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

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

	<u>December 31, 2004</u> <u>(unaudited)</u>	<u>June 30, 2004</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 828,194	\$ 2,030,248
Accounts receivable	1,305,016	3,155,283
Prepaid expenses	222,108	25,263
Inventory	1,465,505	1,894,592
	<u>3,820,823</u>	<u>7,105,386</u>
Capital Assets		
Intangible assets	88,282	156,848
Goodwill	51,664	105,278
	<u>3,644,508</u>	<u>3,644,508</u>
	<u>\$ 7,605,277</u>	<u>\$ 11,012,020</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,405,335	\$ 3,375,588
Deferred revenue	111,498	101,948
Current portion of capital lease obligations	6,830	7,589
	<u>1,523,663</u>	<u>3,485,125</u>
Capital Lease Obligations	16,892	22,563
	<u>1,540,555</u>	<u>3,507,688</u>
SHAREHOLDERS' EQUITY		
Common Shares (note 3)	58,412,949	58,378,832
Warrants (note 4)	321,619	321,619
Contributed surplus	2,192,443	2,186,046
Deficit	(54,228,220)	(53,090,939)
Foreign currency translation adjustment	(634,069)	(291,226)
	<u>6,064,722</u>	<u>7,504,332</u>
	<u>\$ 7,605,277</u>	<u>\$ 11,012,020</u>

APPROVED BY THE DIRECTORS:

DIRECTOR: John Hardy

DIRECTOR: Fraser Atkinson

See Notes to Consolidated Financial Statements

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

	Three months ended December 31		Six months ended December 31	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
SALES	\$ 2,865,311	\$ 5,039,522	\$ 6,677,220	\$ 10,265,242
COST OF SALES	\$ 2,002,512	\$ 3,515,070	4,938,802	\$ 6,919,350
	862,799	1,524,452	1,738,418	3,345,892
EXPENSES				
General and administrative	481,396	587,247	1,166,230	1,299,242
Selling and marketing	639,560	643,046	1,231,969	1,278,709
Research and development	175,128	303,995	342,288	547,785
Amortization of capital and intangible assets	58,736	81,905	127,805	167,933
Stock-based compensation	3,198	-	6,396	
Recovery of premise costs		(97,640)		(97,640)
	1,358,018	1,518,553	2,874,688	3,196,029
Net Earnings (Loss) before income taxes	(495,219)	5,899	(1,136,270)	149,863
Income Tax Expense	(35)	1,119	1,011	1,119
NET EARNINGS (LOSS) FOR THE PERIOD	(495,184)	4,780	(1,137,281)	148,744
DEFICIT, BEGINNING OF PERIOD	(53,733,036)	(52,294,283)	(53,090,939)	(52,438,247)
DEFICIT, END OF PERIOD	(54,228,220)	(52,289,503)	(54,228,220)	(52,289,503)
NET EARNINGS (LOSS) PER SHARE:				
Basic and diluted	(\$0.01)	\$0.00	(\$0.01)	\$0.00

See Notes to Consolidated Financial Statements

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

	Three months ended December 31		Six months ended December 31	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net earnings (loss) for the period	\$ (495,184)	\$ 4,780	\$ (1,137,281)	\$ 148,744
Items not affecting cash				
Amortization of capital and intangible assets	58,736	81,905	127,805	167,933
Stock-based compensation	3,198	-	6,396	-
Unrealized foreign exchange	(225,826)	(76,804)	(342,843)	(87,466)
Other	-	13,643	-	8,006
	(659,076)	23,524	(1,345,923)	237,217
Net change in non-cash working capital items	(71,466)	(781,062)	159,009	(1,261,710)
	(730,542)	(757,538)	(1,186,914)	(1,024,493)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Additions to capital assets	(2,416)	(18,554)	(15,378)	(69,587)
	(2,416)	(18,554)	(15,378)	(69,587)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Proceeds from Units issued on private placement	-	870,000	-	870,000
Share issue costs	-	(7,457)	-	(7,457)
Proceeds from shares issued for stock options	6,667	6,667	6,667	6,667
Capital lease obligations	(2,691)	(5,185)	(6,429)	(7,575)
	3,976	864,025	238	861,635
Increase (Decrease) in cash and cash equivalents	(728,982)	87,933	(1,202,054)	(232,445)
CASH and cash equivalents, beginning of period	1,557,176	831,909	2,030,248	1,152,287
CASH and cash equivalents, end of period	\$ 828,194	\$ 919,842	\$ 828,194	\$ 919,842
Supplementary information				
Cash paid for interest expense	\$ 1,281	\$ 2,891	\$ 2,652	\$ 4,846
Cash paid for income taxes	977	1,119	970	1,119
Non cash items				
Shares issued pursuant to Financial Services Agreement			27,450	

See Notes to Consolidated Financial Statements

Versatile Mobile Systems (Canada) Inc.
Notes to Consolidated Financial Statements
For the period ended December 31, 2004
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1. Consolidated financial statement presentation:

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's annual financial statements for the year ended June 30, 2004. These financial statements have not been audited or reviewed by the Company's auditors.

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

2. Changes in accounting policies:

The accounting policies applied in these interim financial statements are consistent with those applied in the Annual financial statements. The following changes in accounting policies have been made in the past year.

(a) Stock-based compensation:

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

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

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

(b) Intangible assets:

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

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

During the 2004 fiscal year the Company reviewed the estimated useful lives of the intangible assets. After the review, the Company increased the estimated useful lives of the intangible assets from three years to four years.

3. Common Shares

Authorized

500,000,000 common shares without par value

Issued and outstanding

	Number		Amount
Issued and outstanding - June 30, 2004	90,672,134	\$	58,378,832
Shares issued pursuant to a Financial Services Agreement	78,428		27,450
Shares issued on exercised stock options	66,666		6,667
Issued and outstanding - December 31, 2004	90,817,228	\$	58,412,949

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4. Warrants

Issued and outstanding

	Exercise Price	Expiry Date	Number of Warrants	Amount
Warrants issued on private placement	\$0.40	4-Jun-05	2,485,713	\$ 124,286
Warrants issued on private placement	\$0.40	17-Sep-05	4,111,110	164,444
Broker warrants	\$0.37	17-Mar-05	822,222	32,889
			7,419,045	\$ 321,619
Balance - December 31, 2004				

5. Stock Options

	Number of Shares	Weighted average exercise price
Balance - September 30, 2004	5,988,334	\$ 0.40
Expired during the period	(60,000)	1.00
Forfeited during the period	(200,000)	0.10
Exercised during the period	(66,666)	0.10
Balance - December 31, 2004	5,661,668	\$ 0.40

Distribution of Stock Options

	Number of Shares	Exercise Price	Expiry Date
Directors	400,000	\$ 1.05	February 3, 2005
Director	75,000	1.50	March 1, 2005
Employee	250,000	2.50	March 9, 2005
Directors & Employees	1,385,000	0.50	April 11, 2005
Directors & Employees	3,141,668	0.10	April 17, 2007
Employees	275,000	0.18	August 18, 2007
Directors & Employees	135,000	0.32	December 6, 2007
	5,661,668	0.40	