

Versatile Mobile Systems (Canada) Inc.

Consolidated Financial Statements
June 30, 2005 and 2004

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, 2005 and 2004 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, 2005 and 2004 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
August 17, 2005

Versatile Mobile Systems (Canada) Inc.

Consolidated Balance Sheets

As at June 30, 2005 and 2004

	2005 \$	2004 \$
Assets		
Current assets		
Cash and cash equivalents	183,598	2,030,248
Accounts receivable	13,559,290	3,155,283
Deferred contract costs	3,415,850	-
Work in progress	216,066	-
Prepaid expenses	517,092	25,263
Inventory	1,552,906	1,894,592
	<u>19,444,802</u>	<u>7,105,386</u>
Deferred contract costs	381,375	-
Capital assets (note 4)	450,621	156,848
Intangible assets (note 5)	4,076,042	105,278
Goodwill (note 6)	12,595,561	3,644,508
	<u>36,948,401</u>	<u>11,012,020</u>
Liabilities		
Current liabilities		
Line of credit and bank overdraft (note 7)	520,626	-
Accounts payable and accrued liabilities	13,718,838	3,375,588
Current portion of deferred revenue	5,257,654	101,948
Bank term loan (note 7)	3,369,497	-
Promissory notes (note 8)	5,964,587	-
Current portion of capital lease obligations (note 9)	6,952	7,589
	<u>28,838,154</u>	<u>3,485,125</u>
Deferred revenue	447,969	-
Capital lease obligations (note 9)	13,689	22,563
Term loan (note 10)	214,480	-
	<u>29,514,292</u>	<u>3,507,688</u>
Shareholders' Equity		
Share capital (note 11)	59,779,153	58,378,832
Warrants (note 12)	458,715	321,619
Contributed surplus (note 12)	2,481,183	2,186,046
Deficit	(54,716,914)	(53,090,939)
Foreign currency translation adjustment	(568,028)	(291,226)
	<u>7,434,109</u>	<u>7,504,332</u>
	<u>36,948,401</u>	<u>11,012,020</u>
Nature of operations (note 1)		
Commitments (note 16)		
Subsequent event (note 20)		

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, 2005 and 2004

	2005 \$	2004 \$
Sales	26,124,930	19,445,105
Cost of sales	19,700,109	13,839,103
	<u>6,424,821</u>	<u>5,606,002</u>
Expenses		
General and administrative	2,974,471	2,566,242
Selling and marketing	3,394,751	2,544,508
Research and development	1,025,177	1,042,165
Recovery of premise costs	-	(260,373)
	<u>7,394,399</u>	<u>5,892,542</u>
Loss before other items	(969,578)	(286,540)
Amortization of capital assets	(157,395)	(230,972)
Amortization of intangible assets	(230,511)	(98,788)
Interest	(129,529)	(3,989)
Stock-based compensation	(137,962)	(31,284)
Loss before income taxes	(1,624,975)	(651,573)
Provision for income taxes	1,000	1,119
Loss for the year	(1,625,975)	(652,692)
Deficit - Beginning of year	(53,090,939)	(52,438,247)
Deficit - End of year	<u>(54,716,914)</u>	<u>(53,090,939)</u>
Loss per share - basic and diluted	<u>(0.02)</u>	<u>(0.01)</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, 2005 and 2004

	2005 \$	2004 \$
Cash flows from operating activities		
Loss for the year	(1,625,975)	(652,692)
Items not affecting cash		
Amortization of capital assets	157,395	230,972
Amortization of intangible assets	230,511	98,788
Stock-based compensation	137,962	31,284
Unrealized foreign exchange gain	(276,802)	(2,447)
Recovery of premise costs	-	(260,373)
	(1,376,909)	(554,468)
Net change in non-cash working capital items	(1,240,636)	(1,315,262)
	(2,617,545)	(1,869,730)
Cash flows from investing activities		
Purchase of net assets including transaction costs	(3,480,603)	-
Cash acquired	2,862,027	-
Deferred contract costs	(381,375)	-
Additions to capital assets	(60,137)	(111,279)
	(1,060,088)	(111,279)
Cash flows from financing activities		
Proceeds from share capital and warrants issued	1,540,625	3,090,000
Proceeds from stock options exercised	6,667	6,667
Share issue costs	-	(221,170)
Repayment of capital lease obligations	(9,511)	(16,527)
Proceeds from Commerce bank term loan	3,369,497	-
Repayment of Wachovia bank term loan	(3,407,730)	-
Repayment of POAC note	(408,533)	-
Repayment of Quarterly payment	(84,260)	-
Proceeds from line of credit	376,259	-
Proceeds from deferred revenue	447,969	-
	1,830,983	2,858,970
(Decrease) increase in cash and cash equivalents	(1,846,650)	877,961
Cash and cash equivalents - Beginning of year	2,030,248	1,152,287
Cash and cash equivalents - End of year	183,598	2,030,248
Supplemental cash flow information (note 19)		

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

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

1 Nature of operations

Versatile Mobile Systems (Canada) Inc. (“VMS-Canada” or the “company”), which was continued from British Columbia to the Yukon during the prior fiscal 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, Perfect Order Acquisition Corporation (“POAC”), Perfect Order, Inc. (“POI”), Perfect Order Manufacturing, Inc. (“POM”), Versatile Mobile Systems, Inc. (“VMS-US”) and Versatile Mobile Systems (Europe) Ltd. (“VMS-Europe”). The operations of the wholly owned subsidiaries, 596327 B.C. Ltd. and EvolutionB Information Inc. (“EvolutionB”) were discontinued in 2002.

While 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, there are certain conditions and events that cast doubt on the validity of that assumption. The company has a working capital deficiency of \$9,393,352 (2004 - excess working capital of \$3,620,261), accumulated losses amounting to \$54,716,914 (2004 - \$53,090,939) and a current year loss of \$1,625,975 (2004 - \$652,692). 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. 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 – POAC, POI, POM, VMS-US, VMS-Europe, 596327 B.C. Ltd. and EvolutionB. The operations of POAC, POI and POM have been included in these consolidated financial statements from April 26, 2005 to June 30, 2005. All intercompany accounts and transactions are eliminated on consolidation.

All amounts are expressed in Canadian dollars, unless otherwise stated.

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.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

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.

Deferred service contract costs

Deferred service contract costs are amortized over the life of the contracts, which range from three months to three years. These deferred amounts relate to third party maintenance costs for third party equipment installed at customers, which have been paid for in advance.

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 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
Demonstration equipment	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 are amortized over their estimated useful lives using the straight-line method at the following rates:

Purchase technology	3 years
Customers	5 years
Intellectual property	1 1/2 years
Licenses	4 years

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

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.

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.

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 period. Any corresponding foreign exchange gains and losses are deferred and disclosed separately as part of shareholders' equity.

Revenue recognition

Revenue on sales of hardware products is recognized when delivered to the customer. The company recognizes revenue from the sale of software products on delivery of the product or performance of the services if persuasive evidence 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.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

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.

Loss per share

Loss per common share is computed using the weighted average number of common shares outstanding during the year, being 91,805,178 in the current year (2004 - 83,721,720). Diluted loss per common share has not been disclosed as the effect of common shares issuable upon the exercise of options or warrants would be anti-dilutive.

Stock-based compensation

The company elected to prospectively adopt the Canadian Institute of Chartered Accountants (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. 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. 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.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

During the year the company recognized \$137,962 (2004 - \$31,284) in compensation expense and additional contributed surplus for stock options granted to employees. A description of the company's stock-based compensation plan is disclosed in note 13.

Recent accounting pronouncements

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" (AsG 15), which clarifies the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests.

The guideline which came into effect on November 1, 2004 has had no impact on the consolidated financial statements of the company.

3 Acquisition of Perfect Order business

Effective April 26, 2005, the company acquired all of the issued and outstanding shares of two privately held companies, POI and POM (collectively "Perfect Order"), which were under common control (the "Acquisition"). Perfect Order is based in Mechanicsburg, Pennsylvania and provides information technology services for the implementation, maintenance and security of mission-critical computing environments. The transaction was conducted through the company's newly incorporated subsidiary, POAC.

On closing, the company paid the vendors cash consideration of \$2,488,000 (U.S. \$2,000,000), issued Promissory Notes to pay \$1,244,000 (U.S. \$1,000,000), which at the time were due on June 30, 2005 (the "POAC Notes"), issued secured Promissory Notes to pay \$5,244,800 (U.S. \$4,200,000) on April 25, 2006 (the "Promissory Notes") and agreed to pay an additional \$342,100 (US\$275,000) in four quarterly payments of \$85,525 (U.S. \$68,750) each commencing June 10, 2005, September 10, 2005, December 10, 2005 and March 10, 2006. The first quarterly payment was paid on June 10, 2005.

The Promissory Notes bear interest at the rate of 3.1% per annum and the Vendors may convert up to one-half of their Promissory Notes on or before February 25, 2006, into shares of Versatile at the rate of one common share for each \$0.425 (U.S. \$0.34) of the Promissory Note. In addition, the company issued 750,000 Common Share purchase warrants to the Vendors on the closing. One Warrant entitles the holder thereof to purchase one common share at \$0.345 per share on or before April 25, 2007.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

The acquisition was accounted for under the purchase method of accounting. Total consideration, including costs of acquisition, was allocated based on the estimated fair values of the acquired assets on the date of acquisition as follows:

	\$
Net cash acquired	
Cash and cash equivalents	2,862,027
Accounts receivable	9,817,874
Deferred contract costs	3,735,793
Other current assets	417,252
Capital assets	332,749
Intellectual property	561,355
Intangible assets	29,809
Customers	2,186,154
Purchased technology	1,507,689
Goodwill	8,951,053
Accounts payable and accrued liabilities	(10,511,722)
Deferred revenue	(5,328,200)
Term loan	(217,700)
Wachovia bank term loan	(3,407,730)
	<u>10,936,403</u>
Fair value of net assets acquired	<u>10,936,403</u>
	\$
Total consideration comprised of	
Cash payments on closing	2,488,000
Quarterly payments	342,100
POAC notes	1,244,000
Promissory notes	5,224,800
Other payments	497,600
Value assigned to the Versatile warrants	37,500
Estimated costs of the transaction	1,102,403
	<u>10,936,403</u>
Total consideration as the date of acquisition	<u>10,936,403</u>

The above purchase price allocation is based on the estimated fair values of the assets and liabilities acquired. To the extent that the finalization of these fair value results in changes to amounts set out in these consolidated financial statements, the amount assigned to goodwill will be adjusted by an equal and offsetting amount.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

4 Capital assets

	2005		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Automobiles	29,196	21,114	8,082
Computer and office equipment	1,887,204	1,536,270	350,934
Demonstration equipment	107,870	50,862	57,008
Computer software	118,675	103,062	15,613
Tenant improvements	76,965	57,981	18,984
	<u>2,219,910</u>	<u>1,769,289</u>	<u>450,621</u>
			2004
	Cost	Accumulated amortization	Net
	\$	\$	\$
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
	<u>1,049,569</u>	<u>892,721</u>	<u>156,848</u>

As at June 30, 2005, assets under capital lease with a cost of \$33,862 (2004 - \$66,211) and accumulated amortization of \$29,159 (2004 - \$38,997) are included in capital assets.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

5 Intangible assets

The carrying amounts of the amortized intangible assets for the years ended June 30, 2005 and 2004 are as follows:

	2005		
	Recorded value	Accumulated amortization	Net
	\$	\$	\$
Customers	2,186,154	72,871	2,113,283
Purchased technology	1,507,689	83,761	1,423,928
Intellectual property	561,355	66,519	494,836
Other intangibles	29,809	462	29,347
Licenses	640,256	625,608	14,648
	4,925,263	849,221	4,076,042
	2004		
	Recorded value	Accumulated amortization	Net
	\$	\$	\$
Licenses	703,937	598,659	105,278

6 Goodwill

The carrying amounts of the goodwill for the years ended June 30, 2005 and 2004 are as follows:

	2005		
	Recorded value	Accumulated amortization	Net
	\$	\$	\$
Goodwill			
Perfect Order	8,951,053	-	8,951,053
VMS - US	14,578,033	10,933,525	3,644,508
	23,529,086	10,933,525	12,595,561

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

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

No amortization for goodwill has been recorded for 2005 or 2004. During the year ended June 30, 2005, 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, 2005.

7 Line of credit, bank overdraft and bank term loan

On April 26, 2005, the company obtained a credit line facility for up to \$3,732,000 (U.S. \$3,000,000), which is limited to 70% of eligible accounts receivable of Perfect Order from a U.S. based financial institution. The line of credit bears interest at the State of New York prime rate of lending and is secured with a first charge on the company's assets. As at June 30, 2005 the company had utilized its line of credit for \$376,259 (U.S. \$307,000) and had a bank overdraft of \$144,367.

On April 26, 2005 the company obtained a term loan in the amount of \$3,483,200 (U.S. \$2,800,000) from the U.S. based financial institution. At June 30, 2005, the amount of the term loan is \$3,369,497 (U.S. \$2,749,263). The term loan is repayable on April 26, 2006, bears interest at the State of New York prime rate plus 1% and is secured with a first charge on the company's assets. Monthly repayments consist of interest only with the principal due at the end of the term. The proceeds were used to repay a term loan that Perfect Order had with another financial institution in the amount of \$3,407,730 (U.S. \$2,739,332). During the period the interest on the term loan amounted to \$26,420.

The amount that may be advanced under the credit line is limited to 70% of eligible accounts receivable of POAC, POI and POM less than 90 days from invoice date and less the outstanding balance of the Term Loan. Based on the accounts receivable at June 30, 2005 this calculation exceeded the maximum amount available under the credit line facility.

8 Promissory notes

On April 26, 2005, as part of the consideration for the acquisition of Perfect Order, the company issued unsecured promissory notes to pay \$1,244,000 (U.S. \$1,000,000) bearing interest at the rate of 3% per annum (the "POAC Notes"). On June 30, 2005 the company repaid one of the POAC Notes for \$408,533 (U.S. \$333,333) plus interest with the balance of \$817,066 (U.S. \$666,667) due on or before November 30, 2005. During the period interest on the POAC Notes amounted to \$3,590.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

On April 26, 2005, as part of the consideration for the acquisition of Perfect Order, the company issued secured promissory notes to pay \$5,244,800 (U.S. \$4,200,000) bearing interest at the rate of 3.1% per annum (the "Promissory Notes"). The Vendors may convert up to one-half of their Promissory Notes on or before February 25, 2006, into shares of Versatile at the rate of one common share for each \$0.425 (U.S. \$0.34) of the Promissory Note. The Promissory Notes have not been split into their debt and equity components as the equity component is not considered significant. The Promissory Notes, and accrued interest, are due on April 25, 2006. The Promissory Notes have a balance of \$5,147,521 at June 30, 2005. During the period interest on the Promissory Notes amounted to \$29,379, which is included in accounts payable and accrued liabilities.

9 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:

	2005 \$	2004 \$
2005	-	10,874
2006	9,142	9,998
2007	9,142	9,998
2008	6,094	6,666
	<hr/>	<hr/>
	24,378	37,536
Less: Amount representing interest at 12.5% (2004 - 12.50%) per annum	<hr/> (3,737)	<hr/> (7,384)
	20,641	30,152
Less: Current portion	<hr/> (6,952)	<hr/> (7,589)
	<hr/> 13,689	<hr/> 22,563

Interest expense on capital lease obligations for the year ended June 30, 2005 is \$3,175 (2004 - \$3,989).

10 Term loan

The Note payable to Ben Franklin Technology Partners for \$214,480 (U.S. \$175,000) bears interest at the rate of 4.75% per annum, is unsecured and is due on July 17, 2007. During the period the interest amounted to \$1,847.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

11 Share capital

Authorized

500,000,000 common shares without par value

Issued and outstanding

	Number of shares	Amount \$
Balance - June 30, 2003	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
Shares issued for cash	5,135,413	1,283,854
Shares issued for financial services	313,713	109,800
Shares issued for exercised stock options	66,666	6,667
	<hr/>	<hr/>
Balance - June 30, 2005	96,187,926	59,779,153

On April 22, 2005, the company closed a non-brokered private placement and issued 5,135,413 Units at a price of \$ 0.30 per Unit for gross proceeds of \$1,540,625. Each Unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share of the company for a period of 24 months after the closing date at a price of \$0.35 per common share. The company assigned a value of \$0.25 to each common share and \$0.05 to each warrant.

During the year ending June 30, 2005 the company issued 313,713 common shares at a deemed price of \$0.35 per share to Martin Wolf Securities as partial consideration for services relating to the acquisition of Perfect Order.

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 was recorded as a share issue cost.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

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.

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.

12 Warrants and contributed surplus

The following warrants were outstanding:

Expiry date	Exercise price \$	Balance - June 30, 2004		Balance - June 30, 2005	
		Expired	Issued	Number of warrants	Amount \$
March 17, 2005	0.40	822,222	(822,222)	-	-
June 4, 2005	0.37	2,485,713	(2,485,713)	-	-
September 17, 2005	0.40	4,111,110	-	-	4,111,110
April 22, 2007	0.35	-	-	5,135,413	5,131,413
April 25, 2007	0.345	-	-	750,000	750,000
		<u>7,419,045</u>	<u>(3,307,935)</u>	<u>5,885,413</u>	<u>9,992,523</u>
					<u>458,715</u>

Expiry date	Exercise price \$	Balance - June 30, 2003		Issued and outstanding	Balance - June 30, 2004 \$
		Expired	Issued		
December 4, 2004	0.40	-	-	2,485,713	124,286
September 17, 2005	0.40	-	-	4,111,110	164,444
March 17, 2005	0.37	-	-	822,222	32,889
		<u>-</u>	<u>-</u>	<u>7,419,045</u>	<u>321,619</u>

During the year ended June 30, 2005, 3,307,935 warrants expired (2004 - nil), resulting in their ascribed value of \$157,175 (2004 - nil) being recorded as contributed surplus.

The company issued 5,135,413 warrants pursuant to a private placement on April 22, 2005. One warrant entitles the holder to purchase one common share at a price of \$0.35 per share on or before April 22, 2007. In addition, as part of the consideration for the acquisition of Perfect Order the company issued 750,000 warrants. One warrant entitles the holder thereof to purchase one common share at \$0.345 per share on or before April 25, 2007.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

During the year ended June 30, 2005 the company had 822,222 broker warrants and 2,485,713 warrants expire that were issued pursuant to the private placement on December 4, 2003. The amounts assigned to these warrants of \$32,289 and \$124,286 respectively has been recorded to contributed surplus.

Contributed surplus consists of the following:

	\$
Balance - June 30, 2003	2,154,762
Stock based compensation	<u>31,284</u>
Balance - June 30, 2004	2,186,046
Expiration of warrants	157,175
Stock based compensation	<u>137,962</u>
Balance - June 30, 2005	<u>2,481,183</u>

13 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 9,000,000 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, 2005 and 2004 is presented below:

	<u>2005</u>		<u>2004</u>	
	Number of shares	Weighted average exercise price \$	Number of shares	Weighted average exercise price \$
Outstanding - Beginning of year	6,978,334	0.46	6,795,000	0.48
Granted	3,920,000	0.30	420,000	0.18
Exercised	(66,666)	0.10	(66,666)	0.10
Forfeited	(440,000)	0.16	(30,000)	0.44
Expired	<u>(3,120,000)</u>	0.89	<u>(140,000)</u>	1.00
Outstanding - End of year	<u>7,271,668</u>	0.21	<u>6,978,334</u>	0.46
Options exercisable at year-end	<u>3,243,333</u>	0.11	<u>6,469,445</u>	0.48

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

The following table summarizes information about stock options outstanding at June 30, 2005:

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 - 0.25	3,266,668	1.81	0.10	3,158,333	0.10
0.26 - 0.50	4,005,000	3.83	0.30	85,000	0.32
	7,271,668	2.92	0.21	3,243,333	0.11

During the year ended June 30, 2005, all stock options were granted at an exercise price that is at or below the market price of a common share. The options granted in 2005 had a weighted average exercise price of \$0.30 (2004 - \$0.18) and a weighted average fair value of \$0.09 (2004 - \$0.14).

For the year ended June 30, 2005, the company has recognized \$137,962 (2004 - \$31,284) in stock-based compensation for stock options granted to employees. There were no options granted to non-employees during the years ended June 30, 2005 and 2004. The fair value of each stock option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

Dividend yield	0%
Expected volatility	83%
Risk-free interest rate	3%
Expected average option term (months)	10

14 Financial instruments

a) Credit risk exposure

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 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. The maximum amount of credit risk exposure is limited to the carrying amounts of these balances in the consolidated financial statements.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

b) Interest rate risk exposure

Financial instruments that potentially subject the company to interest rate risk consist primarily of its line of credit, bank overdraft, bank term loan, promissory notes and capital lease obligations.

c) Fair values

The fair values of the company's cash and cash equivalents, accounts receivable, line of credit, bank overdraft, accounts payable and accrued liabilities, Promissory Notes, POAC Notes and capital lease obligations approximate their carrying values due to their short-term nature.

15 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:

	2005	2004
	\$	\$
Consulting fees and salaries (included with general and administration expense and selling and marketing expense)	687,948	712,598

On April 22, 2005, the company closed a non-brokered private placement for gross proceeds of \$1,540,625. Three of the officers and directors of the company participated in this placement subscribing for 968,749 Units at a price of \$0.30 per Unit (2004 - 1,071,428 Units for gross proceeds of \$375,000). Each Unit consisted of one common share and one common share purchase warrant.

During the year, the company granted various directors of the company, incentive stock options to acquire a total of 1,700,000 common shares of the company vesting in 4 months and exercisable for a period of up to 4 years with an exercise price of \$0.30 per share (2004 - 75,000 with an exercise price of \$0.32 per share).

16 Commitments

As at June 30, 2005, future minimum lease payments for premises and equipment are as follows:

	\$
2006	575,129
2007	345,922
2008	303,772
2009	295,292
2010	42,786

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

17 Income taxes

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

	\$
Canada	15,175,000
United Kingdom	12,400,000
United States	17,630,000

Tax losses in Canada expire as follows:

	Versatile (Canada)	EvolutionB Information Inc.
	\$	\$
2006	1,050,000	642,000
2007	1,236,000	3,828,000
2008	1,691,000	1,800,000
2009	2,642,000	63,000
2010	1,551,000	167,000
2011	305,000	200,000
	<hr/>	
	8,475,000	6,700,000
	<hr/>	

Tax losses in the United States expire as follows:

	\$
2020	630,000
2021	1,240,000
2022	1,250,000
2023	310,000
2024	1,270,000
2025	930,000
Tax deductions which may be taken from 2006 to 2020	<hr/>
	12,000,000
	<hr/>
	17,630,000
	<hr/>

The tax deductions, which may be taken from 2006 to 2020, arise from an election filed under the Internal Revenue Code of the United States of America. This election provides for an increase in the tax basis of assets acquired to be increased, which results in an incremental tax deduction. These deductions are an estimate and actual amounts may vary once the election has been filed with the Internal Revenue Service.

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.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

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

	2005	2004
	\$	\$
Tax at the statutory tax rate of 35.0% (2004 - 35.6%)	(575,536)	(231,960)
Difference in tax rates in other jurisdictions	72,526	30,400
Tax effect of expenses that are not deductible for income tax purposes	8,400	8,109
Future income tax asset not recognized	494,610	193,451
	<hr/>	<hr/>
Tax recovery	-	-

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:

	2005	2004
	\$	\$
Future income taxes		
Future income tax assets		
Tax losses and deductions	13,961,750	9,850,000
Capital assets	327,445	411,723
Share issuance costs	51,113	84,978
Other	275,857	388,390
	<hr/>	<hr/>
Future income tax assets	14,616,165	10,735,091
Valuation allowance	(13,838,289)	(9,957,215)
	<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	-	-

In assessing the realizability of future tax assets, management considers whether it is more likely than not that same portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependant upon the generation of future taxable income during the periods in which those temporary differences become deductible. As management believe, there is sufficient uncertainty regarding the realization of future tax assets, a full valuation allowance has been provided.

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

Versatile Mobile Systems (Canada) Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

19 Supplemental cash flow information

	2005	2004
	\$	\$
Cash paid for taxes	1,000	1,119
Cash paid for interest	97,756	10,878
Non-cash investing and financing activities		
Shares issued for financial services	109,800	-
Warrants issued	37,500	32,889
Promissory notes issued for the acquisition of Perfect Order	5,224,800	-
POAC notes issued for the acquisition of Perfect Order	1,224,000	-
Other payments for the acquisition of Perfect Order	839,700	-

20 Subsequent event

On August 10, 2005, the company completed a non-brokered private placement for 1,646,000 Units at a price of \$0.25 per Unit for gross proceeds of \$411,500. Each Unit consists 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 Versatile for a period of twenty-four months after the Closing Date at a price of \$0.30 per common share. The common shares and warrants are subject to a four-month hold period.