

Versatile Mobile Systems (Canada) Inc.

Consolidated Financial Statements
June 30, 2004 and 2003

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, 2004 and 2003 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
July 29, 2004

Versatile Mobile Systems (Canada) Inc.

Consolidated Balance Sheets

As at June 30, 2004 and 2003

	2004 \$	2003 \$
Assets		
Current assets		
Cash and cash equivalents	2,030,248	1,152,287
Accounts receivable	3,155,283	1,440,340
Prepaid expenses	25,263	64,876
Inventory	1,894,592	1,094,694
	<u>7,105,386</u>	<u>3,752,197</u>
Capital assets (note 3)	156,848	276,541
Intangible assets (note 4)	105,278	204,066
Goodwill (note 5)	3,644,508	3,644,508
	<u>11,012,020</u>	<u>7,877,312</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,375,588	2,322,171
Deferred revenue	101,948	255,772
Current portion of capital lease obligations (note 6)	7,589	16,663
	<u>3,485,125</u>	<u>2,594,606</u>
Capital lease obligations (note 6)	22,563	30,016
	<u>3,507,688</u>	<u>2,624,622</u>
Shareholders' Equity		
Share capital (note 7)	58,378,832	55,824,954
Warrants (note 8)	321,619	-
Contributed surplus (note 9)	2,186,046	2,154,762
Deficit	(53,090,939)	(52,438,247)
Foreign currency translation adjustment	(291,226)	(288,779)
	<u>7,504,332</u>	<u>5,252,690</u>
	<u>11,012,020</u>	<u>7,877,312</u>
Nature of operations (note 1)		
Commitments (note 12)		
Subsequent event (note 16)		

Approved by the Board of Directors

_____(signed) John Hardy_____
Director

_____(signed) Fraser Atkinson_____
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, 2004 and 2003

	2004 \$	2003 \$
Sales	19,445,105	20,596,215
Cost of sales	13,839,103	14,838,352
	<u>5,606,002</u>	<u>5,757,863</u>
Expenses		
General and administrative	2,570,231	3,567,837
Selling and marketing	2,544,508	2,732,892
Research and development	1,042,165	1,675,837
Amortization of capital assets	230,972	190,869
Amortization of intangible assets	98,788	249,431
Stock-based compensation	31,284	-
Recovery of premise costs	(260,373)	-
Write-down of capital assets	-	95,276
Gain on marketable securities	-	(14,526)
	<u>6,257,575</u>	<u>8,497,616</u>
Loss before income taxes	(651,573)	(2,739,753)
Provision for income taxes	1,119	-
Loss for the year	(652,692)	(2,739,753)
Deficit - Beginning of year	(52,438,247)	(49,698,494)
Deficit - End of year	<u>(53,090,939)</u>	<u>(52,438,247)</u>
Loss per share - basic and diluted	<u>(0.01)</u>	<u>(0.03)</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, 2004 and 2003

	2004 \$	2003 \$
Cash flows from operating activities		
Loss for the year	(652,692)	(2,739,753)
Items not affecting cash		
Amortization of capital assets	230,972	190,869
Write-down of capital assets	-	95,276
Amortization of intangible assets	98,788	249,431
Deferred lease restructuring costs	-	(242,640)
Unrealized foreign exchange gain	(2,447)	(260,392)
Stock-based compensation	31,284	-
Recovery of premise costs	(260,373)	-
Other	-	48,440
	(554,468)	(2,658,769)
Net change in non-cash working capital items	(1,315,262)	946,685
	(1,869,730)	(1,712,084)
Cash flows from investing activities		
Proceeds of disposal of capital assets	-	5,600
Additions to capital assets	(111,279)	(114,994)
	(111,279)	(109,394)
Cash flows from financing activities		
Repayment of capital lease obligations	(16,527)	(36,195)
Proceeds from stock options exercised	6,667	-
Proceeds from share capital and warrants issued	3,090,000	-
Share issue costs	(221,170)	-
	2,858,970	(36,195)
Increase (decrease) in cash and cash equivalents	877,961	(1,857,673)
Cash and cash equivalents - Beginning of year	1,152,287	3,009,960
Cash and cash equivalents - End of year	2,030,248	1,152,287
Supplemental cash flow information (note 15)		

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

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

1 Nature of operations

Versatile Mobile Systems (Canada) Inc. (Versatile (Canada) or the company), which was continued from British Columbia to the Yukon during the year, 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 \$53,090,939 (2003 - \$52,438,247) and a current year loss of \$652,692 (2003 - \$2,739,753). 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.

All amounts are expressed in Canadian dollars.

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.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

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.

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

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

Intangible assets acquired either individually or with a group of assets are initially recognized and measured at cost. 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.

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.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

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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.

Effective July 1, 2002, the company adopted Canadian Institute of Chartered Accountants (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 four-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.

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.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

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Revenue recognition

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

Revenue from projects which include significant modification or customization of software is recognized using the percentage of completion method of accounting, whereby revenue and profit in the period are based on the ratio of costs incurred to total estimated costs of the project. Costs include all direct costs and certain indirect costs related to the projects. A provision is made for the entire amount of future estimated losses, if any, on contracts in progress.

Maintenance revenue is recognized ratably 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.

Financial instruments

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and capital lease obligations 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, being 83,721,720 in the current year (2003 - 79,207,533). 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.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

Stock-based compensation

The company has elected to prospectively adopt the CICA 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. For stock options exercised, consideration paid plus the fair value of options previously recorded as contributed surplus is recorded as share capital on exercise of the options.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the equity instrument issued. The fair value of stock-based payments to non-employees is periodically re-measured until the earlier of: completion of the services provided; a firm commitment to complete the services; or the vesting date and any change therein is recognized over the service period.

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. For the prior period, the company has disclosed the pro forma effects of the granting of stock options granted to employees. The change in accounting policy did not result in any adjustment to the company's opening deficit balance. A description of the company's stock-based compensation plan is disclosed in note 9.

3 Capital assets

	2004		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Automobiles	5,390	5,390	-
Computer and office equipment	879,116	784,957	94,159
Computer software	116,231	78,074	38,157
Tenant improvements	48,832	24,300	24,532
	1,049,569	892,721	156,848
	2003		
	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
	1,393,679	1,117,138	276,541

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

As at June 30, 2004, assets under capital lease with a cost of \$66,211 (2003 - \$66,211) and accumulated amortization of \$38,997 (2003 - \$25,755) are included in capital assets.

4 Intangible assets

The carrying amounts of the amortized intangible assets for the years ended June 30, 2004 and 2003 are as follows:

	2004		
	Recorded value \$	Accumulated amortization \$	Net \$
Licenses	703,937	598,659	105,278

	2003		
	Recorded value \$	Accumulated amortization \$	Net \$
Licenses	703,937	499,871	204,066

5 Goodwill

The carrying amounts of the goodwill for the years ended June 30, 2004 and 2003 are as follows:

	2004		
	Recorded value \$	Accumulated amortization \$	Net \$
Goodwill	14,578,033	10,933,525	3,644,508

	2003		
	Recorded value \$	Accumulated amortization \$	Net \$
Goodwill	14,578,033	10,933,525	3,644,508

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

During the year ended June 30, 2004, 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, 2004.

6 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:

	2004 \$	2003 \$
2004	-	21,401
2005	10,874	10,941
2006	9,998	10,051
2007	9,998	10,051
2008	6,666	4,188
	<hr/>	<hr/>
	37,536	56,632
Less: Amount representing interest at the rates of 12.50% (2003 - 12.50% and 15.25%) per annum	<hr/> (7,384)	<hr/> (9,953)
	30,152	46,679
Less: Current portion	<hr/> (7,589)	<hr/> (16,663)
	<hr/> 22,563	<hr/> 30,016

Interest expense on capital lease obligations for the year ended June 30, 2004 is \$3,989 (2003 - \$4,948).

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

7 Share capital

Authorized

500,000,000 (2003 - 100,000,000) common shares without par value

Issued and outstanding

	Number of shares	Amount \$
Balance - June 30, 2003 and 2002	79,897,533	55,824,954
Shares issued for cash	10,707,935	2,801,270
Shares issued for exercised stock options	66,666	6,667
	<hr/>	<hr/>
	90,672,134	58,632,891
Less: Share issue costs	-	(254,059)
	<hr/>	<hr/>
Balance - June 30, 2004	90,672,134	58,378,832

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 12 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.

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.

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.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

8 Warrants

The following warrants were outstanding:

Expiry date	Exercise price \$	Balance - June 30, 2002	Expired	Balance - June 30, 2003	Issued	Balance - June 30, 2004	
						Number of warrants	Amount \$
August 31, 2002	0.70	150,000	(150,000)	-	-	-	-
December 4, 2004	0.40	-	-	-	2,485,713	2,485,713	124,286
March 17, 2005	0.37	-	-	-	822,222	822,222	164,444
September 17, 2005	0.40	-	-	-	4,111,110	4,111,110	32,889
		150,000	(150,000)	-	7,419,045	7,419,045	321,619

The warrants were issued during the year ended June 30, 2004 pursuant to the private placements on December 4, 2003 and March 17, 2004.

9 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, 2004 and 2003 is presented below:

	2004		2003	
	Number of shares	Weighted average exercise price \$	Number of shares	Weighted average exercise price \$
Outstanding - Beginning of year	6,795,000	0.48	5,179,000	0.94
Granted	420,000	0.18	3,475,000	0.10
Exercised	(66,666)	0.10	-	-
Forfeited	(30,000)	0.44	(1,666,000)	0.95
Expired	(140,000)	1.00	(193,000)	1.75
Outstanding - End of year	6,978,334	0.46	6,795,000	0.48
Options exercisable at year-end	6,469,445	0.48	3,276,667	0.89

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

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The following table summarizes information about stock options outstanding at June 30, 2004:

Range of exercise prices \$	Options outstanding			Options exercisable	
	Number outstanding at June 30, 2004	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at June 30, 2004	Weighted average exercise price \$
0.10 - 0.50	5,243,334	2.03	0.21	4,734,445	0.22
0.51 - 1.00	760,000	0.04	0.72	760,000	0.72
1.01 - 2.00	725,000	0.48	1.25	725,000	1.25
2.01 - 2.50	250,000	0.69	1.69	250,000	2.50
	6,978,334	1.81	0.46	6,469,445	0.48

During the year ended June 30, 2004, all stock options were granted at an exercise price that approximated the market price of a common share. These options had a weighted average exercise price of \$0.18 and a weighted average fair value of \$0.14.

For the year ended June 30, 2004, the company has recognized \$31,284 in stock-based compensation for stock options granted to employees. There were no options granted to non-employees during the year ended June 30, 2004. The pro forma effect of stock options granted to employees for the year ended June 30, 2003 based on the fair value of the stock options at the grant dates would have increased by the Company's pro-forma loss 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:

	2004	2003 (pro forma)
Dividend yield	0%	0%
Expected volatility	114%	133%
Risk-free interest rate	3%	3%
Expected average option term (years)	4	5

10 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.

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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.

11 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:

	2004 \$	2003 \$
Consulting fees and salaries (included with general and administration expense and selling and marketing expense)	712,598	681,129

In addition, company-related expense reimbursements paid to directors and officers in the year totalled \$126,502 (2003 - \$169,939).

12 Commitments

As at June 30, 2004, future minimum lease payments for premises and equipment are as follows:

	\$
2005	510,909
2006	603,029
2007	552,136
2008	552,136
2009	552,136

13 Income taxes

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

	\$
Canada	15,441,000
United Kingdom	13,200,000
United States	5,159,000

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Tax losses in Canada expire as follows:

	Versatile (Canada)	EvolutionB Information Inc.
	\$	\$
2005	634,000	139,000
2006	1,050,000	642,000
2007	1,236,000	3,828,000
2008	1,691,000	1,800,000
2009	2,642,000	62,000
2010	1,551,000	166,000
	<u>8,804,000</u>	<u>6,637,000</u>

Tax losses in the United States expire as follows:

	\$
2020	698,000
2021	1,357,000
2022	1,374,000
2023	341,000
2024	1,389,000
	<u>5,159,000</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 rates:

	2004	2003
	\$	\$
Tax at the statutory tax rate of 35.6% (2003 - 38.6%)	(231,960)	(1,057,545)
Difference in tax rates in other jurisdictions	30,400	196,094
Tax effect of expenses that are not deductible for income tax purposes	8,109	8,349
Future income tax asset not recognized	193,451	(26,884)
Change in tax rates	-	879,986
	<u>-</u>	<u>-</u>
Tax recovery	-	-

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

	2004	2003
	\$	\$
Future income taxes		
Future income tax assets		
Tax losses	9,850,000	9,446,149
Capital assets	411,723	475,530
Share issuance costs	84,978	108,069
Other	388,390	389,134
	<hr/>	<hr/>
Future income tax assets	10,735,091	10,418,882
Valuation allowance	(9,957,215)	(9,641,006)
	<hr/>	<hr/>
Net future income tax asset	777,876	777,876
Future income tax liabilities		
Goodwill	(777,876)	(777,876)
	<hr/>	<hr/>
Net future income tax liability	-	-
	<hr/>	<hr/>

14 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:

	2004		2003	
	Capital assets, intangible assets and goodwill \$	Revenue \$	Capital assets, intangible assets and goodwill \$	Revenue \$
United States	3,860,245	18,497,156	4,087,043	20,082,789
United Kingdom	18,606	929,552	2,802	464,500
Canada	27,783	18,397	35,270	48,926
	<hr/>	<hr/>	<hr/>	<hr/>
	3,906,634	19,445,105	4,125,115	20,596,215
	<hr/>	<hr/>	<hr/>	<hr/>

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

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

During the year ended June 30, 2004, the Company earned revenue from one customer of \$4,345,094 (2003 - \$1,994,660), revenue from a second customer of \$2,407,932 (2003 - \$1,037,764) and revenue from a third customer of \$2,323,003 (2003 - \$3,073,520), representing 22.3%, 12.4% and 11.9% of revenue, respectively. During the year ended June 30, 2003, the Company earned revenue from a fourth customer of \$3,990,021 representing 19.4% of revenue.

15 Supplemental cash flow information

	2004 \$	2003 \$
Cash paid for taxes	1,119	-
Cash paid for interest	10,878	11,261
Non-cash investing and financing activities		
Assets acquired under capital lease	-	66,211
Issue of broker warrants	32,889	-

16 Subsequent event

On July 19, 2004, the Company issued 78,428 common shares at a deemed price of \$0.35 per share pursuant to a Financial Services Agreement. These shares are subject to a four-month hold period.

