4,520,231 in cash and 2,605,425 common shares in the capital of the Company. In November 2000, the Company acquired the assets and intellectual property rights of Deniro Corp. for consideration of US\$200,000 in cash and 524,515 common shares in the capital of the Company. These operations were combined with those of Versatile U.S. to further enhance its product offering and development resources in the mobile delivery solution market.

On August 31, 2001 the Company acquired the assets of EvolutionB Corp., which consisted primarily of the shares of 596327 B.C. Ltd, the parent company of EvolutionB Information Inc., a Vancouver-based provider of mobile and workgroup software solutions. The operations related to EvolutionB were discontinued effective June 30, 2002. See "Acquisition and Dispositions".

Versatile U.S. has evolved from a small software development company to a full service provider of mobile applications. In addition to software, it provides professional services, proprietary hardware and installation services to customers. It also has recurring revenue from hardware and software maintenance. Versatile U.S. has a significant legacy customer base that continues to purchase hardware and support services.

ACQUISITIONS AND DISPOSITIONS

The following is a description of the significant acquisitions and dispositions of the Company undertaken during the most recently completed fiscal year of the Company or during the period since the completion of the most recently completed fiscal year to the date of this Annual Information Form. See also "Management's Discussion and Analysis of Financial Condition and Operating Results".

None in the current year.

On August 31, 2001, pursuant to an agreement effective July 31, 2001 (the "EvolutionB Acquisition Agreement") among the Company, EvolutionB Corp. ("EvolutionB") and 596327 B.C. Ltd., EvolutionB Information Inc., EvolutionB (UK) Limited and EvolutionB (US) Inc., (collectively, the "Subsidiaries"), the Company acquired the assets of EvolutionB which consisted of all of the outstanding shares of the Subsidiaries (the "Subsidiary Shares"). EvolutionB provided mobile and wired workgroup software solutions through its Synergy software suite. In addition, EvolutionB provided information technology consulting services through its Information and Communications Technology (ICT) group. The Company has ceased the operations of EvolutionB effective June 30, 2002.

The purchase price paid to EvolutionB was 23,000,000 common shares in the capital of the Company. As compensation in connection with the transaction, the Company also issued 250,000 common shares in the capital of the Company to Research Capital Corporation and warrants to Acumen Capital Finance Partners Limited ("Acumen") entitling Acumen to acquire 150,000 common shares in the capital of the Company at a price of \$0.70 per share until September 24, 2002.

NARRATIVE DESCRIPTION OF THE BUSINESS

Overview of Operations

The Company's business is developing mobile business solutions that enable companies to improve the sales, marketing and distribution of their products by extending the supply chain beyond the traditional enterprise. The Company delivers wireless mobile solutions to the consumer packaged goods (CPG) and logistics industries through an integrated combination of licensed software, professional services, and the re-sale of mobile-computing devices and related hardware.

The Company's current product focus is in three distinct areas:

1. Wireless applications and infrastructure;
2. Supply chain management; and
3. Mobile customer relationship management.

The Company has formed working relationships and alliances with certain key companies in the foregoing areas.

Wireless Applications and Infrastructure

Wireless applications and infrastructure facilitate wireless data transfer between mobile workers and a head office. This is accomplished by the use of specialized hardware and software, which allows transmissions of data over any type of telephone network. The market for mobile data applications in

both wireless and batch mode (non-wireless) and for the specialized hardware devices which use these applications continues to expand due to businesses competing to provide increased levels of customer service and attempting to reduce costs through automation.

Supply Chain Management

Supply Chain Management (SCM) was initially adopted by large manufacturing organizations with long manufacturing cycles, which needed to optimize and plan the sourcing and delivery of goods over long time horizons. Similar optimization techniques were also found to be beneficial in planning and optimizing the short-term logistics of delivering goods to a customer on a monthly, weekly, daily or hourly basis.

SCM systems automate, optimize and link the various stages of the supply, manufacture and delivery of products and services. For the typical manufacturer, the supply chain encompasses five major business activities – buy, make, move, store and sell. SCM systems optimize the sourcing and purchasing of materials from suppliers, the planning and scheduling of manufacturing operations and the distribution and delivery of finished products based on customer demand.

The Internet coupled with increasing numbers of mobile businesses has increased the role of SCM systems in a number of ways, including the following:

- The linking of supply chain participants through the Internet and mobile devices allows for increased visibility and the ability to track the flow of goods as they move through the system.
- The mobile applications and devices extend the SCM systems to include activities such as inventory management and delivery of goods, while providing visibility back to the enterprise.
- The extent of coverage and low entry cost of the Internet allows for even the smallest supply chain participants to link into an automated SCM system.
- The Internet has increased customer expectations on the ability of vendors to rapidly customize and deliver goods. A customer may quickly and easily locate a competitor on the Internet if a vendor is unable to deliver as promised. These competitive issues increase the importance of efficiently managing a supply chain.

As a result, the market is rapidly adopting SCM systems, which include applications such as those providing for e-fulfillment. SAP (MySAP™), Descartes Systems (U.S.A.) Inc. ("Descartes"), UPS Logistics Group and Ariba, Inc. are leading adopters in this area.

In summary, the Internet has both raised the stakes in terms of customer expectations for the efficient delivery of goods but has also provided a new tool for managing the e-fulfillment process.

Mobile Customer Relationship Management

Customer Relationship Management (CRM) is, in essence, the capturing of data from sales and service channels and linking it back to traditional head office systems. By allowing companies to collect and disseminate customer information quickly and easily, CRM software provides companies with the ability to locate, sell to, retain and grow customers. The objective is higher sales, lower cost of sales and improved margins.

CRM (or front office) systems have traditionally involved the automation of internal business processes associated with employees who interact with the customer in the areas of sales, marketing and customer service. Front office software's functionality expands in an e-commerce world to external applications over the Internet, exposing the sales, marketing, service and partner relationship management functions to customers and trading partners.

Front office automation represents a fundamental shift in the role of enterprise software systems within a corporation. Mainly the internal operations or administration departments use back office products. Back office products are mostly concerned with increasing efficiency and decreasing costs of core business processes. By contrast, customers as well as customer-facing employees use front office products. Front office products are designed to increase competitiveness and revenues and, as a result, play a key and highly visible role in a corporation's e-commerce strategy.

Products and Services

Versatile has developed a set of point solution products designed to address the market need for supply chain management, mobile customer relationship management, and the associated communication infrastructure. The Point Solutions are designed to meet most of a customer's requirements out of the box, leading to quick deployment and low support risk. The Point Solutions serve two purposes; 1) provide mid-market applications allowing for quicker penetration into the target market vertical, 2) provide a foundation of ready business objects to be assembled for larger tier one and two accounts such as enterprise level route accounting activities. Versatile believes business objects are emerging as the preferred methodology of tier one and two accounts to assemble their solutions with the guidance of solutions providers, thus reducing project risk while increasing flexibility and support to business nuances found at many organizations.

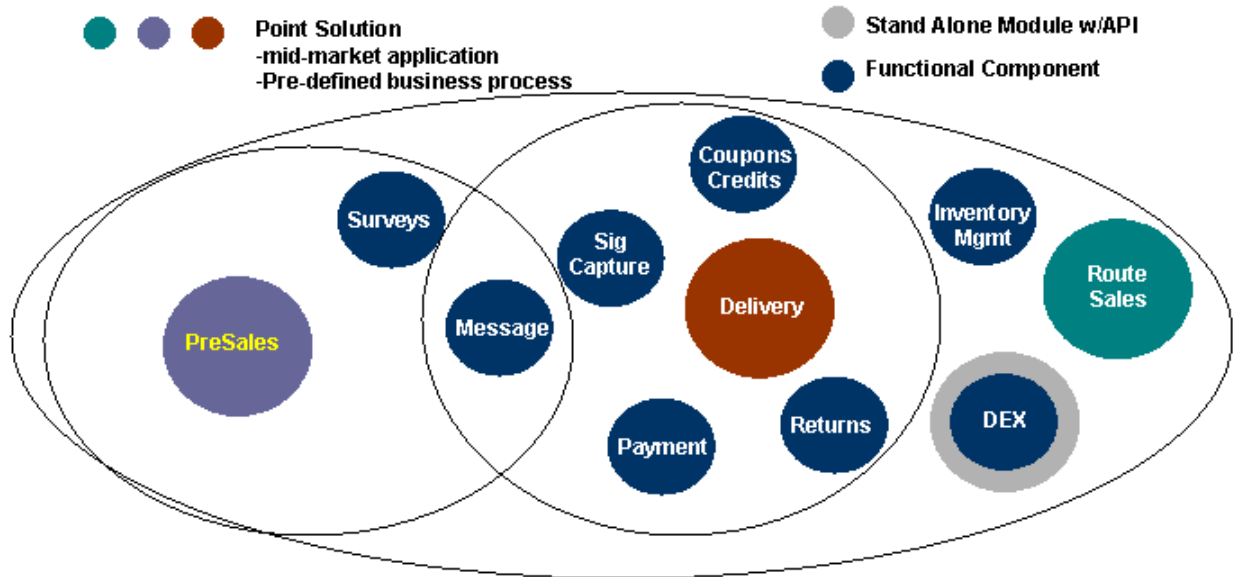


Figure 1: Mid-market point solutions and add-on business objects.

Supply Chain Management

The distribution of goods and services spans several industries and requires mobile applications for pickup and delivery, wireless dispatch, wireless messaging, signature capture and product movement tracking.

Versatile has developed the following point solutions for the distribution sector:

Mobiquity (“M”) Delivery – **M Delivery** is designed for today's mobile delivery companies that require an efficient tool for managing and tracking delivery to commercial or residential customers in a paperless environment. Versatile has equipped retailers/suppliers with the ways and means to track, log and change deliveries electronically by bundling GPS, route information, order confirmation, tote-contents and signature capture capabilities into one package. **M Delivery** is commonly used with Versatile's Mobile Ranger vehicle dock in home grocery delivery; the application can communicate with an operation resource management system and provide it with up to the minute GPS information, product temperature sensor readings, delivery times, signature capture and messaging. Customer service and Web front-end applications can be updated in real-time. **M Delivery** can be deployed on Microsoft's Windows Mobile™ Platform.

Mobiquity (“M”) Route - **M Route** is a comprehensive software application for use on Windows Mobile™ hand held terminals in the field. This product includes full-featured product delivery, signature capture, and on-the-spot invoice creation. Mobile CRM functions include customer-specific pricing, promotions, returns, merchandising, accounts receivable and collections. Truck load/unload, on-truck inventory, transfers and inventory settlement features are optionally included. Driver activity, expenses, sales and inventory settlement reports are all available for printing on a mobile printer or back at the docking depot.

Mobiquity (“M”) DEX and Dex in a Box – **M DEX** runs on the Windows Mobile™ platform and offers an advanced yet easy to use Direct Store Delivery invoicing system that complies with the Uniform Code Council standard most grocers have adopted called DEX/UCS. Using **M DEX**, the data can be created from almost any order entry package. A separate pre-packaged product for small to medium customers, called "DEX in a Box" allows smaller suppliers to use Versatile's Invoice Builder, a PC based application used to manually build customers and invoices, allowing the supplier without invoicing systems to comply with retailer demands.

Mobile CRM

Versatile applies CRM to the mobile environment by integrating marketing, sales, customer service and field support. Versatile's mobile CRM goal is to provide the technology so that customer information can be accessed anytime and from anywhere so that businesses can do a better job of understanding and servicing their customers. To that end, Versatile has developed two proprietary products for this marketplace.

Mobiquity (“M”) Sales – This software application is deployed on the Windows Mobile™ platform and provides complete ordering capability with pre-defined template items and quantities, or on the fly item additions, through scanning, or SKU entry while maintaining order history for future reference. The sales application also compares on-hand inventory and suggests the optimal order quantity based on pre-determined parameters. The solution makes real time inventory available, which ensures the ability to meet customer expectations.

Sales Supervisor - This software is designed to provide customers with centralized control and management, as well as activity support and improved information for account managers and sales/service representatives in the field.

The core features of Sales Supervisor include modules for:

- team management (job profiles, customer allocation, objectives/targets)
- account management (account distribution, contact details, pricing policies)
- journey and visit planning (plan by geography/priority/size, call frequencies)
- order taking (direct/indirect orders, discounts and promotional rules)
- product management (authorized product list, promotional products, seasonal products)
- market analysis (competitor analysis, product positioning, customer surveys)
- merchandising (display objectives, promotional equipment)
- delivery (delivery schedules, truck sales)
- service (call schedule, customer signatures)
- promotion management (calendar promotions, targets by region)
- reporting (design reports/graphs, define recipients)

Sales Supervisor is designed to operate in a corporate network on a Windows NT/2000 operating system, within an SQL-Server or Oracle database, and can be secured and configured for each specific user. It is designed to allow a mobile worker to operate from a wired or wireless laptop or pen computing device running the Windows 95/98/CE or NT/Windows 2000 operating systems and to provide for multiple levels of security (network, server and user).

Sales Supervisor has an open architecture design whereby it integrates easily with other back office systems and CRM platforms, such as systems developed by SAP AG and Siebel Systems, Inc.

Plan-o-gram – Shelf space planner gives field merchandising and sales representatives the ability to create and display shelf space planning diagrams while at a customer location.

Wireless Applications and Infrastructure

Versatile provides a combination of Versatile's proprietary software applications and hardware peripherals that enable enterprises to communicate wirelessly between a head office and mobile workers. Versatile also provides consulting services.

Versatile has developed the following proprietary software and hardware for wireless applications and infrastructure:

Mobiquity Server- The Mobiquity server is Versatile's Middleware platform server, and is available under Microsoft's SQL Server 2000/2003:

The .NET Framework – A communications and Web tier interface server built with the Microsoft .NET framework, SQL Database, and ASPX Web pages for user interaction. This server supports the mid-market and enterprise level mobile solution applications including wireless communications, store and forward messaging. The server provides XML – Business Object Documents services of mobile and enterprise data.

Mobile Ranger - Versatile manufactures its own line of wireless vehicle docking stations for transmitting data in the field. The Mobile Ranger multi-port vehicle dock supports two internal communications devices (wide area and GPS), as well as two external communications ports for additional communications, peripherals or sensors. Versatile supports the multi-port dock with its own software API (application programming interface) libraries. The Mobile Ranger series is available in a stand-alone form for use with any mobile computer or in an integrated form with a built-in cradle for the Symbol Technologies Inc. PPT-1700/1800 Palm O/S, and PPT-2700/2800 Windows CE/Pocket PC 2002 mobile computers. The Mobile Ranger is Versatile's third generation of mobile wireless vehicle docking stations.

Products Under Research and Development – Versatile continues to pursue the applicability of RFID (radio frequency identification) within the target market verticals we sell and deploy. Versatile has just completed certification with various manufacturers such as; Matrics (now Symbol), and Zebra, in an effort to stay ahead of the development curve. This research will allow Versatile to reduce time to market on forthcoming RFID solutions that the company believes will deliver unprecedented value to the industry.

Versatile is in negotiations with a hardware provider to supply the core components of new generation Mobile Ranger II designed to handle any hand held terminal with wireless communications, and additional GPS software location functionality.

Market for the Products

The primary market opportunity for Versatile's product lies within the retail/CPG (Consumer Packaged Goods) vertical and represents approximately 46,000 CPG suppliers. The products fulfill the Direct Store Delivery model business requirements of:

- Managing the space that contains containing the supplier's products
- Conducting and executing in-store merchandising functions
- Handling store level category management
- Facilitating appropriate store-level inventory ensuring maximum sell-thru
- Enabling the retail supply chain to benefit from products with high velocity returns and high profit margins.

The past ten years has seen significant growth in the Direct Store Delivery model due to fundamental shifts within the industry where suppliers assume more ownership and accountability of their product lines within the retail stores. In many cases the inventory itself is owned by the supplier until 'point of sale' (action of passing the item through the retail registers for payment) thus shifting the responsibility for inventory and product sale to the supplier.

Furthermore, Versatile believes the market in the retail/CPG sector may grow if retailers continue to pressure CPG suppliers to use the DEX standard of electronic invoicing. DEX represents one-step in an identified fifteen within the Direct Store Delivery process. However DEX also uses complex standards issued by the Uniform Code Council (UCC) that typically require a significant amount of technology resources to implement. Consequently most suppliers, large and small, have chosen hardware 'Value Added Resellers' (VARs) to supply the DEX software along with their hardware purchase. The DEX product provides the base application for Versatile to move to higher end point solutions such as VM Pre-Sales, and VM Delivery following the vein of repeatable installation process typical of a point solution requiring little to no host data integration, and low support risk.

The secondary market opportunity for Versatile is within the freight LTL carrier market representing over \$31 billion in annual revenue including just the 'Top 100' carrier companies as rated by 'Inbound Logistics', an industry publication. This market is full of mid-tier companies that have 200 to 600 routes that would fit the 'point solution' approach very neatly. Carriers are continuing to look at streamlining and increasing accuracy of their terminal capacity issues through increased visibility of route activity with wireless real time data from the mobile device.

The key to capturing these markets is *ease-of-use* intuitive point solutions that are *easy to install*. Versatile believes the market is looking for a straightforward business process solution, with proven measurable return on investment that will pay for itself within six months of full installation. The installation should be a proven repeatable process requiring little or no customization that represents a *low* support risk to the organization.

The overall objective is to continue to build upon a robust suite of products while leveraging the point solution sales strategy with companies that are under the basic 'run the business' initiatives, taking advantage of the identified target market opportunities, realizing greater revenue potential and leading to target market dominance. The point solution sales approach does *not* preclude the sales team from the Route Sales enterprise opportunity, a typically longer sales cycle centered around companies under the 'change the business' initiatives. The point solution approach enables shorter sales cycles and predictable revenue stream for the company.

Marketing Plan

The Company believes that the convergence of wireless communications, Internet appliances and the Internet will drive rapid growth in the wireless data communications industry. The Company is capitalizing on its current market position and technology base and investing in emerging wireless technologies to exploit wireless data growth. The Company's goal is to be a leading provider of both mobile wireless applications and infrastructures and software solutions for the mobile workforce in the consumer packaged goods industry. The Company has adopted the following key strategies.

Attract and Retain Key People

The Company has assembled a talented and experienced wireless data team and believes that competition for people is as important as competition with respect to products and distribution. Versatile selects people based on their experience, ability and attitude, with the objective of building a highly productive team.

Maximize Strategic Relationships

The Company views strategic relationships within the wireless communications, portable computing and Internet industries as critical to maximizing sales opportunities and optimizing next generation technology investments. Versatile achieves a significant advantage by accessing the resources of its often much larger alliance partners to increase the Company's effective market presence.

Scalable Business Model

The Company intends to employ a scalable business model to grow revenues and improve margins. Key elements include: (i) outsourcing selected business activities, principally certain manufacturing services, in order to achieve production scalability, participate in suppliers' economies of scale and reduce equipment capital costs and obsolescence risk; (ii) maintaining selling prices and gross margins by investing in high value-added products and name brand recognition; and (iii) investing in quality and reliability initiatives to reduce costs of goods and operating expenses over the long term.

Pursue Selected Strategic Acquisitions

Versatile believes that internal growth and market entry can be accelerated by acquisitions. The Company pursues acquisition opportunities based on criteria such as extending the Company's product line, adding value by providing a more complete solution, acquiring emerging wireless communications technologies and accelerating geographic or market segment entry.

Business Objectives

During 2005, the Company's objectives are:

- To enter into alliances with other companies to target Fortune 500 opportunities for our solutions/software.
- To increase critical mass through strategic acquisitions.
- To develop a market driven Intellectual Property focus.
- To attain profitability in the current fiscal year.

Research and Development Plan

The Company's products have been developed over varying periods in the last six years. They are presently all in a form for commercial deployment. The Company's research and development program is to continue to enhance its existing products to ensure they remain compatible with emerging technologies in the areas of development environments, operating systems, hardware platforms and wireless communication protocols.

The Company has a strong technical design, development and support group. The Company has nine employees engaged in research and development activities. Currently, this group is responsible for product development as well as custom project work, enhancements and sharing support and maintenance duties.

The Company's success depends on a number of factors that include its ability to identify and respond to emerging technological trends in its target markets, develop and maintain competitive products, enhance

its existing products by adding features and functionality that differentiate them from those of its competitors and bringing products to market on a timely basis and at competitive prices. As a result, the Company has made and intends to continue to make significant investments in research and product development.

Competition

The Company believes its most significant direct competitors are Eleven Technologies, Inc., UPS Logistics Group, Intermec Technologies Corporation, MEI Inc. and Sybase Inc. Other competitors are present in sub-verticals such as beverage, bakery, dairy, etc. but tend to be fairly small and focus only on their narrow speciality.

Agentek, Inc.

Agentek, Inc. founded in 1995 is a full-service solutions integrator and software applications development company, specializing in Mobile & Wireless Data Collection. While most of Agentek's solutions are of a custom approach, they begun to market themselves as a mobile solutions product provider.

Eleven Technologies, Inc.

ELEVEN Technology founded in 2000 is a leading provider of mobile workforce effectiveness solutions. The company's [SMARTselling™](#) and [SMARTretail™](#) software products provide intelligence that actively helps mobile sales and field reps sell and distribute their products

UPS Logistics Group

UPS Logistics Group ("UPS Logistics"), a wholly-owned subsidiary of United Parcel Service, provides geographic information systems to mobile pickup and delivery companies. UPS Logistics is a new competitor to Versatile as UPS Logistics has recently moved into the mobile wireless data business. In an attempt to leverage their 30,000 users installed throughout the world, UPS Logistics has developed its MobileCast™ product that communicates through its host server systems to handle dispatch and other information.

Intermec Technologies Corporation (formerly Norand)

Intermec Technologies Corporation ("Intermec"), formerly Norand, is the leading mobile systems hardware and software vendor in the wholesale sales and distribution industry. Intermec has developed industry specific software and hardware for this industry. Intermec Corporation (a division of Unova) acquired Norand in 1996.

MEI, Inc.

MEI provides mobile enterprise solutions for its customers to improve their operating results and customer relationships. In doing so, MEI markets themselves as having a reputation of being a world leader in delivering Complete Trade and Retail Management solutions for the Consumer Goods industry.

Sybase, Inc

Sybase is a leading mobile consumer content provider, which recently acquired AvantGo Inc. AvantGo developed in partnership with McKesson Pharmaceuticals Corporation a mobile delivery product. Sybase has recently acquired AvantGo in order to extend their mobile database market penetration. It is unclear

whether Sybase will pursue the mobile enterprise market, as Sybase may not retain the required expertise following the acquisition.

Risk Factors

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

Limited Operating History

The Company's limited operating history makes it difficult to predict how its business will develop and its future operating results.

The Company's predecessor company commenced operations in March 1987 to distribute and sell Maximizer products in European countries, as well as provide consulting services and CRM solutions to companies. In January 1997, the Company changed its focus to research and development of CRM software. The Company purchased Versatile U.S. on June 19, 2000. The Company has a limited operating history as a merged entity, and faces many of the risks and uncertainties encountered by early-stage companies in rapidly evolving markets.

History of Losses

The Company has a history of losses and may incur losses in the future, and its losses may increase because of the Company's plan to increase operating expenses.

The Company has incurred net losses in each fiscal year since inception. In the year ended June 30, 2004, the Company had a net loss of approximately \$ 652,692 and, at June 30, 2004, the Company had an accumulated deficit of \$53.1 million. Although the Company has decreased its operating expenses in recent periods, the Company will need to generate greater revenues than it has to date to achieve and maintain profitability. The Company cannot be assured that revenues will increase. The Company's business strategies may not be successful and the Company may not be profitable in any future period.

The Company's operating results have varied in the past, and they may continue to fluctuate in the future. In addition, the Company's operating results may not follow any past trends.

No Certainty of Future Profitability

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

Even though the Company's revenues are difficult to predict, the Company's expense levels are based in part on future revenue projections. Many of the Company's expenses are fixed and, accordingly, the

Company cannot quickly reduce spending if revenues are lower than expected. This could result in significantly lower income or greater loss for any given period.

Competitive Market

The market for the Company's software is intensely competitive, fragmented and rapidly changing. Some of the Company's actual and potential competitors are larger, established companies that have greater technical, financial and marketing resources.

In addition, as the Company develops new products, particularly applications focused on electronic commerce or specific industries, it may begin competing with companies with whom it has not previously competed. It is also possible that new competitors will enter the market or that the Company's competitors will form alliances that may enable them to rapidly increase their market share.

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

Technological Change

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

Limited Sales and Support Infrastructure

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

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

Dependence on Business Alliances

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

Dependence on Key Personnel

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

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

Management of Growth

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

Integration of Newly Acquired Businesses or Technology

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

Potential Fluctuations in Quarterly Financial Results

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

International Sales

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

Currency Exchange Rate Risk

The Company's results are reported in Canadian dollars. A substantial portion of the Company's revenues and a material portion of its expenses are denominated in US dollars. Any fluctuations in the value of the Canadian dollar relative to the US dollar may result in variations in the sales and earnings of the Company expressed in Canadian dollars as a result of the geographic mix of the Company's customers, and may have a material effect on the Company's business, results of operations and financial condition.

Dependence on Proprietary Technology and Limited Patent and Trademark Protection

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

Risk of Third Party Claims for Infringement

The Company is not aware that its product infringes the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by the Company or its licensees with respect to current or future products. The Company expects that software product developers will increasingly be subject to such claims as the number of products and competitors in the Company's

industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements which, if required, may not be available on terms acceptable to the Company. Any of the foregoing could have a materially adverse effect on the Company's business, results of operations and financial condition.

Lengthy Sales and Implementation Cycle

The adoption of the Company's product generally involves a significant commitment of resources by potential customers. As a result, the Company's sales process is often subject to delays associated with lengthy approval processes by potential customers. For these and other reasons, the sales cycle associated with the license of the Company's product varies substantially from customer to customer and typically lasts between 6 and 15 months during which time the Company may devote significant time and resources to a prospective customer, including costs associated with multiple site visits, product demonstrations and feasibility studies, and experience a number of significant delays over which the Company has no control.

Any significant or ongoing failure by the Company to ultimately achieve such sales could have a material adverse effect on the Company's business, results of operations and financial condition. In addition, following license sales, the implementation period is expected to involve a time period for customer training and integration with the customer's existing systems. A successful implementation program requires a close working relationship between the Company, the customer and, generally, third party consultants and system integrators who assist in the process. There can be no assurance that delays or difficulties in the implementation process for any given customer will not have a material adverse effect on the Company's business, results of operations and financial condition.

Risk of System Defects

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

Requirements for New Capital

As a growing business, the Company typically needs more capital than it has available to it or can expect to generate through the sale of its products. In the past, the Company has had to raise, by way of debt and equity financing, considerable funds to meet its capital needs. There is no guarantee that the Company will be able to continue to raise funds needed for its business. Failure to raise the necessary funds in a timely fashion will limit the Company's growth. See also "Management's Discussion and Analysis of Financial Condition and Operating Results – Versatile - Capital Resources and Liquidity".

Dividends

The Company has not paid dividends in the past and does not anticipate paying dividends in the near future. The Company expects to retain its earnings to finance further growth and, when appropriate, retire debt. See "Management's Discussion and Analysis of Financial Condition and Operating Results - Dividend Record and Policy".

Proprietary Information

The Company relies on general trademark, copyright and trade secret law to protect its products. The Company has not formally registered trademarks or copyrights nor has it obtained any patent protection for any of its products. See "Risk Factors".

Personnel

The Company currently has a total of 50 full and part-time employees. Of these, 19 employees serve in a product support integration capacity, 12 employees serve in a management and administration capacity, 13 employees serve in a sales and marketing capacity and 6 employees serve in a research and development capacity. These employees operate out of the following offices of the Company:

	Product Support Integration	Mgmt. & Admin.	Sales, Marketing & Support	Research & Development	Total
Vancouver, British Columbia	0	4	0	1	5
Seattle, Washington	15	7	13	4	39
Woking, United Kingdom	4	1	0	1	6
Totals:	19	12	13	6	50

The foregoing full and part-time personnel are sufficient to meet the Company's stated business objectives. Additional personnel will be added as and when circumstances warrant and profits or additional funding permits. There are no assurances that the Company will have any profits or obtain any additional funding to add staff, if needed.

For particulars on the Company's directors and senior officers, see "Directors and Officers".

Offices

The Company's corporate head office is located at Suite 1601 – 750 West Pender Street, Vancouver, British Columbia V6C 2T8 and occupies approximately 1,750 square feet of leased space.

The Company also occupies approximately 16,000 square feet of leased space in Seattle, Washington at Suite 103 - 19105, 36th Avenue West, Lynnwood, Washington, U.S.A. 98036. This office serves as the Company's research and development facility, customer support and base for U.S. operations.

The Company also occupies approximately 2,050 square feet of leased space in Woking, United Kingdom at 7th Floor, Dukes Court, Dukes Street, Woking, Surrey GU21 5BH. This office serves as the Company's research and development facility, customer support and base for U.K. operations.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following is a summary of certain selected financial information, which is qualified by the more detailed information appearing in the financial statements of the Company. The audited consolidated financial statements of the Company for the fiscal year ended June 30, 2004 are incorporated by reference into this Annual Information Form.

Annual Information

The Company's fiscal period ends on June 30 of each year. The following is a summary of certain selected audited consolidated financial information for the three most recently completed fiscal years of the Company:

All in \$1,000's except per Share Amounts and Number of Shares			
Year ended June 30	2004	2003	2002
Revenues:	\$ 19,445	\$ 20,596	\$ 16,033
Gross profit:	\$ 5,606	\$ 5,758	\$ 6,333
Total expenses:	\$ 6,258	\$ 8,498	\$ 15,397
Net earnings (loss):	\$ (652)	\$ (2,740)	\$ (20,022)
Earnings (loss) per share: ⁽¹⁾	\$ (0.01)	\$ (0.03)	\$ (0.12)
As at June 30	2004	2003	2002
Working capital:	\$ 3,620	\$ 1,158	\$ 3,962
Total assets:	\$ 11,012	\$ 7,877	\$ 16,373
Capital Assets:	\$ 157	\$ 277	\$ 409
Other intangibles:	\$ 3,750	\$ 3,849	\$ 4,124
Capital lease obligations: ⁽²⁾	\$ 23	\$ 30	\$ --
Total liabilities:	\$ 3,508	\$ 2,625	\$ 8,120
Share capital ⁽³⁾⁽⁴⁾ :	\$ 60,886	\$ 57,980	\$ 57,980
Number of shares ⁽³⁾⁽⁴⁾ :	90,672,134	79,897,533	79,897,533
Retained earnings (deficit):	\$ (53,091)	\$ (52,438)	\$ (49,698)

⁽¹⁾ Fully diluted loss per share is the same as the loss per share figure.

⁽²⁾ In 2004, the current portion of the capital lease obligations is \$7,589 (2003 - \$16,663 and 2002 - \$20,296) - see note 6 to the financial statements.

⁽³⁾ The Company has only one kind and class of shares issued and outstanding, being common shares. Includes contributed surplus, share subscriptions, warrants and special warrants.

⁽⁴⁾ No dividends were paid during the periods reported above. See also "Management's Discussion and Analysis of Financial Condition and Operating Results - Dividend Record and Policy".

Quarterly Information

The following is a summary of certain selected unaudited consolidated financial information for the eight fiscal quarters comprising the two most recently completed fiscal years of the Company:

All in \$1,000's except per Share Amounts	Unaudited (As at or for the Period ended for the year ended June 30, 2004)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues:	\$ 5,226	\$ 5,040	\$ 4,468	\$ 4,711
Gross profit:	\$ 1,821	\$ 1,524	\$ 1,484	\$ 777
Total Expenses:	\$ 1,677	\$ 1,520	\$ 1,561	\$ 1,500
Net earnings (loss):	\$ 144	\$ 5	\$ (77)	\$ (725)
Earnings (loss) per share	\$ 0.00	\$ 0.00	\$ (0.00)	\$ (0.01)
Working capital:	\$ 4,183	\$ 2,187	\$ 4,209	\$ 3,620
Total assets:	\$ 8,276	\$ 9,670	\$ 10,816	\$ 11,012
Total liabilities:	\$ 2,890	\$ 3,487	\$ 2,663	\$ 3,508
Retained earnings (deficit):	\$ (52,294)	\$ (52,290)	\$ (52,366)	\$ (53,091)

All in \$1,000's except per Share Amounts	Unaudited (As at or for the period ended for the year ended June 30, 2003)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues:	\$ 4,729	\$ 3,862	\$ 7,710	\$ 4,295
Gross profit:	\$ 1,594	\$ 991	\$ 2,124	\$ 1,049
Total Expenses:	\$ 2,376	\$ 2,060	\$ 2,240	\$ 1,822
Net earnings (loss):	\$ (781)	\$ (1,069)	\$ (117)	\$ (773)
Earnings (loss) per share	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.01)
Working capital:	\$ 3,440	\$ 2,318	\$ 2,079	\$ 1,158
Total assets:	\$ 14,534	\$ 12,999	\$ 8,781	\$ 7,877
Total liabilities:	\$ 6,892	\$ 6,460	\$ 2,554	\$ 2,625
Retained earnings (deficit):	\$ (50,480)	\$ (51,549)	\$ (51,665)	\$ (52,438)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATING RESULTS

The following management's discussion and analysis of the consolidated results of operations and financial condition of Versatile Mobile Systems (Canada) Inc. (the "Company") is made as of September 2, 2004 and should be read in conjunction with the audited consolidated financial statements and notes for the year ended June 30, 2004. The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The consolidated financial statements and management's discussion and analysis have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors and are presented in Canadian dollars unless otherwise specified.

The preparation of financial statements in conformity with Canadian GAAP 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.

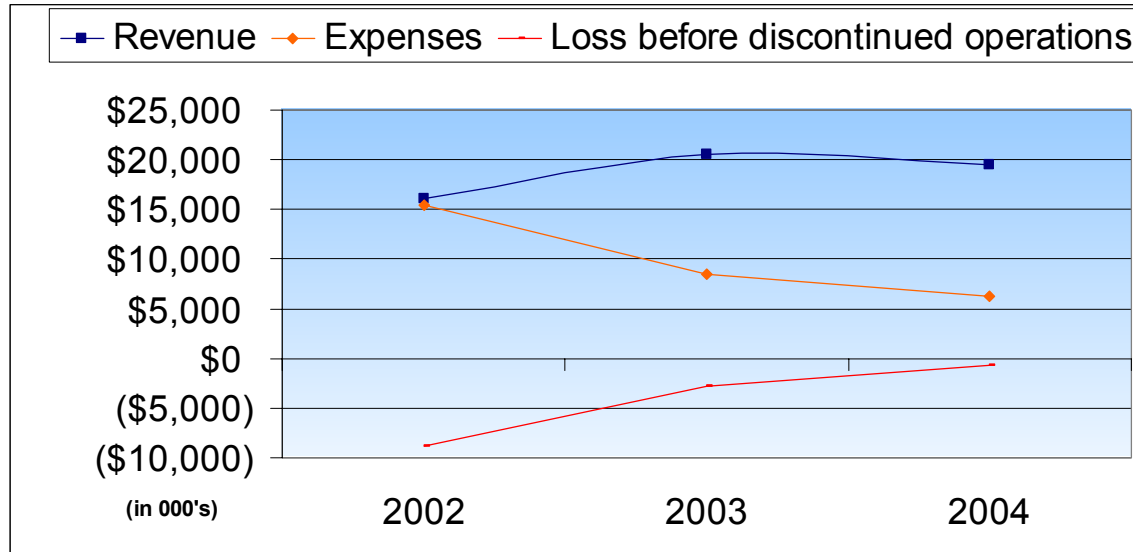
Highlights for the year

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

- Versatile's VM DEX Server product was chosen by Kellogg Company for implementation in over 50 distribution centers throughout the U.S.A. and VM DEX 3.1 mobile client software was selected for deployment to 1000 Kellogg Direct Store Delivery route drivers.
- Cadbury, Ireland was upgraded to the current version of Versatile's Sales Supervisor product, which upgrade included integration with Cadbury's SAP system.
- Guinness, Ireland licensed Versatile's Shelf Space Planner, which enables their salespeople to create a unique Planogram for each pub or retailer they visit, resulting in the optimum product display.
- Strengthening of the balance sheet with a brokered private placement of \$2,220,000 at a price of \$0.27 per unit and a non-brokered private placement of \$870,000, of which the Directors put in \$370,000, at a price of \$0.35 per unit.
- Versatile named to Deloitte and Touche Fast 500 List, a ranking of the fastest growing 500 technology companies in North America.

Review of operations

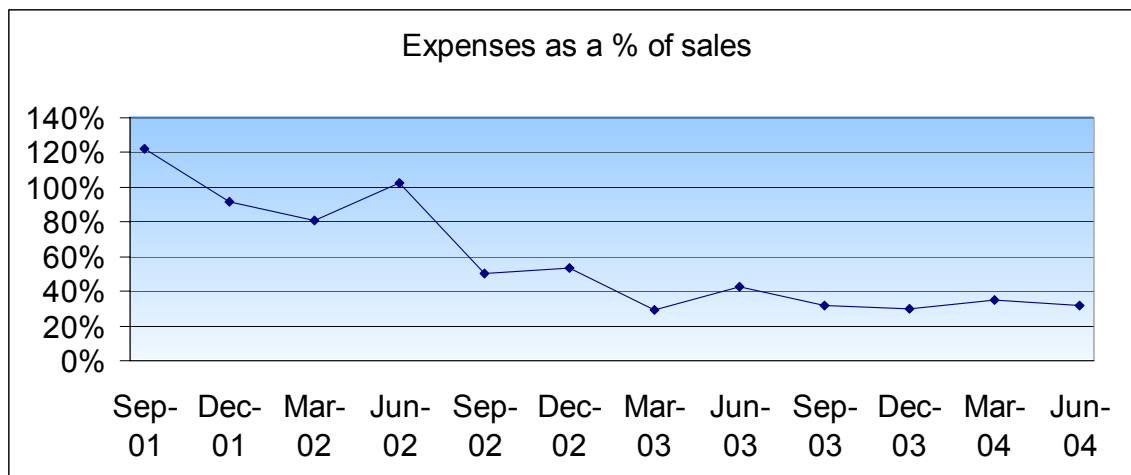
Revenue for the year ended June 30, 2004 was \$19,445,105 compared to \$20,596,215 in 2003, a decrease of 5.6%. The loss for the year was \$652,692 (\$0.01 per share) compared to a loss of \$2,739,753 (\$0.03 per share) for 2003. Amortization of capital assets and intangible assets for the year was \$329,760 compared to \$440,300 for the previous year.



Revenue decreased by \$1,151,110 or 5.6% in the year over the previous year. In the prior year the company recognized as revenue invoiced amounts related to the Books are Fun project that were deferred in 2002. The invoiced amounts were recognized as revenue in the 2003 fiscal year as the company completed all of its contractual obligations.

Cost of sales for the year amounted to \$13,839,103 resulting in a gross profit of \$5,606,002 or 28.8% of sales as compared to \$14,838,352 and a gross profit of \$5,757,863 or 28.0% of sales in the previous year.

The Company determines its provision for inventory obsolescence based upon historical experience, expected inventory turnover, inventory aging and current condition, and current and future expectations with respect to product offerings. Assumptions underlying the provision for inventory obsolescence include future sales trends and product offerings, and the expected inventory requirements and inventory composition necessary to support these future sales and offerings. The estimate of the Company's provision for inventory obsolescence could materially change from period to period due to changes in product offerings and consumer acceptance of those products. During the year the Company recorded an inventory provision and adjustments of \$189,807 (2003 - \$414,126), which are recorded in the cost of sales.



General and administrative expenses for the year amounted to \$2,570,231 compared to \$3,567,837 last year. Salaries, professional fees, investor relations, communications, office costs and rent were all lower in the year.

Research and development expense for the year amounted to \$1,042,165 compared to \$1,675,837 for last year. Costs decreased as research and development work for several major initiatives were completed last year, which resulted in significant staff reductions. During the year the Company had many new product initiatives, along with feature improvements to current product lines. During the year the Company:

- Upgraded VM Pre-Sales™ for Pocket PC™,
- Launched VM Route Sales Lite™ for Pocket PC™,
- Expanded Mobile Ranger's™ capabilities by adding GPRS and GSM to meet customer requirements, and
- Obtained Microsoft certification.

The significant expense item in this category is salary and benefit costs, which amounted to \$923,966 compared to \$1,190,367 last year. In addition, the consulting fees decreased from \$453,153 last year to \$73,169 for the current year.

Selling and marketing expense for the year amounted to \$2,544,508 compared to \$2,732,892 last year. The decrease from last year is attributable to lower salaries and commissions which are partially offset by higher advertising and promotion costs. Selling and marketing expenses in the upcoming year have been budgeted to increase to support new sales initiatives. The selling and marketing expense has decreased from 47.5% of gross profit from the prior year to 45.4% in the current year.

During the year the Company recorded a recovery of premise costs amounting to \$260,373, which have been separately disclosed in the Statement of Operations.

In summary from the 2002 fiscal year to the 2004 fiscal year the Company has seen a significant drop in the expenses in relation to revenue and improved cash flow from operations. The loss from operations has dropped from 55% of revenue in 2002 to 3% of revenue in 2004. Finally, the cash required to fund operations has declined significantly as illustrated in the following table.

	2002	2003	2004
Cash flow from operations before non cash working capital items	(4,283,834)	(2,658,769)	(554,468)
Loss before discontinued operations	(8,797,545)	(2,739,753)	(652,692)
Amortization	5,357,730	440,300	329,760
Loss, net of amortization	(3,439,815)	(2,299,453)	(322,932)

Financial position

Working capital at June 30, 2004 was \$3,620,261, an increase of \$2,462,670 over the working capital of \$1,157,591 at June 30, 2003. Cash and cash equivalents at June 30, 2004 amounted to \$2,030,248. The ability of the Company to continue operations on an ongoing basis will be dependent on its ability to generate sales, maintain its margins and control operating expenses. The company has cash on hand and accounts receivable sufficient for the company to meet all of its current obligations as they become due.

	2004	2003
Cash and cash equivalents	2,303,248	1,152,287
Accounts receivable	3,155,283	1,440,340
Inventory	1,894,592	1,094,694
Other	25,263	64,876
Current Assets	7,105,386	3,752,197
Less current liabilities	(3,485,125)	(2,594,606)
Working Capital	3,620,261	1,157,591

Cash required for continuing operations before non-cash working capital for the year was \$554,468 compared to \$2,658,769 in the previous year. Cash required for capital expenditures in the year amounted to \$111,279 and capital lease obligations were reduced by \$16,527. The two private placements completed during the year provided cash of \$2,868,830, net of the share issue costs.

Share Capital

On December 4, 2003 the Company closed a non-brokered private placement for gross proceeds of \$870,000. The Company issued 2,485,713 Units at a price of \$0.35 per Unit. All of the officers and directors of the Company participated in this placement subscribing for 1,071,428 Units. Each Unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant will entitle the subscriber to purchase one common share of the Company on or before December 4, 2004 at a price of \$0.40 per common share. For accounting purposes the price of \$0.35 per Unit was allocated as to \$0.30 for each common share and \$0.05 for each share purchase warrant. The issued securities were subject to a hold period, which expired on April 5, 2004.

On March 17, 2004 the Company closed a brokered private placement for gross proceeds of \$2,220,000. The Company issued 8,222,222 Units at a price of \$0.27 per Unit. Each Unit consisted of one common share and one-half of a common share purchase warrant. Each whole common share purchase warrant entitles the subscriber to purchase one common share of the Company on or before September 17, 2005 at a price of \$0.40 per common share. For accounting purposes the price of \$0.27 per Unit was allocated as to \$0.25 per common share and \$0.02 to the one-half share purchase warrant. The Company paid the agent a cash commission of \$166,500 and issued 822,000 Brokers Warrants, which entitle the holder to purchase one common share of the Company on or before March 17, 2005 at a price of \$0.37 per common share. The Brokers Warrants were assigned a value of \$32,889, which was recorded as a share issue cost. The issued securities were subject to a hold period, which expired on July 18, 2004.

Stock Options

During the year the Company granted employees and a director, incentive stock options to acquire a total of 420,000 common shares of the Company. These incentive stock options have a vesting period from 4 months to 28 months, and are exercisable for a period of up to 4 years with exercise prices ranging from \$ 0.11 to \$0.32 per share.

During the year, 170,000 stock options were forfeited or expired (2003 – 1,859,000) and 66,666 stock options were exercised at \$0.10 per share (2003 - no stock options were exercised).

New Accounting Policies:

During the year the company elected to prospectively adopt the Canadian Institute of Chartered Accountants Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments recommendation relating to stock options granted to employees subsequent to June 30, 2003. The recommendations relating to stock-based payments to non-employees were adopted effective July 1, 2003. The standard requires the recognition of stock-based compensation expense for all employee and non-employee stock-based compensation transactions using a fair value based method. The adoption of this accounting policy resulted in the recognition of \$31,284 in compensation expense and additional contributed surplus for the year ended June 30, 2004 for stock options granted to employees.

In 2003 the Company adopted CICA Handbook Section 3062, Goodwill and Other Intangible Assets issued in August, 2001. The company was required to assess whether the intangible assets previously identified as part of the acquisition of the U.S. operations met the new definition of intangible assets. In performing this assessment, the company determined that the acquired workforce and developed technology no longer met the criteria of an intangible asset. As such, the company reclassified a net balance of \$2,222,498 from intangible assets to goodwill.

Also in adopting CICA Handbook Section 3062, the company is required to evaluate the carrying value of goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. During the year, the company performed an assessment of the carrying value of goodwill and found that no impairment charge was required for the year.

Foreign Exchange

Foreign exchange rates for the U.S. dollar did not fluctuate in the year to the extent of the change in the prior year when the Canadian dollar strengthened. The closing rate at June 30, 2004 was 1.3404 (1.3475 at June 30, 2003 and 1.5162 at June 30, 2002). The average rate for fiscal 2004 was 1.3433 (2003 was 1.5129). A significant change in the rates has an impact on the Company's financial statements as most of the company's operations are in the U.S., which operates its business in U.S. dollars and are translated into Canadian dollars at the prevailing rate.

Related Party Transactions

During the year, the Company paid consulting fees and salaries, which are included in the General and administration expense and Selling and marketing expense, of \$712,598 (2003 - \$681,129). In addition, company-related expense reimbursements paid to directors and officers in the year totalled \$126,502 (2003 - \$169,939).

On December 4, 2003 the Company closed a non-brokered private placement for gross proceeds of \$870,000. All of the officers and directors of the Company participated in this placement subscribing for 1,071,428 Units at a price of \$0.35 per Unit. Each Unit consisted of one common share and one common share purchase warrant.

During the year the Company granted a director, incentive stock options to acquire a total of 75,000 common shares of the Company vesting in 4 months and exercisable for a period of up to 4 years with an exercise price of \$0.32 per share.

Management Changes

On November 27, 2003, Fraser Atkinson, was appointed to the Board of Directors of the company.

Investor relations

During the year Equicom was engaged at a total cost of \$6,500 (2003 – an individual was engaged at a total cost of \$71,928).

Forward-Looking Statements

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

MARKET FOR SECURITIES

The common shares of the Company are listed and posted for trading on the TSX Venture Exchange under the symbol "VMS". The following table sets forth, for the periods indicated, the high and low sale prices as well as the number of Common Shares traded on the TSX Venture Exchange.

Period	<u>Price Range</u>		Trading Volume
	High	Low	
Fiscal Year 2003			
First Quarter	\$ 0.50	\$ 0.23	6,253,287
Second Quarter	\$ 0.28	\$ 0.15	1,387,033
Third Quarter	\$ 0.19	\$ 0.08	4,681,115
Fourth Quarter	\$ 0.18	\$ 0.09	5,331,301
Fiscal Year 2004			
First Quarter	\$ 0.21	\$ 0.09	10,800,000
Second Quarter	\$ 0.43	\$ 0.17	11,781,024
Third Quarter	\$ 0.35	\$ 0.24	6,895,044
Fourth Quarter	\$ 0.35	\$ 0.23	5,578,312
Fiscal Year 2005			
July	\$ 0.28	\$ 0.21	1,641,127
August	\$ 0.20	\$ 0.13	909,816
September	\$ 0.20	\$ 0.17	1,240,907
October	\$ 0.195	\$ 0.16	869,482

DIRECTORS AND OFFICERS

The following is a list of the current directors and officers of the Company, their municipalities of residence, their current positions with the Company and their principal occupations during the past five years:

Name, Position and Municipality of Residence	Principal Occupation During the Past 5 Years	Service as a Director or Officer	Number of Common Shares ⁽¹⁾
John Hardy ⁽²⁾ <i>Chairman, CEO and Director</i> Vancouver, B.C.	Chairman of the Company since December 1996; Chief Executive Officer of the Company from January 1997 to present; President of the Company January 1997 to May 2000 and reappointed in May 2001 to October 2002.	Chairman since December 1996 Chief Executive Officer since February 1997 Director since October 1996	2,720,224
Jens Montanana ⁽²⁾ <i>Director</i> London, United Kingdom	Chief Executive Officer of DataTec Limited, an international networking and technology company operating in South Africa, Europe and the United States, which he established in 1986.	Director since January 1997	2,228,571
Malcolm F. Clay ⁽²⁾ <i>Director</i> Vancouver, B.C.	Mr. Clay was an audit partner at KPMG LLP for over 25 years. Mr. Clay was the Partner-in-charge of the Assurance Practice of KPMG in Vancouver for eight years and was for three years a Director and Chairman of the Board of KPMG Canada LLP. As a public accountant he served as lead audit or concurring partner for major public companies listed on the NYSE, AMEX and TSX. Mr. Clay is the chair of the Company's audit committee.	Director since April, 2003	100,000
Robert Polychron <i>President and Director</i> Chicago, Illinois, USA	President of the Company from October 2002 to present; Executive Vice President, Sales and Marketing of Transcept Inc., (now OpenCell) a wireless infrastructure company based in Manchester, New Hampshire since November 2000. Chief Executive Officer of Ironstream, Inc, a technology-based company based in Lowell, Massachusetts, since July 2000; Executive Vice President of Xedia Corporation, an Internet networking company based in Acton, Massachusetts, from January 1995 until December 1999.	Director since December, 1999 President since October, 2002	2,307,357
Fraser Atkinson <i>Chief Financial Officer, Corporate Secretary, Director</i> Vancouver, B.C.	Chief Financial Officer of the Company from February 21, 2003 to present; Partner, KPMG LLP from August, 1988 to September, 2002.	Chief Financial Officer since February, 2003 Corporate Secretary since October 23, 2003, Director since November 2003	1,950,000

- (1) The information as to shares beneficially owned or over which a director or officer exercises control or direction, not being within the knowledge of the Company, has been furnished by the respective directors and officers individually.
- (2) Denotes member of the Company's Audit Committee.

The directors and officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over 9,306,152 common shares of the Company.

Appointment of Directors

The directors of the Company are elected by the shareholders at each annual general meeting and hold office until the next annual general meeting at which time they may be re-elected or replaced.

The articles of incorporation of the Company permit the directors to appoint directors to fill any casual vacancies that may occur on the board. The articles also permit the directors to add additional directors to the board between successive annual general meetings so long as the number appointed does not exceed one-third of the number of directors appointed at the last annual general meeting. Individuals appointed as directors to fill casual vacancies on the board or added as additional directors hold office like any other director until the next annual general meeting at which time they may be re-elected or replaced.

Conflicts of Interest

Conflicts of interest may arise as a result of the directors and officers of the Company or its subsidiaries also holding positions as directors and/or officers of other companies. Some of the directors and officers have been and will continue to be engaged in the identification and evaluation of assets and businesses, with a view to potential acquisition of interests in businesses and companies on their own behalf and on behalf of other companies, and situations may arise where the directors and officers will be in direct competition with the Company or its subsidiaries. In accordance with the laws of the province of British Columbia, directors are required to act honestly, in good faith and in the best interests of the Company. In addition, directors in a conflict of interest position are required to disclose such conflicts to the Company.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Company's information circular for its most recent annual meeting of shareholders that involved the election of directors. Additional information is also provided in the Company's comparative financial statements for its most recently completed fiscal year.

Upon request to the Secretary of the Company, the Company will provide to any person or company:

- (a) a copy of this Annual Information Form together with a copy of any document incorporated by reference in this Annual Information Form;
- (b) a copy of the Company's comparative financial statements for its most recently completed fiscal year for which financial statements have been filed together with the accompanying report of the auditor and a copy of the most recent interim financial statements of the Company that have been filed, if any, for any period after the end of its most recently completed fiscal year; and

- (c) a copy of the Information Circular of the Company in respect of its most recent annual general meeting of shareholders that involved the election of directors.

A reasonable fee for copying may be charged if the request is made by a person who is not a registered security holder of the Company.

