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NEW ISSUE

DATED: DECEMBER 27, 2000

PROSPECTUS

VERSATILE MOBILE SYSTEMS (CANADA) INC.

**8,300,000 Common Shares and 4,150,000 Warrants
Issuable Upon Exercise of Special Warrants**

Versatile Mobile Systems (Canada) Inc. (the "Company" or "Versatile") is qualifying the distribution of 8,300,000 common shares of the Company ("Common Shares") and 4,150,000 common share purchase warrants ("Warrants") which will be issued upon the exercise of 8,300,000 special warrants ("Special Warrants"). Each Special Warrant entitles the holder to receive, without the payment of additional consideration, one Common Share and one-half of one Warrant. Each whole Warrant entitles the holder thereof to purchase one additional Common Share at a price of \$1.75 on or before 4:00 p.m. (Vancouver time) on June 15, 2001. The Special Warrants were issued on June 15, 2000 (the "Offering") pursuant to an underwriting agreement (the "Underwriting Agreement") between the Company and Dundee Securities Corporation (the "Underwriter").

The securities offered hereunder have not and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act"), and, subject to certain exceptions, may not be offered or sold within the United States or to a "U.S. Person" as defined in Regulation S under the 1933 Act.

The Special Warrants are exercisable until 4:00 p.m. (Vancouver time) (the "Expiry Time") on the day which is the earlier of (a) the second business day following the date on which a final receipt (the "Receipt") is issued for this prospectus by the British Columbia Securities Commission (the "Principal Regulator") on behalf of the securities regulatory authorities in the provinces of British Columbia, Alberta and Ontario (the "Commissions"), and (b) June 15, 2001. Any Special Warrants not exercised prior to the Expiry Time will be deemed to have been exercised immediately prior to the Expiry Time without any further action by the holders.

	Price to Public	Underwriting discounts or commissions ⁽¹⁾	Proceeds to the Company ⁽²⁾
Per Special Warrant:	\$1.25	\$0.09	\$1.16
Total:	\$10,375,000	\$752,188	\$9,622,812

(1) A cash commission of \$752,188, equal to 7.25% of the gross proceeds of the Offering, was paid to the Underwriter on the closing of the Offering. In addition, the Underwriter was granted an option (the "Compensation Option") to acquire 830,000 broker's warrants (the "Broker's Warrants"). Each Broker's Warrant entitles the Underwriter to purchase one Common Share and one-half of one Warrant at a price of \$1.25 until 4:00 p.m. (Vancouver time) on June 15, 2001. In British Columbia and Alberta, this prospectus qualifies the distribution to the Underwriter of 830,000 Broker's Warrants. In Ontario, this prospectus qualifies the distribution to the Underwriter of 415,000 Broker's Warrants. See "Plan of Distribution".

(2) Before deduction of the legal and audit expenses of this Offering paid or payable by the Company and estimated to be \$260,000. See "Use of Proceeds".

The Special Warrants were issued pursuant to exemptions from the prospectus requirements of applicable securities legislation. The Special Warrants are subject to restrictions on resale until such time as the hold period prescribed by securities legislation in the applicable jurisdiction has expired, a further statutory exemption may be relied upon, a discretionary order is obtained from the applicable securities regulatory authority or a receipt for this prospectus is issued by the applicable securities regulatory authority.

By approval of the Offering, the Canadian Venture Exchange Inc. ("CDNX") has approved the listing on CDNX of the Common Shares issuable upon exercise of the Special Warrants, the Warrants and the Broker's Warrants.

An investment in securities of the Company should be regarded as highly speculative due to the nature of the Company's business and its present stage of development. See "Risk Factors".

As of the date of this prospectus, none of the Special Warrants have been exercised. No additional commission or fee will be paid to the Underwriter and no additional proceeds will be received by the Company in connection with the exercise of the Special Warrants.

After giving effect to the issuance of Common Shares upon exercise of the Special Warrants, Warrants and Broker's Warrants, 88.4% (53,052,228) of the voting securities of the Company will be held by the public and the remaining 11.6% (6,992,718) of the voting securities will be held by promoters, insiders and holders of performance shares of the Company, and the Underwriter.

The Common Shares are listed and posted for trading on CDNX under the symbol "VMS". On December 22, 2000, the closing price of the Common Shares on CDNX was \$0.73. On June 15, 2000, the date of closing of the Offering, the closing price of the Common Shares on CDNX was \$1.72. The purchase price of \$1.25 per Special Warrant was established by negotiation between the Company and the Underwriter.

**DUNDEE SECURITIES CORPORATION
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Unless otherwise stated, all dollar amounts in this prospectus refer to Canadian dollars. On December 22, 2000, the noon rate of exchange of the Bank of Canada was \$1.5167 Canadian dollars for each U.S. dollar.

SUMMARY

The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus.

- The Company:** The Company's business is in two market areas. First, the Company operates in the mobile wireless applications and infrastructure market by offering software and hardware that allows companies using mobile applications in various industries to operate wirelessly. Second, the Company offers software applications targeted at the mobile workforce in the consumer packaged goods industry. These software applications are in the supply chain management and mobile customer relationship management areas. The applications can be configured to operate either wirelessly or through traditional telephone links and allow a company to interact with and collect data from both customers and mobile workers. Although these two market areas are distinct, the combination of the Company's wireless technology and software applications offer a customer a complete mobile data solution.
- Offering:** The Company is qualifying the distribution of 8,300,000 common shares of the Company ("Common Shares") and 4,150,000 common share purchase warrants ("Warrants") which will be issued upon the exercise of 8,300,000 special warrants ("Special Warrants"). Each Special Warrant entitles the holder to receive, without the payment of additional consideration, one Common Share and one-half of one Warrant. Each whole Warrant entitles the holder thereof to purchase one additional Common Share at a price of \$1.75 on or before 4:00 p.m. (Vancouver time) on June 15, 2001. The Special Warrants were issued on June 15, 2000, (the "Offering") pursuant to an underwriting agreement (the "Underwriting Agreement") between the Company and Dundee Securities Corporation (the "Underwriter").
- The Special Warrants are exercisable until 4:00 p.m. (Vancouver time) (the "Expiry Time") on the day which is the earlier of (a) the second business day following the date on which a final receipt (the "Receipt") is issued for this prospectus by the British Columbia Securities Commission (the "Principal Regulator") on behalf of the securities regulatory authorities of the provinces of British Columbia, Alberta and Ontario (the "Commissions"), and (b) June 15, 2001. Any Special Warrants not exercised prior to the Expiry Time will be deemed to have been exercised immediately prior to the Expiry Time without any further action by the holders.
- Underwriter's Compensation:** In connection with the Offering, the Company paid to the Underwriter a cash commission of \$752,188 and granted to the Underwriter the Compensation Option to acquire 830,000 Broker's Warrants. Each Broker's Warrant entitles the Underwriter to purchase one Common Share and one-half of one Warrant at a price of \$1.25 until 4:00 p.m. (Vancouver time) on June 15, 2001. In British Columbia and Alberta, this prospectus qualifies the distribution to the Underwriter of 830,000 Broker's Warrants. In Ontario, this prospectus qualifies the distribution to the Underwriter of 415,000 Broker's Warrants. See "Plan of Distribution".
- Use of Proceeds:** The gross proceeds from the Offering were \$10,375,000. From these proceeds, the Company paid an aggregate commission of \$752,188, being 7.25% of the total Offering, for net proceeds of \$9,622,812. These proceeds have been or are expected to be used as follows:

Legal and audit expenses of the Company associated with the Offering:	\$ 260,000
Acquisition of former Versatile Systems, Inc. (See "Acquisitions and Dispositions"):	6,840,568
Sales and Marketing (See "Milestones" and "Sales and Marketing"):	1,041,435
Research and Development (See "Milestones" and "Research and Development"):	914,313
Administration (See "Milestones" and "Administration"):	<u>566,496</u>
Total:	<u>\$9,622,812</u>
See "Use of Proceeds".	

Risk Factors:

An investment in the shares of the Company is subject to a number of risks. These risk factors include, but are not limited to, the limited operating history of the Company and its history of losses; there existing no certainty of future profitability; the competitive market in which the Company operates where larger, more established companies have greater resources than the Company; rapidly changing technology and industry standards; the Company's limited sales and support infrastructure which may lead to inability to meet customer demands; the Company's dependence on business alliances to penetrate new markets for its products; the Company's dependence on key personnel which it may fail to attract or retain; the possibility of the failure of the Company to effectively manage its expected significant growth; the possibility of the unsuccessful integration of newly acquired businesses or technology; potential fluctuations in quarterly financial results due to the timing of new releases of products and substantial orders; difficulty in expanding international sales; dependence on intellectual property laws and contractual provisions to protect the Company's proprietary technology and the Company having no registered patent and trademark protection; risk that third parties may claim that the Company's products infringe on those third parties' rights; the lengthy sales and implementation cycle of the Company in which sales are subject to an approval process by potential customers; risk of system defects when the Company's products are integrated with a customer's products or systems; the Company not being able to raise funds needed for its business; and the Company having no history of or present intention to pay dividends. See "Business of the Company" and "Risk Factors".

GLOSSARY

In this prospectus, the following terms have the meanings set forth below:

Cellular	A system of mobile radio-telephone transmission in which multiple base stations are used, each covering a "cell", and mobile devices are handed off from one "cell" to another as they move.
CDPD	Cellular digital packet data, a digital cellular technology used for packet data transmission, usually in conjunction with an existing cellular system. CDPD is an architecture and a packet data network technology. The CDPD cellular system transmits data by breaking up the information into small packets. These packets are reassembled at the receiving end.
GPS	Global positioning satellite system, a system of satellites that transmit accurate timing information from which a receiver anywhere on the Earth's surface can calculate its latitude, longitude and elevation.
Internet	A publicly accessible network of databases, switches, communications equipment and terminals that allows the free exchange of data between computers internationally.
Internet Appliances	Fully digital cell phones, two-way pagers and wireless enabled PDAs and handheld computers. These appliances, when enabled with an internal microbrowser and linked to a wireless network operator providing server software, allow users to wirelessly receive information from the Internet such as email and dispatch information.
Middleware	An intermediate software application layer that links two otherwise separate software programs.
PC	Personal computer.
PDA	Personal digital assistant, a handheld portable microcomputer that looks like a palmtop computer. PDAs perform specific tasks such as electronic diary, personal database, multimedia player, memo taker and calculator tasks.
WAP	Wireless application protocol, an open, global specification that enables mobile users with wireless devices to easily access and interact with information and services instantly. WAP has been designed to be used with handheld digital wireless devices such as mobile phones, pagers, two-way radios, smartphones and communicators.

THE COMPANY

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 1295 Johnston Street, Vancouver, British Columbia V6H 3R9. The Company's registered and records office is located at 1100 – 1055 West Hastings Street, Vancouver, British Columbia V6E 2E9. The Company also maintains offices in Seattle, Washington and in Woking, United Kingdom. See "Business of the Company - Offices".

The Company has three subsidiaries. The Company carries on business in the United States through its United States subsidiary, Versatile Mobile Systems, Inc. ("Versatile U.S.") and in the United Kingdom 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 Ownership⁽¹⁾	Date of Incorporation	Jurisdiction of Incorporation
Versatile Mobile Systems, Inc. ⁽²⁾	100%	May 17, 2000	Washington, U.S.A.
Versatile Mobile Systems (Europe) Ltd. ⁽³⁾	100%	March 12, 1987	United Kingdom
ISISOFT (U.S.) Inc. ⁽⁴⁾	100%	June 9, 1999	Delaware, U.S.A.

(1) Represents the percentage of voting securities held. The subsidiaries do not have any non-voting securities outstanding.

(2) 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 "Acquisitions and Dispositions".

(3) Incorporated under the name "Modatech Systems Europe Limited", changed its name to "International Sales Information Systems Limited" on December 30, 1994 and to Versatile Mobile Systems (Europe) Ltd. on October 17, 2000.

(4) Recently transferred its operations to Versatile U.S. and is no longer active.

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

THE INDUSTRY

The Company's business is in two separate markets. First, it operates in the mobile wireless applications and infrastructure market. This market is concerned with the provision of software and hardware that allows companies using mobile applications in various industries to operate wirelessly. Second, the Company operates in the consumer packaged goods sector in the area of software applications for supply chain management, encompassing trade and e-fulfillment (e-fulfillment is the implementation of an e-business transaction) and mobile customer relationship management.

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

1. Wireless applications and infrastructure
2. Supply chain management
 - (a) Mobile solutions for distribution
 - (b) Mobile e-delivery solutions for trade and e-fulfillment
3. Mobile customer relationship management

The Company has formed working relationships and alliances with certain key companies in the foregoing areas. See "Business of the Company - Key Alliances".

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 has expanded recently because businesses are 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.

Not surprisingly, the Internet has increased the role of SCM solutions in a number of ways, including the following:

- The linking of supply chain participants through the Internet allows for increased visibility and the ability to track the flow of goods as they move through the system.
- 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.
- The Internet has also created new classes of businesses which require efficient product fulfillment and distribution solutions. While B2B (business to business) and B2C (business to consumer) businesses are able to quickly make online sales, efficient fulfillment of these orders is another matter. Internet Trading Exchanges (ITEs) present new problems as multiple buyers and sellers congregate, requiring complex order management between multiple parties.

As a result, SCM systems are being rapidly adopted by the market which include applications such as those providing for e-fulfillment. Descartes Systems (U.S.A.) Inc. ("Descartes"), UPS Logistics Group, and Ariba, Inc. are leading 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. Back office products are used mainly by the internal operations or administration departments. 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.

BUSINESS OF THE COMPANY

Introduction

The Company's business is in two market areas. First, the Company operates in the mobile wireless applications and infrastructure market. It has developed software, mobile hardware peripherals and central office server software that allow companies to communicate wirelessly through mobile computers and other hand held devices.

Second, the Company offers software applications targeted at the mobile workforce in the consumer packaged goods industry. These software applications are in the SCM and mobile CRM areas. These software applications can be configured to operate either wirelessly or through traditional telephone links and allow a company to interact with and collect data from both customers and mobile workers.

Although these two market areas are distinct, the combination of the Company's wireless technology and software applications offer a customer a complete mobile data solution including host server software (back office) applications, mobile client applications, mobile hardware and peripherals, wireless airtime re-selling and professional services. In addition, the Company provides recurring services for the maintenance of the software and hardware of the system.

The Company's European base of operations commenced in 1987 to distribute and sell Maximizer products in European countries, as well as provide consulting services and CRM solutions to companies such as Reuters Group PLC, Salomon Brothers, Deutsche Morgan Grenfell and HarperCollins Publishers. Maximizer was a contact manager application program designed to keep track of salesmen's contacts, customers and related administrative functions. Due to significant ongoing losses associated with the Maximizer business, 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. The Company then 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".

SalesPOINT was initially developed by the Company in late 1996 in the United Kingdom and was 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 provide maintenance for SalesPOINT as well as related help desk support services.

To expand into the North American market, the Company decided to acquire a complementary business. In June 2000, the Company effectively 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. 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.

Corporate Strategy

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. See "Business of the Company – Key Alliances".

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

The principal business objectives that the Company has accomplished or expects to accomplish using the proceeds of the Offering are as follows:

1. The Company planned to acquire Versatile U.S. This was completed in June 2000.
2. The Company intends to continue its research and development program which is designed 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. This will be ongoing over the next 12 months.
3. The Company intends to concentrate its sales and marketing efforts on expanding the Company's market share in North America and Europe. This will be ongoing over the next 12 months.
4. The Company is working towards achieving ongoing operating profitability by the first quarter of the 2002 fiscal year.

Milestones

The following are the milestones which the Company is targeting in order to achieve its business objectives set out in items 2, 3 and 4 above:

Research and Development

- (a) Complete the development and commercialization of a pocket PC operating system version of the VersaRoute for DOS product, including a beta test with a customer by April 2001;
- (b) complete a hosting centre in Europe for the scheduling and dispatch software product recently acquired from Deniro Corp. by February 2001; and
- (c) continue to enhance the Company's products with added features based on demand as determined by the sales and marketing management team.

See "Research and Development". The Company intends to spend approximately \$3,600,000 on research and development over the next 12 months to achieve these milestones, of which \$914,313 is expected to come from the proceeds of the Offering. See "Use of Proceeds". The balance will come from other sources including existing working capital, sales revenues and further equity financing.

Increase Market Share

- (a) Continue to work with existing business relationships and additionally enter into new relationships, including finalizing at least one such arrangement by February 2001;
- (b) continue participation in targeted industry trade shows; and
- (c) continue to pursue sales efforts to targeted customers and deploy the scheduling and dispatch software beyond its present limited customer base by March 2001.

See "Sales and Marketing". The Company intends to spend approximately \$4,100,000 on its sales and marketing efforts over the next 12 months in pursuit of these milestones, of which \$1,041,435 is expected to come from the proceeds of the Offering. See "Use of Proceeds". The balance will come from other sources including existing working capital, sales revenues and further equity financing.

Operating Profitability

- (a) Achieve sales targets by March 2001;
- (b) carry out the Company's marketing program; and
- (c) keep Company expenses at a reasonable level.

See "Administration". The Company expects to spend approximately \$2,230,000 on administration costs over the next 12 months, of which \$566,496 is expected to come from the proceeds of the Offering. See "Use of Proceeds". The balance will come from other sources including existing working capital, sales revenues and further equity financing.

Products and Services

Versatile has developed products and services to address current market needs for wireless applications and infrastructure, supply chain management (including distribution and trade and e-fulfillment) and mobile CRM.

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 and purchases wireless airtime from AT&T Wireless Data, Inc. ("AT&T") and BellSouth Wireless Data, L.P. and resells it to its customers.

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

VersaComm Server - The VersaComm Server facilitates and manages mobile communication. It supports multiple mobile devices communicating over AT&T (CDPD) networks.

VC1727 - Versatile manufactures its own line of wireless vehicle docking stations for transmitting data in the field. The VC1727 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 1727 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 Palm O/S, and PPT-2700 Windows CE mobile computers. The VC1727 is Versatile's third generation of mobile wireless vehicle docking stations.

Supply Chain Management

(a) Distribution

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 proprietary software for the distribution sector:

VersaCourier - VersaCourier is a mobile pickup and delivery software product for use on mobile terminals in the field. The mobile software application supports package delivery identification, bar code scanning, package tracking, package delivery and signature capture and truck load/unload functions. Consideration is given to package pickup location, package identifier scanning, customer and shipper table lookup, driver and truck activity tracking, odometer, messaging, dispatch and email.

VersaRoute for DOS - VersaRoute for DOS is a software application for use on mobile terminals in the field. This product is currently supported on the DOS operating system. Development for support in the pocket PC environment is currently underway. This product includes full-featured product delivery, signature capture, and on-the-spot invoicing. 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.

VersaDEX - VersaDEX is a software application for use on mobile terminals in the field and includes a host interface middleware product which controls the upload and download of data with mobile terminals docked at a distribution centre using DEX/UCS. DEX/UCS is a standard managed by the Uniform Code Council for electronic data interchange in the grocery industry. Most major grocery retailers require direct store delivery companies to provide on-the-spot electronic invoicing in the DEX/UCS standard.

(b) Trade and e-Fulfillment

The Internet is providing opportunities for mobile delivery applications as the trade and e-fulfillment sector defines itself. Versatile markets a full-featured wireless mobile delivery application with support for operations resource management systems, including updating of geographic information systems with wireless GPS data. Versatile, in partnership with Descartes, has gone to market with a wireless Internet delivery fulfillment system.

Versatile has developed the following proprietary software for this marketplace:

VersaRoute for Palm - VersaRoute for Palm is a software application for use on mobile terminals in the field and is currently supported on the Palm O/S operating system. The product includes delivery manifest, driver route schedule information, driver and delivery re-routing, coupon acceptance, delivery tote scanning, delivery point information and signature capture. Combined with Versatile's wireless VC1727 multi-port vehicle dock, 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.

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 at 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.

VersaSell - VersaSell is a DOS-based software application for use on mobile terminals in the field. Order entry and CRM functions available through VersaSell include customer specific pricing, product allowances, return orders, merchandising, product availability, product profile and product substitution. Order management, status and order history features are included, as well as optional product survey modules for various functions. Sales activity, orders, order management, messaging and email are supported by VersaSell.

SalesPOINT - 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 SalesPOINT 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)

SalesPOINT is designed to operate in a corporate network on a Windows or NT 4.0 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 4.0 operating systems and to provide for multiple levels of security (network, server and user).

SalesPOINT 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.

Sales and Marketing

The Company manages products through a structured product life cycle process, from customer-driven requirements through development and commercial introduction to eventual roll-out. Marketing emphasis is placed on developing the business case, determining competitive positioning and pricing and on ensuring product completeness, which includes documentation, promotional material and marketing programs.

The Company communicates its corporate and product positioning to customers through a wide variety of media including industry, business and trade publications and through participation in targeted conferences and trade shows. Company executives and key technical staff are frequently invited to speak at industry conferences.

The Company provides customers and alliance partners with product and technical support using telephone and email.

The sales and marketing expenses of the Company over the next 12 months are expected to be as follows:

Salaries	\$ 2,275,000
Commissions	1,150,000
Advertising and trade shows	110,000
Travel and automobile expenses	270,000
Communications	175,000
Other	<u>120,000</u>
Total	<u>\$ 4,100,000</u>

Of the \$4,100,000 total, \$1,041,435 is expected to come from the proceeds of the Offering and the balance will come from other sources including existing working capital, sales revenues and further equity financing. See "Milestones" and "Use of Proceeds".

Key Alliances

Versatile has invested in the development of key industry relationships. Versatile has strategic relationships with AT&T, Symbol Technologies Inc. ("Symbol") and Descartes. These industry relationships have provided Versatile with unique market exposure:

- AT&T has invited Versatile to speak at their national sales and partner conferences. The AT&T sales force has provided sales contacts to Versatile.
- Symbol has invited Versatile to speak at its World Wide User Conference, and funded the marketing, development and presentation of a joint Versatile/Descartes mobile e-delivery solutions seminar series throughout the United States.
- Descartes has participated with Versatile on the Symbol-sponsored e-fulfillment and delivery technology conferences, as well as development of a joint Versatile/Descartes e-delivery working solution, involving both companies' technologies. This joint solution is being marketed by Descartes to its key e-fulfillment customers across North America.

Research and Development

The Company's products have been developed over varying periods in the last five 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 21 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. The Company spent \$1,544,553 on research and development for the fiscal year ended June 30, 2000 and approximately \$1,142,541 for the five-month period ended November 30, 2000. The Company expects to incur research and development costs of \$3,600,000 over the next 12 months, of which \$914,313 is expected to come from the proceeds of the Offering. The balance will come from other sources including existing working capital, sales revenues and further equity financing. See "Milestones" and "Use of Proceeds".

Competition

The Company believes its most significant direct competitors are Aether Systems, Inc., UPS Logistics Group, Intermec Technologies Corporation and Mobile Data Solutions Inc.

Aether Systems, Inc.

Aether Systems, Inc. ("Aether") is a new entrant in the rapidly growing area of wireless mobile data. Aether's general strategy is to be the leading wireless data provider and de-facto industry standard. Aether started out by offering mobile CDPD access to web sites and email on its own wireless modem for the Palm V. Aether has moved into the vertical wireless data area and it has purchased two of Versatile's competitors, Riverbed Technologies and Locus One, now a division of Aether.

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 their 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.

Mobile Data Solutions Inc.

Mobile Data Solutions Inc. ("MDSI") offers a wireless system that allows field workers to stay informed through interactive messaging with dispatchers and also allows access to corporate information. The system supports WAP phones, PDAs and lap top computers that provide access to corporate Internet and enterprise applications. MDSI typically pursues accounts primarily in the utility and telecommunications industries and, to a lesser degree, in field services and insurance and financial services.

Patents, Trademarks and Copyrights

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".

Management

The employees and directors forming the management team of the Company (and of its principal subsidiaries) and their profiles are described briefly below.

John Hardy, Chairman, Chief Executive Officer and Director

Mr. Hardy, age 49, is the Chairman and Chief Executive Officer of the Company. Mr. Hardy has been a director of the Company since October 1996. Mr. Hardy was appointed Chairman in December 1996, President in January 1997 and Chief Executive Officer in February 1997. Mr. Hardy resigned as President of the Company in May 2000. Mr. Hardy contracts his services to the Company on a full-time basis.

Prior to joining the Company, Mr. Hardy founded the law firm of Hardy & Company in September 1996. Prior to founding Hardy & Company, Mr. Hardy was a partner with the law firm of Guild, Yule & Company. Mr. Hardy has acted for numerous insurance companies, multi-national corporations and financial institutions and has experience in the litigation and resolution of multi-jurisdictional disputes. Mr. Hardy was an Adjunct Law Professor in the Faculty of Law at the University of British Columbia from 1984 to 2000.

Mr. Hardy has an LL.B. degree from the University of Ottawa, a B.A. from Carleton University and was called to the Bar in British Columbia in 1978.

Larry Oliver, President and Director

Mr. Oliver, age 52, has been the President of the Company since May 2000 and contracts his services to the Company on a full-time basis.

Prior to joining the Company, Mr. Oliver was Vice President of Customer Services for Epic Data International, Inc., a company based in Vancouver, British Columbia which provides automated data collection systems to the enterprise resource planning market, from April 1999 to February 2000. From January 1990 to April 1999, he was co-founder and President of Real Data Systems Inc., a mobile and shop floor data collection solutions provider which was acquired by Epic Data International, Inc. in 1998.

Mr. Oliver has a B.Sc. degree in Education from the University of North Dakota.

Martin Hope, Chief Financial Officer and Director

Mr. Hope, age 51, has been Chief Financial Officer of the Company since July 2000. Prior to joining the Company, he was Chief Financial Officer of Duke Seabridge Limited, a private construction equipment distribution company located in Vancouver, British Columbia, from November 1997 to June 2000. Mr. Hope was Vice President, Finance from October 1993 through October 1997 at Slocan Forest Products Ltd., a Vancouver-based forest products company.

Mr. Hope is a chartered accountant with accreditation in both Canada and the United Kingdom, and has an M.A. in Finance from Lancaster University and a M.B.A. from Bradford Management Centre.

Edward Moorhouse, Vice President, Marketing

Mr. Moorhouse, age 44, has been the Vice President, Marketing, of the Company since September 2000. Prior to joining the Company, he was Director, Technology Investments, of Atlas Capital Group, an investment company located in Vancouver, from July 1999 to September 2000. Mr. Moorhouse was director of marketing and product line management with Epic Data International, Inc., a company providing automated data collection systems to the enterprise resource market, from December 1997 until July 1999. Prior to that, Mr. Moorhouse was a venture capital investment manager with the Business Development Bank from March 1997 until December 1997. Mr. Moorhouse was the western region manager of Quantra Corp., a real estate management software company located in Vancouver, from March 1995 until March 1997.

Mr. Moorhouse has a Bachelor of Commerce (Honours) degree from the University of Manitoba.

Evan Campbell, Chief Technology Manager

Mr. Campbell, age 36, is the Chief Technology Manager of the Company. Mr. Campbell leads all wireless and software product design and development initiatives at Versatile. From April 1997 to April 2000, he served as Manager of Business Care Systems for AT & T Wireless' Information Technology Department. From June 1995 to April 1997, Mr. Campbell served as Manufacturing Division Manager at Custom Cable Industries. From September 1994 to March 1995, Mr. Campbell was Manager of Latin American Sales and Operations for Communications Electronics Specialties, Inc. Mr. Campbell also served in the United States Army Special Forces as Special Operations Senior Communications Specialist and as an Airborne Ranger.

Mr. Campbell earned an M.B.A. degree from Rollins College, an M.A. in International Affairs from George Washington University and a B.A. degree in Political Science/International Relations from the University of San Diego.

Jens Montanana, Director

Mr. Montanana, age 40, has been a director of the Company since January 1997. Mr. Montanana is a director of Brait S.A. an investment banking firm located in the United Kingdom which trades on the London Stock Exchange. Since January 1986, Mr. Montanana has been the Chairman and Chief Executive Officer of DataTec Limited, an international networking and technology group operating in South Africa, Europe and the United States which trades on the Johannesburg Stock Exchange. Mr. Montanana was the Chairman and co-founder of Xedia Corporation, an Internet networking company based in Acton, Massachusetts, and a director of UUNet Internet Africa, an associate company of UUNet Technologies Inc. From April 1996 to April 1998, Mr. Montanana was a founder and the

Chairman of Primedia Limited, an electronic media and publishing company listed on the Johannesburg Stock Exchange. Mr. Montanana also served as Managing Director of U.S. Robotics (U.K.) Limited, a wholly-owned subsidiary of U.S. Robotics (now 3Com), from 1989 to 1993, and has held various senior management positions at Computer Sciences Corporation and Westinghouse Corporation.

Mr. Montanana qualified in Electronic Engineering at the University of Reading in England.

Robert Polychron, Director

Mr. Polychron, age 52, has been a director of the Company since December 1999. He has been Chief Executive Officer of Ironstream, Inc., a technology company based in Lowell, Massachusetts, since July 2000. Mr. Polychron was Executive Vice President of Xedia Corporation, an internet networking company based in Acton, Massachusetts, from January 1995 to December 1999.

Prior to his involvement with Xedia Corporation, Mr. Polychron held various senior level positions at U.S. Robotics (now 3Com), including Vice President of Worldwide Sales and Marketing. He has also held technical management positions at IBM Corporation.

Mr. Polychron is a graduate of Stanford University's Executive M.B.A. program.

Personnel

The Company currently has a total of 74 full and part-time employees. Of these, 21 employees serve in a product support integration capacity, 12 employees serve in a management and administration capacity, 20 employees serve in a sales and marketing capacity and 21 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	Research & Development	Total
Vancouver, British Columbia	0	3	2	0	5
Seattle, Washington	17	8	17	17	59
Woking, United Kingdom	<u>4</u>	<u>1</u>	<u>1</u>	<u>4</u>	<u>10</u>
Totals:	21	12	20	21	74

Offices

The Company's corporate head office is located at 1295 Johnston Street, Vancouver, British Columbia V6H 3R9 and occupies approximately 2,500 square feet of leased space.

The Company also occupies approximately 16,000 square feet of leased space in Seattle, Washington at Suite 103 - 191105, 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 6th 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.

Administration

The administration expenses that are expected to be incurred by the Company to achieve its stated business objectives during the next 12 months are as follows:

	Monthly	Annual
Salaries and benefits	\$ 81,666	\$ 980,000
Legal and accounting	15,000	180,000
Rent, utilities and operating	60,000	720,000
Regulatory fees	3,333	40,000
Investor relations expenses	7,500	90,000
Travel expenses	5,000	60,000
Supplies and other expenses	<u>13,333</u>	<u>160,000</u>
Total:	<u>\$ 185,832</u>	<u>\$ 2,230,000</u>

The Company does not expect there to be any material fluctuations in the total monthly administration costs, although each component may fluctuate materially on a monthly basis at some time during the next 12 month period. Of the \$2,230,000 annual total, \$566,496 is expected to come from the proceeds of the Offering. The balance will come from other sources including existing working capital, sales revenues and further equity financing. See "Milestones" and "Use of Proceeds".

ACQUISITIONS AND DISPOSITIONS

The following is a description of the material acquisitions and dispositions of the Company undertaken during the past five fiscal years of the Company and during the period since the completion of the most recently completed fiscal year of the Company to the date of this prospectus. See also "Business of the Company" and "Management's Discussion and Analysis of Operating Results - Versatile".

Acquisition of Versatile U.S.

Pursuant to an agreement effective April 1, 2000 (the "Versatile Acquisition Agreement") among the Company, former Versatile Systems, Inc. and James Lloyd, Francis McHugh and Andrew Lynch (the "Vendors"), the Company effectively acquired (the "Versatile Acquisition") all of the outstanding shares of Versatile U.S. for consideration negotiated at arm's length between the Company and the Vendors consisting of 2,605,425 Common Shares and U.S.\$4,520,231 cash. The Versatile Acquisition was completed on June 19, 2000, after receipt of CDNX acceptance of the transaction. With the acquisition of Versatile U.S.'s business, the Company plans to expand upon its product offerings and continue to enhance its product offerings in existing markets as well as new markets created by the expanded wireless data networks and the Internet.

In order to complete the Versatile Acquisition, the Company formed a wholly owned U.S. subsidiary, Versatile Acquisition Corp., and former Versatile Systems, Inc. was merged into this subsidiary. All references in this prospectus to Versatile U.S. are to this merged entity unless the context otherwise requires.

In accordance with the Versatile Acquisition Agreement, the Vendors entered into an agreement dated June 19, 2000 (the "Escrow Agreement") among the Vendors, Montreal Trust Company of Canada and the Company pursuant to which the 2,605,425 Common Shares issued in connection with the Versatile Acquisition were placed into escrow and will be released over a three-year period, with 33-1/3% being released on the first anniversary of the completion of the Versatile Acquisition, 33-1/3% being released on the second anniversary and the remaining 33-1/3% being released on the third anniversary.

The cash component of the purchase price of the Versatile Acquisition was financed from proceeds of the sale of the Special Warrants and the sale of 3,400,000 units of the Company on June 15, 2000. See "Use of Proceeds" and "Prior Issuances of Securities".

Acquisition of Deniro Corp. Assets

Pursuant to an agreement dated November 9, 2000 (the "Deniro Acquisition Agreement") among Versatile U.S., Deniro Corp. ("Deniro"), a corporation existing under the laws of the State of Washington and located in Seattle, WA, and Marc Austin, Versatile U.S. acquired (the "Deniro Acquisition") all of the assets of Deniro including, but not limited to, the intellectual property developed by Deniro for scheduling and dispatching referred to as Service Resource Planning ("SRP"), the provisional patent obtained by Marc Austin for SRP, the United States trademark registration for "Mobiquity" and the SRP customer and distribution contracts of Deniro. CDNX acceptance of the transaction was obtained by the Company.

The purchase price for the assets was U.S.\$200,000 plus the number of Common Shares equal in value (determined using the Conversion Price, as defined below) to the principal amount of outstanding convertible bridge notes (the "Notes") of Deniro including interest up to the date of payment. The unpaid balance of the principal amount of the Notes is U.S.\$300,000 and interest accrues thereon at the rate of 6% per annum.

On the closing date of the Deniro Acquisition, Versatile U.S. paid the U.S.\$200,000 cash purchase price. As soon as practical following the Deployment Date (as defined below), the Company will issue to Deniro the number of Common Shares calculated in the foregoing manner.

The Conversion Price will be determined by dividing outstanding principal and interest accrued to that date under the Notes by the closing price of the Common Shares on CDNX on the Deployment Date.

The Deployment Date will be the date on which the Company receives notice of acceptance of Deniro's SRP product after the usual customer approval process pursuant to an agreement entered into between Deniro and a third party.

Based upon the closing price of the Common Shares on December 22, 2000 of \$0.73 per Common Share, approximately 625,000 shares would be issued to Deniro pursuant to the Deniro Acquisition Agreement.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS - VERSATILE

Selected Consolidated Financial Information

The following is a summary of certain selected consolidated financial information which is qualified by the more detailed information appearing in the financial statements of the Company included in this prospectus. The Company's fiscal year ends on June 30 of each year. The financial statements of the Company included in this prospectus are for the fiscal years ended June 30, 2000, 1999 and 1998 and the first quarter ended September 30, 2000. The results for the period ended June 30, 2000 include the assets and operations of Versatile U.S. for the last three months of that period.

	Three-Month Period Ended September 30 (unaudited)		Years Ended June 30		
	2000	1999	2000	1999	1998
Working capital (deficiency)	\$ 4,812,713	\$ 1,778,533	\$ 5,309,573	\$ (390,038)	\$ 220,021
Revenues	3,681,962	156,393	3,371,442	1,282,230	2,150,847
Gross Profit	1,395,077	97,883	1,294,996	645,806	1,589,920
Expenses:					
General and Administrative	601,350	371,429	2,168,881	886,170	1,207,612
Research and development	534,366	328,784	1,544,553	878,561	669,798
Selling and marketing	902,485	222,770	1,794,990	135,389	346,168
Amortization of tangible capital assets	49,163	25,311	149,721	98,853	88,814
Amortization of intangible assets	740,833	0	740,833	0	0
Amortization of goodwill	474,003	0	474,003	0	0
Discontinued operations	0	0	0	167,959	0
Income Tax Recovery	(194,367)	0	(194,367)	0	0
Net Loss	(1,712,756)	(850,411)	(5,383,618)	(1,185,208)	(722,472)
Net Loss per share	(0.04)	(0.03)	(0.14)	(0.04)	(0.03)
Total Assets	20,486,863	2,491,231	22,247,107	451,200	1,772,388
Capital Assets	311,011	175,256	354,169	186,718	271,279
Long Term Debt	74,933	0	77,959	0	0
Total Liabilities	5,214,717	537,442	5,408,946	654,520	1,280,638
Share Capital:					
Capital Stock	26,878,078	15,274,713	26,754,828	14,750,412	14,750,412
Number of shares	45,917,446	33,211,421	45,592,446	31,341,421	31,341,421
Number of special warrants	8,300,000	0	8,300,000	0	0
Deficit	(24,695,006)	(18,449,042)	(22,982,250)	(17,598,632)	(16,413,424)

Review of Operations

Three months ended September 30, 2000

Sales for the first quarter of fiscal 2001 were \$3,681,962 as compared to sales of \$156,393 for the same period in 1999. The loss for the quarter before the net effect of non-cash charges for amortization of goodwill and intangible assets and provision for future income taxes was \$692,287; however, after taking account of these charges the resultant loss for the quarter was \$1,712,756 (\$0.04 loss per share) compared to a loss of \$850,411 (\$0.03 loss per share) for the same period in 1999.

The significant increase in sales over last year is attributable to the inclusion of the results from the acquisition of Versatile U.S. that have been included in the Company's results since the final quarter of fiscal 2000. However, sales increased by 27% over the previous quarter's sales of \$2.9 million.

Cost of sales of \$2,287,000 (62% of sales) for the quarter were higher than the same period last year (\$59,000) due to the inclusion of the results of Versatile U.S.; however, as percentage of sales they were less than the previous quarter's, which were 64% of sales.

Administration, selling and marketing, research and development expenses and amortization of capital assets were all substantially higher than the same period last year due to the inclusion of the Versatile U.S. results. All research and development costs were expensed as incurred.

During the quarter ended September 30, 2000, the Company significantly increased its selling and marketing and research and development initiatives with the hiring of additional sales staff and development staff.

The goodwill and other intangible assets arising from the acquisition of Versatile U.S. are being amortized over three years. This has resulted in a non-cash amortization charge of \$1,214,836 for the three months of the inclusion of the Versatile U.S. results.

The amount shown as recovery of income tax (\$194,367) represents the future income taxes. Future income taxes are recognized on temporary differences between the carrying amounts of assets and liabilities and their value for tax purposes. The majority of the differences in the carrying values are due to the accounting values attributed to intangible assets.

Working capital at September 30, 2000 was \$4,812,713 versus \$5,309,573 at June 30, 2000. Cash and cash equivalents at September 30, 2000 amounted to \$3,618,819.

Cash required to fund operations for the quarter was \$609,617 and an additional \$1,245,772 was required to fund non-cash working capital. Cash required for capital expenditures amounted to \$27,878.

The build up in non-cash working capital in the quarter was due to an increase in accounts receivable due to timing of billings in September 2000.

During the quarter, stock options were exercised, resulting in proceeds to the Company of \$123,250.

Fiscal Year Ended June 30, 2000

Sales for the fiscal year ended June 30, 2000 were \$3,371,442 with a loss of \$5,383,618 (\$0.14 loss per share) as compared to sales of \$1,282,230 and a loss of \$1,185,208 (\$0.04 loss per share) for the fiscal year ended June 30, 1999.

The significant increase in sales over the fiscal year ended June 30, 1999 was attributable to the inclusion of Versatile U.S. results for the three months ended June 30, 2000. Sales from the Company's product, SalesPOINT, were below the previous year. This was due to senior management's time and attention being focussed on the combination of starting up a U.S. operation, hiring several key sales and marketing personnel and searching for an appropriate business acquisition opportunity (Versatile U.S.) and the effects of the Year 2000 issue. The sales contributed from the Versatile Acquisition amounted to \$2,748,000.

Cost of sales of \$2,076,000 (62% of sales) for the fiscal year were higher than those for the fiscal year ended June 30, 1999 due to the inclusion of the Versatile U.S. results for the three months and compared to \$636,424 (50% of sales) in 1999. Administration expenses of \$2,168,881 were higher than the \$886,170 in fiscal 1999 due to the opening and subsequent closing of the U.S. sales office, the opening of the head office in Vancouver and the inclusion of the Versatile U.S. costs. Amortization costs of \$149,721 were higher than fiscal 1999 of \$98,853 due primarily to the inclusion of Versatile U.S.'s amortization for the three-month period.

The goodwill and other tangible assets arising on the acquisition of Versatile U.S. are being amortized over three years. This has resulted in an amortization charge (non cash) of \$1,214,836 for the three months of inclusion of the Versatile U.S. results.

Research and development, which continues to be expensed, was \$1,544,553 for the year versus \$878,561 in 1999. The increase is primarily due to the Versatile costs for the three months and increased staff in the United Kingdom based research and development office. Sales and marketing expenses were \$1,794,990 this period as compared to \$135,389 in 1999. The increase was attributed to the hiring of sales and marketing staff for the U.S. sales effort for the SalesPOINT product and the inclusion of the Versatile U.S. operations for the three months.

Earnings from discontinued operations were \$167,959 in 1999 and zero in 2000.

The amount shown as recovery of income tax (\$194,367) represents the future income taxes. Future income taxes are recognized on temporary differences between the carrying amounts of assets and liabilities and their value for tax purposes. The majority of the differences in the carrying values are due to the accounting values attributed to intangible assets.

Working capital at June 30, 2000 was \$5,039,573 versus a deficiency of \$390,038 at June 30, 1999.

Cash required to fund operations and non-cash working capital for the year amounted to \$3,844,561, compared to \$1,363,389 for 1999. Additionally, \$7,003,067 was required in the year to fund the Versatile U.S. acquisition and capital expenditures, compared to \$13,842 in 1999 for capital expenditures.

The operating loan (\$1,419,061) and part of the long-term debt (\$469,832) assumed in the acquisition of Versatile U.S. was repaid prior to the year end.

The cash required to fund these items in the year was funded by a combination of warrants and options being exercised for \$1,842,400 and the completion of three private placements for aggregate proceeds of \$16,178,986, net of issue costs.

Fiscal Year Ended June 30, 1999

Sales for the fiscal year ended June 30, 1999 were \$1,282,230 with a loss of \$1,185,208 (\$0.04 per share) as compared to sales of \$2,150,847 and a loss of \$722,472 (\$0.03 per share) for the fiscal year ended June 30, 1998.

Sales decreased due to the following reasons: no dedicated selling and marketing resources for the Company's core product – SalesPOINT; senior management focus on recruiting marketing personnel to build long-term sales through a proper infrastructure instead of pursuing short-term opportunities with a limited ability to increase future sales; and closure of revenue generating, but unprofitable, operations.

Cost of sales increased to 50% of sales from 26% for the fiscal year ended June 30, 1998. Research and development for the fiscal year ended June 30, 1999 was \$878,561 as compared to \$669,798 for the fiscal year ended June 30, 1998. The expanded development team continued to work out of the Woking, England office and management elected to continue expensing all of these expenditures. Amortization of \$98,853 for the fiscal year ended June 30, 1999 was slightly higher than the \$88,814 for the fiscal year ended June 30, 1998 and relates directly to the development assets in the Woking office. Administrative expenses decreased to \$886,170 for the fiscal year ended June 30, 1999 from \$1,207,612 for the fiscal year ended June 30, 1998, primarily as a result of a non-recurring credit of \$184,000 relating to prior years' accruals.

The discontinued operations credit of \$167,959 resulted from a combination of several factors. Management decided the operations of the U.K. subsidiary (Versatile (Europe)) and the U.S. subsidiary (ISISSOFT (U.S.) Inc.) would continue in fiscal 2000. Accordingly, all investments and intercompany balances with any of the Company's previous subsidiaries were written off, including estimated liquidation costs. Netted against this expense is the reversal of prior years' provisions that are no longer necessary.

The Company had a working capital deficiency as at June 30, 1999 of \$390,038 as compared to positive working capital of \$220,021 as at June 30, 1998. During the fiscal year ended June 30, 1999, the losses were funded by a private placement in the third quarter for \$490,138 and from cash reserves. There were no significant capital expenditures or disposals during the year.

Capital Resources and Liquidity

Since inception, the Company's capital resources have been limited. In addition to having to rely upon cash generated from operations, the Company has had to rely upon the sale of equity and debt securities for cash required for, among other things, administration, research and development, capital improvements and acquisitions, sales and marketing programs and advertising.

While there are presently no known specific trends, events or uncertainties that are likely to result in the Company's liquidity decreasing in any material way over the next 12 month period, there can be no assurance that cash generated from operations over this period will be sufficient to meet the Company's cash requirements. If cash flow is insufficient to cover cash expenditures, the Company will have to continue to rely upon equity and debt financing during such period. There can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to the Company. The Company does not have any commitments for material capital expenditures over either the near or long term and none are presently contemplated over normal operating requirements.

The Company currently has 3,875,000 stock options outstanding which are exercisable at prices between \$0.40 and \$2.50 per share and 1,700,000 warrants outstanding which are exercisable at a price of \$1.75 per share. If all of the stock options and warrants are exercised, as well as the Warrants and Broker's Warrants (including the underlying Warrants), the Company would receive proceeds of \$16,823,625. All of these funds would be available to the Company as working capital. See "Options to Purchase and Agreements to Issue Securities".

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS – VERSATILE U.S.

Selected Consolidated Financial Information

The following is a summary of certain selected audited consolidated financial information for Versatile U.S. which is qualified by the more detailed information appearing in the financial statements of Versatile U.S. included in this prospectus. The financial figures in this section are all in U.S. dollars.

All figures in U.S.\$	Six-Month Period Ended June 30, 2000	Years Ended December 31	
		1999	1998
Working Capital (deficiency)	\$ 421,743 ⁽¹⁾	\$ 42,465	\$ 309,063
Revenues	3,463,615	6,890,468	6,460,093
Gross Profit	1,202,268	2,749,747	2,296,445
Expenses:			
Selling and marketing	672,854	1,230,535	1,175,278
Research and development	471,353	771,289	603,360
Administration	407,450	825,824	714,967
Interest	67,474	36,472	15,237
Amortization of capital assets	30,346	46,956	39,487
Expenses re sale of shares	190,000	0	0
Income tax (recovery)	41,271	(41,471)	(57,694)
Net Loss	(678,480)	(119,858)	(194,190)
 Total Assets	 2,141,396	 2,702,622	 1,690,776
Hardware, office equipment, automobiles	93,352	69,825	58,579
Long Term Debt	52,654	398,757	35,295
Total Liabilities	3,057,000	2,939,746	1,388,042
 Share Capital:			
Capital Stock	341,390	341,390	353,890
Deficit	(1,256,994)	(578,514)	(51,156)

(1) Working capital calculated excluding amount due to Versatile of \$1,393,247.

Review of Operations

Six months ended June 30, 2000

Sales for the six months ended June 30, 2000 were \$3,463,615 with a loss of \$678,480 as compared to sales of \$6,890,468 and a loss of \$119,858 for the whole of 1999.

The increase in the rate of sales over last year was attributable to a general ramping of sales of both software and service and integration services. The successful completion of additional software product offerings in the previous year continues to help sales.

Cost of sales as a percentage of sales in the six month period was 65% compared to 60% last year. This increase was due to the ramp up of the manufacturing facility and personnel in advance of sales in the 6 month period.

Administration expenses of \$407,454 for the six months were similar to the rate of expense in 1999. Amortization costs of \$30,346, if annualized, are higher than last year's cost of \$46,956 due to increased capital expenditures. Research and development, which is expensed, was \$471,353 for the period versus \$771,289 for 1999. The rate of research and development spending increased due primarily to the development of additional software products during the period.

Selling and marketing expenses were \$672,854 for the six months as compared to \$1,230,535 in 1999. The rate of spending increased slightly in this period due to an increase in the sales force nearing the end of the period. Interest expense was \$67,474 for the six months compared to \$36,472 in 1999. This increased level of expense is due to increased borrowing to fund working capital and operations.

Cash was \$47,495 at June 30, 2000, a \$127,655 decrease from December 31, 1999. Cash required for operations (\$606,863) was partially offset by a reduction of non-cash working capital (\$186,641). Working capital at June 30, 2000, excluding the amount due to Versatile, was \$421,743 compared to \$42,465 at December 31, 1999. Capital expenditures (\$53,873) and the repayment of the bank operating loan (\$700,704) and long-term debt (\$372,373) was funded by an advance from the parent company (\$1,393,247) and additional long-term debt (\$26,270).

Fiscal Year ended December 31, 1999

Sales for the fiscal year ended December 31, 1999 were \$6,890,468 with a loss of \$119,858 as compared to sales of \$6,460,093 and a loss of \$194,190 in 1998.

The increase in sales over last year is attributable to a general ramping of sales of both software and service and integration services. The successful completion of additional software product offerings during 1999 helped sales.

Cost of sales of \$4,140,721 (60% of sales) for the year were similar to 1998 despite an increase in sales. This was due to a decrease in the percentage to 60% from 64% of sales in 1998.

Administration expenses of \$825,824 were higher than the \$714,967 in 1998 due to both the increase in sales from 1998 and an increase in rent costs for expanded space occupied during the year. Amortization costs of \$46,956 were higher than the prior year's amortization costs of \$39,487 due to increased capital expenditures. Research and development, which is expensed, was \$771,289 for the year versus \$603,360 for 1998. The increase was primarily due to the development of additional software products during the year.

Sales and marketing expenses were \$1,230,535 as compared to \$1,175,278 in 1998. Management kept sales and marketing expenses to a minimum due to lack of available operating funding. Interest expense was \$36,472 compared to \$15,237 in 1998 due to increased borrowing to fund working capital and operations.

Cash was \$175,150 at December 31, 1999, a \$4,241 increase from the previous year. Cash required for operations (\$181,787), non-cash working capital (\$196,145), capital expenditure (\$91,557) and repurchase of capital stock (\$50,000) was funded by a combination of increase in the bank operating loan (\$500,704) and long-term debt. Capital asset additions during the year consisted primarily of computer and office equipment.

PLAN OF DISTRIBUTION

Offering and Appointment of Underwriter

By an agreement dated June 15, 2000 (the "Underwriting Agreement") between the Company and Dundee Securities Corporation (the "Underwriter"), on June 15, 2000 the Company sold to purchasers as arranged by the Underwriter a total of 8,300,000 Special Warrants at an issue price of \$1.25 per Special Warrant. Each Special Warrant entitles the holder to receive, without the payment of additional consideration, one Common Share and one-half of one Warrant until 4:00 p.m. (Vancouver time) (the "Expiry Time") on the day which is the earlier of (a) the second business day following the date on which the Receipt is issued for this prospectus by the Principal Regulator on behalf of the Commissions, and (b) June 15, 2001. Each whole Warrant entitles the holder to acquire one additional Common Share at a price of \$1.75 until 4:00 p.m. (Vancouver time) on June 15, 2001. Any Special Warrants not exercised prior to the Expiry Time will be deemed to have been exercised immediately prior to the Expiry Time without any further action by the holders. This prospectus qualifies the distribution of the Common Shares and the Warrants issuable upon the exercise of the Special Warrants. The purchase price of \$1.25 per Special Warrant was established by negotiation between the Company and the Underwriter.

The Special Warrants were sold to purchasers resident in the provinces of British Columbia, Ontario and Alberta (collectively the "Qualifying Jurisdictions") pursuant to exemptions from the prospectus requirements of the applicable securities legislation of the Qualifying Jurisdictions. The offer and sale of the Special Warrants was not and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act").

The Company received gross proceeds of \$10,375,000 from the sale of 8,300,000 Special Warrants. Pursuant to the terms of the Underwriting Agreement the Company paid to the Underwriter a commission of \$752,188, being 7.25% of the gross proceeds of the Offering, and granted to the Underwriter the Compensation Option to acquire 830,000 Broker's Warrants. Each Broker's Warrant entitles the Underwriter to purchase one Common Share and one-half of one Warrant at a price of \$1.25 until 4:00 p.m. (Vancouver time) on June 15, 2001. In British Columbia and Alberta, this prospectus qualifies the distribution to the Underwriter of 830,000 Brokers' Warrants. In Ontario, this prospectus qualifies the distribution to the Underwriter of 415,000 Broker's Warrants. No additional fee has been or will be paid to the Underwriter in connection with the issue of the Common Shares issuable upon the exercise or deemed exercise of the Special Warrants. The additional expenses related to the issue and sale of the Special Warrants, including the preparation of this prospectus, which are estimated to be \$260,000, will be paid from the working capital of the Company.

Pursuant to the terms of the Underwriting Agreement and the subscription agreements entered into between the Company and each purchaser of Special Warrants, the Company covenanted with the Underwriter and with the purchasers of the Special Warrants to prepare and file a prospectus with the securities commissions in each of the Qualifying Jurisdictions for the purpose of qualifying the issuance of the Common Shares and Warrants to be issued upon the exercise of the Special Warrants. The Common Shares and the Warrants will not be registered under the 1933 Act, and, subject to certain exceptions, may not be offered or sold in the United States or to or for the account or benefit of a U.S. Person (as defined in the Regulation S under the 1933 Act) unless an exemption from such registration is available.

By approval of the Offering, the CDNx has approved the listing of the Common Shares issuable upon exercise of the Special Warrants, Warrants and the Broker's Warrants.

Special Warrant Indenture

The Special Warrants were issued pursuant to an indenture dated June 15, 2000 (the "Special Warrant Indenture") between the Company and Montreal Trust Company of Canada ("Montreal Trust"). The Special Warrant Indenture provides for, among others, the following terms and conditions in respect of the Special Warrants:

- (a) the Special Warrants, including the number of Common Shares issuable upon the exercise thereof, may be subject to adjustment upon the occurrence of certain stated events, including the subdivision or consolidation of Common Shares, certain distributions of Common Shares or securities convertible into or exchangeable for Common Shares or other securities or assets of the Company, certain offerings of rights, warrants or options and certain capital reorganizations;
- (b) the holding of Special Warrants will not constitute a holder of Special Warrants as a shareholder of the Company; and
- (c) Special Warrants may be exercised by the holder at any time to and until the Expiry Time, and Special Warrants not exercised by the Expiry Time will be deemed to have been exercised immediately prior to the Expiry Time without any further action on the part of the holder.

Warrant Indenture

The Warrants to be issued upon the exercise of the Special Warrants are issuable pursuant to a share purchase warrant indenture dated June 15, 2000 (the "Warrant Indenture") between the Company and Montreal Trust. The Warrant Indenture provides for, among others, the following terms and conditions in respect of the Warrants:

- (a) the Warrants, including the number of Common Shares issuable upon exercise or deemed exercise thereof, may be subject to adjustment upon the occurrence of certain stated events, including the subdivision or consolidation of Common Shares, certain distributions of Common Shares or securities convertible into or exchangeable for Common Shares or other securities or assets of the Company, certain offerings of rights, warrants or options and certain capital reorganizations;
- (b) the holding of Warrants will not constitute a holder of Warrants as a shareholder of the Company; and
- (c) Warrants may be exercised by the holder at any time until 4:00 p.m. (Vancouver time) on June 15, 2001, and Warrants not exercised by that date will be void and have no effect.

Compensation Options/Broker's Warrants

If the Compensation Option is not exercised by the Expiry Time, it will be deemed to have been exercised into Broker's Warrants immediately prior to the Expiry Time without any further action on the part of the Underwriter. The Warrants issuable upon the exercise of the Broker's Warrants are governed by the Warrant Indenture and have the same terms and conditions as the Warrants issuable upon the exercise of the Special Warrants.

USE OF PROCEEDS

The gross proceeds from the issue and sale of the Special Warrants were \$10,375,000. From these proceeds, the Company paid an aggregate commission of \$752,188, being 7.25% of the total Offering, for net proceeds of \$9,622,812. These proceeds have been or are expected to be used as follows:

Legal and audit expenses of the Company associated with the Offering:	\$ 260,000
Acquisition of Versatile U.S. (See "Acquisitions and Dispositions"):	6,840,568
Sales and Marketing (See "Milestones" and "Sales and Marketing"):	1,041,435
Research and Development (See "Milestones" and "Research and Development"):	914,313
Administration (See "Milestones" and "Administration"):	<u>566,496</u>
Total:	<u>\$ 9,622,812</u>

The Company's working capital at November 30, 2000 was approximately \$4,482,841.

As noted above, the Company will use the net proceeds of the Offering to further the Company's stated business objectives set out in "Business of the Company – Business Objectives". There may be circumstances where, for sound business reasons, a reallocation of funds may be necessary in order for the Company to achieve its stated business objectives. Additional funds required to achieve the Company's business objectives are expected to be obtained from existing working capital, sales revenues and further equity financing. In addition, all proceeds received from the exercise of the Warrants and Broker's Warrants will be added to the Company's working capital.

DESCRIPTION OF SHARE CAPITAL

The authorized share capital of the Company consists of 100,000,000 Common Shares without par value. The Company has only one kind and class of shares and there are no unusual rights or restrictions attached to that class. As at the date of this prospectus, the Company had a total of 46,349,946 Common Shares issued and outstanding. All of the issued Common Shares are fully paid and not subject to any future call or assessment.

All of the Common Shares rank equally as to voting rights, participation in a distribution of the assets of the Company on a liquidation, dissolution or winding-up of the Company and the entitlement to dividends. The holders of the Common Shares are entitled to receive notice of all meetings of shareholders and to attend and vote the Common Shares at the meetings. Each Common Share carries with it the right to one vote.

In the event of the liquidation, dissolution or winding-up of the Company or other distribution of its assets, the holders of the Common Shares will be entitled to receive, on a pro rata basis, all of the assets remaining after the Company has paid out its liabilities. There are no pre-emptive or conversion rights and no provisions for redemption, retraction, purchase for cancellation or surrender or sinking or purchase funds.

Provision as to the modification, amendment or variation of the rights attached to the Common Shares are contained in the Company's articles of incorporation and the *Company Act* (British Columbia). Generally speaking, substantive changes to the share capital of the Company require the approval of the shareholders by special resolution (at least 75% of the votes cast).

CAPITALIZATION

The following represents the Company's consolidated capitalization both before and after giving effect to the exercise of the Special Warrants:

	Authorized	Outstanding on September 30, 2000 (Unaudited)	Outstanding on November 30, 2000 (Unaudited)	Amount Outstanding on November 30, 2000 After Giving Effect to the Issuance of Common Shares on the Exercise of Special Warrants ⁽¹⁾
Long Term Debt ⁽²⁾	N/A	\$ 74,933	\$ 74,933 ⁽³⁾	\$ 74,933 ⁽³⁾
Shareholders' Equity				
Common Shares	100,000,000	\$ 26,878,078 (45,917,446 Common Shares)	\$ 28,036,055 (46,349,946 Common Shares)	\$ 35,736,322 ⁽⁴⁾ (54,649,946 Common Shares)
Special Warrants		\$ 9,445,767 (8,300,000 Special Warrants)	\$ 9,445,767 (8,300,000 Special Warrants)	\$ — (—)
Warrants		\$ 1,490,464 (4,841,600 Warrants)	\$ 785,487 (1,700,000 Warrants)	\$ 2,530,987 (7,095,000 Warrants)
Contributed Surplus	N/A	\$ 2,154,762	\$ 2,154,762	\$ 2,154,762
Deficit	N/A	\$ 24,695,006	\$24,695,006 ⁽³⁾	\$ 24,695,006 ⁽³⁾
Total Shareholders' Equity ⁽⁵⁾	N/A	\$ 15,272,146	\$15,725,146 ⁽³⁾	\$ 15,725,146 ⁽³⁾

(1) Does not include 4,150,000 and 1,245,000 Common Shares which may be issued upon the exercise of the Warrants and the Broker's Warrants (including the underlying Warrants) respectively, 1,700,000 Common Shares which may be issued upon the exercise of all outstanding warrants of the Company, 3,875,000 Common Shares which may be issued upon the exercise of outstanding options granted by the Company and approximately 625,000 Common Shares which may be issued pursuant to other agreements. See "Options to Purchase and Agreements to Issue Securities".

(2) Includes current portion of long term debt. See note 7 of the financial statements of the Company included in this prospectus.

(3) As at September 30, 2000.

(4) After deducting the expenses of the Offering incurred up until November 30, 2000 of \$929,233 including the Underwriter's commission and expenses. Reflects the issuance of 8,300,000 Common Shares upon the exercise or deemed exercise of the Special Warrants.

(5) Includes foreign currency translation adjustment of (\$1,919). See the financial statements of the Company included in this prospectus.

ESCROWED SHARES

A total of 690,000 Common Shares are being held in trust for employees of Versatile Europe pursuant to an employee share scheme trust agreement which provides, in part, that these Common Shares cannot be traded or otherwise dealt with without the approval of the directors of the Company nor can these shares be released from trust until a prescribed amount of cash flow has been generated and then only after the payment to the Company of \$1.00 per Common Share by the beneficial holders of such Common Shares held in trust.

In accordance with the Versatile Acquisition Agreement, the Vendors entered into the Escrow Agreement pursuant to which the 2,605,425 Common Shares issued in connection with the Versatile Acquisition were placed into escrow and will be released over a three-year period, with 33-1/3% being released on the first anniversary of the completion of the Acquisition, 33-1/3% being released on the second anniversary and the remaining 33-1/3% being released on the third anniversary. These escrowed shares are held as follows:

Name of Shareholder	Number of Common Shares	% of Outstanding Common Shares	% After Giving Effect to the Issuance of Common Shares on the Exercise of the Special Warrants
James Lloyd	1,035,818	2.2%	1.9%
Francis McHugh	1,356,883	2.9%	2.5%
Andrew Lynch	<u>212,724</u>	<u>0.5%</u>	<u>0.4%</u>
Total:	<u>2,605,425</u>	<u>5.6%</u>	<u>4.8%</u>

See "Acquisitions and Dispositions".

PRIOR ISSUANCES OF SECURITIES

During the 12 months preceding the date of this prospectus, the Company has issued the following Common Shares:

Date	Description	Number of Issued Securities	Price per Security	Total Consideration
April 23, 2000	Exercise of warrants	1,000,000 Common Shares	\$0.80	\$800,000
June 15, 2000	Private placement	3,400,000 units ⁽¹⁾	\$1.25	\$4,250,000
June 15, 2000	Private placement	8,300,000 Special Warrants ⁽²⁾	\$1.25	\$10,375,000
June 19, 2000	Acquisition of Versatile U.S. ⁽³⁾	2,605,425 Common Shares	\$1.70 (deemed)	\$4,429,223 (deemed)
October 25, 2000	Exercise of warrants	400,000 Common Shares	\$1.10	\$440,000
Various	Exercise of options	1,190,000 Common Shares	\$0.46 (average)	\$530,250

(1) The Company issued 3,400,000 units of the Company to two directors of the Company at a price of \$1.25 per unit on June 15, 2000. Each unit consisted of one Common Share and one-half of one non-transferable share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional Common Share at a price of \$1.75 until June 15, 2001.

(2) See "Plan of Distribution".

(3) The Company issued an aggregate of 2,605,425 Common Shares to three individuals at a deemed issue price of \$1.70 per share. These Common Shares are currently held in escrow. See "Acquisitions and Dispositions" and "Escrowed Shares".

OPTIONS TO PURCHASE AND AGREEMENTS TO ISSUE SECURITIES

The Company has granted a number of stock options, issued a number of warrants (including the Special Warrants) and entered into a number of agreements pursuant to which up to approximately 19,895,000 Common Shares may be issued in the future. The following is a brief summary of these options, warrants and agreements.

Options

The Company presently does not have a formal plan for the granting of options to its directors, officers and employees. However, the Company has granted, and expects to grant from time to time in the future, options to its directors, officers and employees as an incentive to optionees.

The following is a summary of the stock options currently outstanding by the following categories:

Optionees	Expiry Date (D/M/Yr)	Common Shares Under Option	Exercise Price	Market Value on Date of Grant
Executive officers of the Company (3 persons)	26/07/04	700,000	\$0.70	\$0.70
	02/02/05	300,000	\$1.05	\$0.91
	09/03/05	250,000	\$2.50	\$2.85
	26/06/03	400,000	\$1.75	\$1.60
	27/09/04	450,000	\$1.50	\$1.30
Directors of the Company (other than executive officers) (2 persons)	03/02/05	200,000	\$1.05	\$0.91
	01/03/05	75,000	\$1.50	\$1.45
Employees of the Company (2 persons)	26/06/05	30,000	\$1.75	\$1.60
Employees of subsidiaries (54 persons)	09/09/01	57,500	\$0.40	\$0.40
	02/02/05	100,000	\$1.05	\$0.91
	26/06/03	242,500	\$1.75	\$1.60
	27/09/04	40,000	\$1.50	\$1.30
	18/12/04	<u>1,030,000</u>	\$1.00	\$0.78
Total:		<u>3,875,000</u>		

All of the foregoing options are non-transferable and terminate on the earlier of the expiry date or the day on which an officer or employee, as the case may be, ceases to be either an officer or employee of the Company or, in the case of a director, on the 30th day following the day on which the director ceases to be a director of the Company. If a director is forced to resign or is removed by a special resolution, his options expire on the day he resigns or is removed, as the case may be.

The number of Common Shares issuable upon the exercise of options is required to be adjusted in the event of a share consolidation or subdivision or other similar change to the Company's share capital.

Special Warrants and Warrants

A total of 8,300,000 Common Shares and 4,150,000 Warrants will be issued upon exercise of the Special Warrants. A total of 4,150,000 Common Shares may be issued upon exercise of the Warrants. See "Plan of Distribution".

Broker's Warrants

The Company has granted to the Underwriter the Compensation Option exercisable, without the payment of additional consideration, for 830,000 Broker's Warrants. Each Broker's Warrant entitles the Underwriter to purchase one Common Share and one-half of one Warrant at a price of \$1.25. See "Plan of Distribution".

Other Warrants

The Company has issued other warrants of the Company to purchase an aggregate of 1,700,000 Common Shares at a price of \$1.75 per share until June 15, 2001 in a private placement completed on June 15, 2000. See "Prior Issuances of Securities".

Deniro Acquisition

Approximately 625,000 Common Shares are issuable in connection with the acquisition of the assets of Deniro Corp. See "Acquisitions and Dispositions".

Fully Diluted Share Capital

The following is a summary of the Company's share capital presented on a fully-diluted basis:

Shares Issued or Allotted	Number of Shares	Percentage of Total
Currently Outstanding:	46,349,946	70.0%
Issuable upon the exercise of Special Warrants	8,300,000	12.5%
Issuable upon the exercise of Warrants	4,150,000	6.3%
Issuable upon the exercise of Broker's Warrants and underlying Warrants	1,245,000	1.9%
Issuable upon exercise of stock options	3,875,000	5.8%
Issuable upon exercise of other warrants	1,700,000	2.6%
Issuable upon completion of Deniro Acquisition	<u>625,000⁽¹⁾</u>	<u>0.9%</u>
Total:	<u>66,244,946</u>	<u>100%</u>

(1) Estimate only. See "Acquisitions and Dispositions".

There is no assurance that the options, warrants or other rights described above will be exercised in whole or in part.

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 prospectus prior to making an investment in the Company. In addition to the other information presented in this prospectus, 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 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, 2000, the Company had a net loss of approximately \$5.4 million and, at June 30, 2000, the Company had an accumulated deficit of \$23 million. The Company has increased its operating expenses in recent periods and the Company plans further increases in the future. The planned increases in operating expenses may result in larger losses in future periods. As a result, the Company will need to generate significantly 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

Loss of key personnel or failure to attract and retain additional personnel could adversely affect the Company's business.

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 intends to 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 will be impacted significantly by the timing of new releases of its products and the timing of substantial 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.

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 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 "Dividend Record and Policy".

DIRECTORS AND OFFICERS

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 and Municipality of Residence	Principal Occupation for Previous Five Years	Director Since
John Hardy ⁽¹⁾ Vancouver, B.C. <i>Chairman, Chief Executive Officer and Director</i>	Chairman of the Company since December 1996; Chief Executive Officer of the Company since February 1997; President of the Company from January 1997 to May 2000; Lawyer and founder of Hardy & Company, a law firm located in Vancouver, B.C., from September 1996 to present; Partner of the law firm of Guild, Yule & Company from August 1980 to September 1996; Adjunct Law Professor with the Faculty of Law at the University of British Columbia from 1984 to 2000.	October 1996
Larry Oliver Vancouver, B.C. <i>President and Director</i>	President of the Company since May 2000; Vice President of Customer Services, Epic Data International, Inc., a company providing automated data collection systems to the enterprise resource planning market, from April 1999 to February 2000; co-founder and President of Real Data Systems Inc., which was acquired by Epic Data International, Inc. in 1998, from January 1990 to April 1999.	April 2000
Martin Hope Vancouver, B.C. <i>Chief Financial Officer and Director</i>	Chief Financial Officer of the Company since July 2000; Chief Financial Officer of Duke Seabridge Limited, a private construction equipment distribution company located in Vancouver, British Columbia, from November 1997 to June 2000; Vice President, Finance of Slocan Forest Products Ltd., a Vancouver-based forest products company, from October 1993 to October 1997.	December 1999
Edward Moorhouse Vancouver, B.C. <i>Vice President, Marketing</i>	Vice President, Marketing, of the Company since September 2000; Director, Technology Investments, of Atlas Capital Group, an investment company, from July 1999 to September 2000; Director of Marketing and Product Line Management with Epic Data International, Inc., a company providing automated data collection systems to the enterprise resource planning market, from December 1997 until July 1999; Venture Capital Investment Manager with the Business Development Bank from March 1997 until December 1997; Western Region Manager of Quantra Corp., a real estate management software company located in Vancouver, from March 1995 until March 1997.	N/A

Name and Municipality of Residence	Principal Occupation for Previous Five Years	Director Since
Jens Montanana ⁽¹⁾ New York, New York, U.S.A. <i>Director</i>	Chairman and Chief Executive Officer of DataTec Limited, an international networking and technology company operating in South Africa, Europe and the United States, since January 1986; Managing director and Vice President of U.S. Robotics (U.K.) Ltd. from 1989 to 1993.	January 1997
Robert Polychron ⁽¹⁾ Boston, Massachusetts, U.S.A. <i>Director</i>	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.	December 1999
David J. Raffa North Vancouver, B.C. <i>Secretary</i>	Secretary of the Company since March 1999; Partner of Catalyst Corporate Finance Lawyers, a boutique corporate finance law firm located in Vancouver, British Columbia, since January 1999; Co-founder of Fusion Ventures Inc., a venture catalyst firm, since January 2000; Partner of Campney & Murphy, a law firm located in Vancouver, British Columbia, from 1993 to January 1999.	N/A

(1) Member of the Company's Audit Committee.

Other than receiving stock options from time to time, the directors of the Company are not currently compensated for serving as directors of the Company. Prior to January 2000, two directors received compensation of \$3,000 per fiscal quarter. See "Executive Compensation – Compensation of Directors". As of the date of this prospectus, the directors and officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over 4,541,900 Common Shares.

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 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 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.

Other Associations

During the past five years, the principals of the Company have served as principals of the following reporting issuers during the periods and in the capacities noted below:

Principal	Reporting Issuer	Capacity	Period
Larry Oliver	Epic Data International, Inc.	Vice President	04/99 to 02/00
Martin Hope	Slocan Forest Products Ltd.	Vice President, Finance	10/93 to 10/97
Jens Montanana	DataTec Limited	Chairman & C.E.O.	01/86 to present
	Primedia Limited	Director & Chairman	04/96 to 04/98
	Brait S.A.	Director	1999 to present

Corporate Cease Trade Orders and Bankruptcies

During the past 10 years, no director, officer or control person of the Company was a director or officer of another reporting issuer that, while that person was acting in that capacity:

- (a) was the subject of a cease trade or similar order, or an order that denied the other issuer access to any statutory exemptions under securities law for a period of more than 30 consecutive days; or
- (b) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Penalties or Sanctions

On December 27, 2000, the British Columbia Securities Commission issued a cease trade order against Jens Montanana, a director of the Company, for an alleged failure to file insider reports. The Company intends to assist Mr. Montanana in resolving this matter with the British Columbia Securities Commission.

Other than as disclosed herein, no director, officer or control person of the Company has:

- (a) been subject to any penalties or sanctions imposed by a court relating to a Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority relating to trading in securities, promotion or management of a publicly traded company, or theft or fraud; or
- (b) been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

Individual Bankruptcies

No director, officer or control person of the Company has, during the past 10 years, become bankrupt or made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold his assets.

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.

Indebtedness of Directors and Officers

No director, officer or any of their respective associates or affiliates has been indebted to the Company during the last fiscal year of the Company or during the three month period ended September 30, 2000.

PRINCIPAL HOLDERS OF SECURITIES

As at the date of this prospectus, the Company had a total of 46,349,946 Common Shares issued and outstanding. To the knowledge of the Company, no person beneficially owns, directly or indirectly, more than ten percent of the issued and outstanding Common Shares.

EXECUTIVE COMPENSATION

Introduction

For purposes of this section, "executive officer" of the Company means an individual who at any time during the year was the chairman or a vice-chairman of the board of directors where such person performed the functions of such office on a full-time basis, the president, any vice-president in charge of a principal business unit such as sales, finance or production, or any officer of the Company or of a subsidiary or other person who performed a policy-making function in respect of the Company. During the fiscal year ended June 30, 2000, the Company had four executive officers. Subsequent to the year end the Company hired Edward Moorhouse to act as Vice President of Marketing. See "Executive Compensation - Management Contracts".

The following table is a summary of all compensation paid to the executive officers of the Company for services rendered to the Company and its subsidiaries during the three most recently completed fiscal years of the Company:

		Annual Compensation ⁽¹⁾			Long Term Compensation			
					Awards		Payouts	
Name and Principal Position	Year Ended	Salary (\$)	Bonus	Other Annual Compensation	Options/ SARs Granted (#)	Restricted Shares or Restricted Share Units	LTIP ⁽²⁾ Payouts	All other Compensation (\$)
John Hardy, Chairman & Chief Executive Officer	June 30/00	262,400 ⁽³⁾	—	—	900,000	—	—	6,000 ⁽⁴⁾
	June 30/99	273,600	—	—	150,000	—	—	12,000 ⁽⁴⁾
	June 30/98	273,600	—	—	250,000	—	—	12,000 ⁽⁴⁾
Larry Oliver, President ⁽⁵⁾	June 30/00	45,000	—	—	350,000	—	—	9,780 ⁽⁶⁾
	June 30/99	—	—	—	—	—	—	—
	June 30/98	—	—	—	—	—	—	—
Martin Hope Chief Financial Officer ⁽⁷⁾	June 30/00	15,000	—	—	400,000	—	—	—
	June 30/99	—	—	—	—	—	—	—
	June 30/98	—	—	—	—	—	—	—
Mark Gustafson, Former Chief Financial Officer ⁽⁸⁾	June 30/00	179,500	—	—	425,000	—	—	6,000 ⁽⁴⁾
	June 30/99	28,186	—	—	—	—	—	12,000 ⁽⁴⁾
	June 30/98	11,200	—	—	150,000	—	—	12,000 ⁽⁴⁾

- (1) See "Executive Compensation - Management Contracts".
- (2) "LTIP" or "long term incentive plan" means any plan which provides compensation intended to serve as incentive for performance to occur over a period longer than one financial year, but does not include option or stock appreciation right plans. The Company does not have an LTIP.
- (3) Includes GST for four months paid by the Company to Mr. Hardy. Amounts for prior years include GST for 12 months.
- (4) Represents directors' fees.
- (5) Mr. Oliver was appointed President on May 5, 2000 and a director of the Company on April 18, 2000.
- (6) Represents consulting fees paid to Mr. Oliver prior to his becoming an officer and director of the Company.
- (7) Mr. Hope was appointed Chief Financial Officer of the Company on June 30, 2000 and has been a director since December 1999.
- (8) Mr. Gustafson resigned as Chief Financial Officer and a director of the Company on June 30, 2000.

Options Granted During the Most Recently Completed Fiscal Year

During the Company's most recently completed fiscal year, the following incentive options were granted to the executive officers:

Name	Date of Grant	Securities Under Options Granted	Exercise or Base Price	% of Total Options Granted to Employees in Fiscal Year	Market Value of Options on the Date of Grant ⁽¹⁾	Expiration Date
John Hardy, <i>Chairman & Chief Executive Officer</i>	July 26/99	700,000	\$0.70	22.0%	\$0.70	July 26/04
	Feb. 3/00	200,000	\$1.05	6.3%	\$0.91	Feb. 3/05
Larry Oliver, <i>President</i>	Mar. 9/00	250,000	\$2.50	7.9%	\$2.85	Mar. 9/05
	June 26/00	100,000	\$1.75	3.1%	\$1.60	June 26/03
Martin Hope, <i>Chief Financial Officer</i>	Feb. 3/00	100,000	\$1.05	3.1%	\$0.91	Feb. 3/05
	June 26/00	300,000	\$1.75	9.4%	\$1.60	June 26/03
Mark Gustafson, <i>Former Chief Financial Officer</i>	July 26/99	425,000	\$0.70	13.4%	\$0.70	Expired

(1) Calculated as the closing price of the Common Shares on CDNX on the date of grant.

Aggregated Option Exercises During the Most Recently Completed Fiscal Year and Fiscal Year-End Option Values

The following table sets out information regarding the incentive options exercised by executive officers during the Company's most recently completed fiscal year, as well as the fiscal year-end value of options held by executive officers:

Name	Securities Acquired on Exercise	Aggregate Value Realized ⁽¹⁾	Unexercised Options at Fiscal Year-End Exercisable/Unexercisable	Value of Unexercised in-the-money Options at Fiscal Year-End ⁽²⁾ Exercisable/Unexercisable
John Hardy, <i>Chairman & Chief Executive Officer</i>	1,380,000	\$160,803	433,333 / 466,667	\$324,333 / \$424,667
Larry Oliver, <i>President</i>	–	–	250,000 / 100,000	– / –
Martin Hope, <i>Chief Financial Officer</i>	–	–	33,333 / 366,667	\$18,666 / \$37,334
Mark Gustafson, <i>Former Chief Financial Officer</i>	660,000	\$377,318	– / –	– / –

(1) Based on the difference between the option exercise price and the closing price of the Common Shares on CDNX on the date of exercise.

(2) In-the-money options are those where the market value of the underlying securities as at the most recent fiscal year end exceeds the option exercise price. The closing price of the Common Shares on CDNX as at June 30, 2000 (being the fiscal year end of the Company) was \$1.61.

Termination of Employment, Change in Responsibilities and Employment Contracts

Except as set out below under "Executive Compensation - Management Contracts", no employment contracts exist between the Company and the executive officers and there are no compensatory plans or arrangements with respect to the executive officers resulting from the resignation, retirement or other termination of employment of an executive officer or from a change of control of the Company.

Compensation of Directors

Prior to and during the fiscal year ended June 30, 2000, two directors were compensated by payment of \$3,000 per fiscal quarter for serving as directors. This practise ceased as of December 31, 1999 and currently the directors are compensated as follows:

- the granting from time to time of incentive options in accordance with the policies of CDNX;
- reimbursement of any expenses incurred by reason of being a director of the Company; and
- the payment, on a per project basis, of consulting fees as determined by the board of directors.

During the most recently completed fiscal year, the Company granted 275,000 options to purchase Common Shares to three directors who were not executive officers of the Company.

Management Contracts

Pursuant to a consulting agreement dated January 1, 1999 among the Company, John Hardy and Hardy & Co., a company beneficially owned and controlled by John Hardy, the Company retains John Hardy to provide consulting services to the Company, including acting as Chief Executive Officer and Chairman of the Company and of Versatile U.S. and managing director of Versatile Europe. The Company has agreed to pay to Hardy & Co. \$22,800 per month (including GST and PST) plus a bonus equal to 8% of the Company's net profits after tax for each fiscal period. Pursuant to the foregoing agreement, the Company paid the sum of \$273,600 (including GST and PST) for the fiscal year ended June 30, 2000. The Company may terminate the consulting agreement at any time, and where such termination is made other than for breach of the agreement by Mr. Hardy or Hardy & Co. or for cause, the Company must pay to Hardy & Co. six months' remuneration under the agreement, including any bonuses earned to

the date of termination. This agreement has been automatically renewed, for the same remuneration, for the calendar year 2001.

Pursuant to a consulting agreement dated March 1, 2000 among the Company, Larry Oliver and "O"asis Adventures Inc., a company beneficially owned and controlled by Larry Oliver, the Company retains Larry Oliver to provide consulting services to the Company, including acting as the President of the Company and of Versatile U.S.. The Company has agreed to pay "O"asis Adventures Inc. \$15,000 per month (plus GST) plus a bonus of up to \$30,000 annually based on the completion of certain objectives. The Company may terminate the agreement upon four weeks notice, and except if terminating for cause, the Company must pay to "O"asis Adventures Inc. six months' remuneration under the agreement. Pursuant to this agreement, the Company paid the sum of \$45,000 for the fiscal year ended June 30, 2000.

The Company entered into a consulting agreement dated June 1, 2000 with Martin Hope, the Chief Financial Officer and a director of the Company, pursuant to which the Company retains Martin Hope to provide consulting services to the Company, including acting as the Chief Financial Officer of the Company and of Versatile U.S. on the same terms and for the same compensation as the agreement with "O"asis Adventures Inc. and Mr. Oliver. Pursuant to this agreement, the Company paid the sum of \$15,000 for the fiscal year ended June 30, 2000.

The Company entered into a consulting agreement dated September 11, 2000 with Cordova Pacific Capital Inc., a company beneficially owned and controlled by Edward Moorhouse, pursuant to which the Company retains Edward Moorhouse to provide consulting services to the Company, including acting as the Vice President, Marketing, of the Company on the same terms and for the same compensation as the agreements respecting Mr. Oliver's and Mr. Hope's services.

Proposed Compensation

The Company anticipates it will pay the following amounts to its executive officers during the 12 month period ending June 30, 2001:

Name	Anticipated Compensation
John Hardy	\$273,600
Larry Oliver	\$180,000
Martin Hope	\$180,000
Edward Moorhouse	\$180,000

In addition to the foregoing, all of the executive officers of the Company are also entitled to bonuses in certain situations, to medical and dental benefits and the reimbursement of all reasonable business expenses.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The transactions in which directors, officers or control persons of the Company have had an interest are described under "Prior Issuances of Shares", "Options to Purchase and Agreements to Issue Securities - Options" and "Executive Compensation". Other than as described under these headings, there are no material transactions with the directors, officers or any control persons of the Company that have occurred during the three most recently completed fiscal years of the Company or during the period since the end of the Company's most recently completed fiscal year to the date of this prospectus.

INVESTOR RELATIONS

The Company entered into an agreement (the "Investor Relations Agreement") dated October 26, 1999 with Hume, Kiernan Inc. pursuant to which Hume, Kiernan Inc. provides investor relations services for a fee of \$4,500 per

month. The services provided by Hume, Kiernan Inc. consist of liaising with the financial community, assisting in dissemination of public information and advising in respect of the financial and trade media. The principal of Hume, Kiernan Inc. is Cathy Hume. The services are being provided from Hume, Kiernan Inc.'s office located at 224 Parliament Street, Toronto, Ontario M5A 3A2. Either party may cancel the agreement on six months advance written notice.

DIVIDEND RECORD AND POLICY

The Company has not paid any dividends since incorporation and it has no plans to pay dividends in the immediate future. The Company expects to retain its earnings to finance further growth and, when appropriate, retire debt. The directors of the Company will determine if and when dividends should be declared and paid in the future based on the Company's financial position at the relevant time. All of the Common Shares are entitled to an equal share in any dividends declared and paid.

TRADING HISTORY

The common shares of the Company (or its predecessors) were originally listed for trading on the Vancouver Stock Exchange, a predecessor to CDNX, in February 1969. The closing price of the Common Shares on CDNX on December 22, 2000 was \$0.73. The following summarizes the reported high and low prices and the combined volume of trading of the Common Shares on CDNX for the periods indicated:

Calendar Period	High (\$)	Low (\$)	Volume
December 1 - 22, 2000	\$0.95	\$0.57	798,478
Month ended November 30, 2000	\$1.48	\$0.72	1,857,250
Month ended October 31, 2000	\$1.55	\$1.00	1,591,673
Month ended September 30, 2000	\$1.68	\$1.20	962,789
Month ended August 31, 2000	\$1.80	\$1.15	870,110
Month ended July 31, 2000	\$1.75	\$1.10	925,944
Quarter ended June 30, 2000	\$2.85	\$1.11	7,312,216
Quarter ended March 31, 2000	\$3.50	\$0.80	19,364,045
Quarter ended December 31, 1999	\$1.04	\$0.60	3,401,513
Quarter ended September 30, 1999	\$1.16	\$0.55	11,397,831
Quarter ended June 30, 1999	\$0.81	\$0.44	3,213,807
Quarter ended March 31, 1999	\$0.55	\$0.22	3,920,051
Quarter ended December 31, 1998	\$0.48	\$0.20	641,754

MATERIAL CONTRACTS

The following are the material contracts of the Company that are either outstanding as at the date of this prospectus or that were entered into during the past two years, other than contracts entered into in the ordinary course of business:

1. The Versatile Acquisition Agreement described under "Acquisitions and Dispositions".
2. The Underwriting Agreement described under "Plan of Distribution".
3. The Special Warrant Indenture described under "Plan of Distribution".

4. The Warrant Indenture described under "Plan of Distribution".

The material contracts described above may be inspected at the offices of the Company's solicitors, Catalyst Corporate Finance Lawyers, 1100-1055 West Hastings Street, Vancouver, British Columbia during normal business hours during the period of the distribution of the securities being distributed hereunder and for a period of 30 days thereafter.

AUDITORS

The auditors of the Company for the year ended June 30, 2000 were PricewaterhouseCoopers LLP, Chartered Accountants, 1111 West Hastings Street, Vancouver, British Columbia V6E 3R2. The auditors of the Company for the years ended June 30, 1999 and 1998 were Topping, Eyton and Partners, Chartered Accountants, 761 Cardero Street, Vancouver, British Columbia V6G 2G3.

REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent of the Common Shares, Special Warrants and Warrants of the Company is Montreal Trust Company of Canada, 4th Floor, 510 Burrard Street, Vancouver, British Columbia V7Y 1H1.

LEGAL MATTERS

To the knowledge of the signatories of the Company hereto, the Company is not a party to any outstanding legal proceedings or any contemplated legal proceedings that are material to the business and affairs of the Company.

STATUTORY RIGHTS OF RESCISSION AND WITHDRAWAL

Securities legislation in the provinces of British Columbia, Alberta and Ontario provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. The securities legislation further provides a purchaser with remedies for rescission or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

CONTRACTUAL RIGHTS OF ACTION FOR RESCISSION

In the event that a holder of Special Warrants, who acquires Common Shares and Warrants of the Company upon the exercise or deemed exercise of the Special Warrants as provided for in this prospectus, is or becomes entitled under applicable securities legislation to the remedy of rescission by reason of this prospectus or any amendment hereto containing a misrepresentation, such holder shall be entitled to rescission not only of the holder's exercise or deemed exercise of its Special Warrants, but also of the private placement transaction pursuant to which the Special Warrants were initially acquired and shall be entitled in connection with such rescission to a full refund of all consideration paid to the Company or the Underwriter on the acquisition for the Special Warrants. In the event that such holder is a permitted assignee of the interest of the original subscriber of the Special Warrants, such permitted assignee shall be entitled to exercise the rights of rescission and refund granted hereunder as if such permitted assignee were the original subscriber. The foregoing is in addition to any other right or remedy available to a holder of Special Warrants under applicable securities legislation or otherwise at law.

Versatile Mobile Systems (Canada) Inc.
(formerly International Sales Information Systems Inc.)

Consolidated Financial Statements
June 30, 2000, 1999, 1998 and
September 30, 2000 (Unaudited)

August 1, 2000
(except as to note 17, which is as of December 27, 2000)

Auditors' Report

To the Directors of Versatile Mobile Systems (Canada) Inc.

We have audited the consolidated balance sheet of **Versatile Mobile Systems (Canada) Inc.** (formerly International Sales Information Systems Inc.) as at June 30, 2000 and the consolidated statements of operations and deficit and cash flows for the year 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 audit.

We conducted our audit 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, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

December 27, 2000

Review Engagement Report

**To the Directors of
Versatile Mobile Systems (Canada) Inc.**

We have reviewed the consolidated balance sheet of **Versatile Mobile Systems (Canada) Inc.** as at September 30, 2000 and the consolidated statements of operations and deficit and cash flows for the three-month periods ended September 30, 2000 and 1999. Our review was made in accordance with generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these consolidated financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Auditors' Report

To the Directors of
International Sales Information Systems Inc.

We have audited the consolidated balance sheet of International Sales Information Systems Inc. as at June 30, 1999 and the consolidated statements of operations and deficit and cash flows for the years ended June 30, 1999 and 1998. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with 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, 1999 and the results of its operations and its cash flows for the years ended June 30, 1999 and 1998 in accordance with generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

“Topping, Eyton and Partners”

Chartered Accountants

Vancouver, B.C.
September 16, 1999

Versatile Mobile Systems (Canada) Inc.

(formerly International Sales Information Systems Inc.)

Consolidated Balance Sheets

	September 30, 2000 \$ (Unaudited)	2000 \$	June 30, 1999 \$
Assets			
Current assets			
Cash and cash equivalents	3,618,819	5,361,451	76,687
Accounts receivable	2,744,820	1,689,155	187,795
Inventory	1,540,378	1,378,939	-
Income taxes recoverable	123,470	100,192	-
	8,027,487	8,529,737	264,482
Capital assets (note 5)	311,011	354,169	186,718
Intangible assets (note 5)	7,408,334	8,149,167	-
Goodwill (note 6)	4,740,031	5,214,034	-
	20,486,863	22,247,107	451,200
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	3,129,063	3,101,994	654,520
Deferred revenue	67,056	90,960	-
Current portion of long-term debt (note 7)	18,655	27,210	-
	3,214,774	3,220,164	654,520
Long-term debt (note 7)	56,278	50,749	-
Future income taxes	1,943,665	2,138,033	-
	5,214,717	5,408,946	654,520
Shareholders' Equity			
Capital stock (note 8)	26,878,078	26,754,828	14,750,412
Special warrants (note 9)	9,445,767	9,445,767	490,138
Warrants (note 10)	1,490,464	1,490,464	-
Contributed surplus	2,154,762	2,154,762	2,154,762
	39,969,071	39,845,821	17,395,312
Deficit	(24,695,006)	(22,982,250)	(17,598,632)
Foreign currency translation adjustment	(1,919)	(25,410)	-
	15,272,146	16,838,161	(203,320)
	20,486,863	22,247,107	451,200

Commitments and contingencies (note 14)

Approved by the Board of Directors

“John R. Hardy”

Director

“Martin Hope”

Director

PRICEWATERHOUSECOOPERS 

Versatile Mobile Systems (Canada) Inc.

(formerly International Sales Information Systems Inc.)

Consolidated Statements of Operations and Deficit

	Three-month periods ended September 30,		Years ended June 30,		
	2000 \$ (Unaudited)	1999 \$ (Unaudited)	2000 \$	1999 \$	1998 \$
Sales	3,681,962	156,393	3,371,442	1,282,230	2,150,847
Cost of sales	2,286,885	58,510	2,076,446	636,424	560,927
	1,395,077	97,883	1,294,996	645,806	1,589,920
Expenses					
General and administrative	601,350	371,429	2,168,881	886,170	1,207,612
Research and development	534,366	328,784	1,544,553	878,561	669,798
Selling and marketing	902,485	222,770	1,794,990	135,389	346,168
Amortization of tangible capital assets	49,163	25,311	149,721	98,853	88,814
Amortization of intangible assets	740,833	-	740,833	-	-
Amortization of goodwill	474,003	-	474,003	-	-
	3,302,200	948,294	6,872,981	1,998,973	2,312,392
Loss before income taxes and discontinued operations	(1,907,123)	(850,411)	(5,577,985)	(1,353,167)	(722,472)
Provision for (recovery of) future income taxes	(194,367)	-	(194,367)	-	-
Loss from continuing operations	(1,712,756)	(850,411)	(5,383,618)	(1,353,167)	(722,472)
Earnings from discontinued operation (note 12)	-	-	-	167,959	-
Loss for the period	(1,712,756)	(850,411)	(5,383,618)	(1,185,208)	(722,472)
Deficit - Beginning of period	(22,982,250)	(17,598,632)	(17,598,632)	(16,413,424)	(15,690,952)
Deficit - End of period	(24,695,006)	(18,449,043)	(22,982,250)	(17,598,632)	(16,413,424)
Loss per share from continuing operations	(0.04)	(0.03)	(0.14)	(0.04)	(0.03)
Loss per share	(0.04)	(0.03)	(0.14)	(0.04)	(0.03)

Versatile Mobile Systems (Canada) Inc.

(formerly International Sales Information Systems Inc.)

Consolidated Statements of Cash Flows

	Three-month periods ended September 30,		Years ended June 30,		
	2000 \$ (Unaudited)	1999 \$ (Unaudited)	2000 \$	1999 \$	1998 \$
Cash flows from operating activities					
Loss from continuing operations	(1,712,756)	(850,411)	(5,383,618)	(1,353,167)	(722,472)
Items not affecting cash					
Amortization of tangible capital assets	49,163	25,311	149,721	98,853	88,814
Gain (loss) on disposal of capital assets	13,707	-	-	-	(6,876)
Amortization of intangible assets	740,833	-	740,833	-	-
Amortization of goodwill	474,003	-	474,003	-	-
Imputed interest (note 4)	-	-	102,391	-	-
Other	19,800	-	(27,208)	-	-
Future income taxes	(194,367)	-	(194,367)	-	-
	(609,617)	(825,100)	(4,138,245)	(1,254,314)	(640,534)
Net change in non-cash working capital items	(1,245,772)	(85,417)	293,684	(141,450)	56,764
Cash provided from discontinued operation (note 12)	-	-	-	32,375	-
	(1,855,389)	(910,517)	(3,844,561)	(1,363,389)	(583,770)
Cash flows from investing activities					
Acquisition of Versatile (note 4)	-	-	(6,673,668)	-	-
Legal and other charges incurred for Versatile acquisition	-	-	(166,900)	-	-
Proceeds of disposal of capital assets	11,857	-	-	-	-
Purchase of capital assets	(27,878)	(13,851)	(162,499)	(13,842)	(64,615)
	(16,021)	(13,851)	(7,003,067)	(13,842)	(64,615)
Cash flows from financing activities					
Repayment of operating loan	-	-	(1,419,061)	-	-
Repayment of long-term debt	5,528	-	(469,832)	-	-
Proceeds from share issuances	-	2,670,360	6,903,260	-	1,976,500
Proceeds from warrants and special warrants issued	-	-	11,192,000	490,138	(525,000)
Proceeds from stock options exercised	123,250	524,300	1,042,400	-	-
Share issuance costs	-	(187,142)	(1,116,375)	-	-
	128,778	3,007,518	16,132,392	490,138	1,451,500
(Decrease) increase in cash and cash equivalents	(1,742,632)	2,083,150	5,284,764	(887,093)	803,115
Cash and cash equivalents - Beginning of period	5,361,451	76,887	76,687	963,780	160,665
Cash and cash equivalents - End of period	3,618,819	2,160,037	5,361,451	76,687	963,780
Supplemental cash flow information (note 3)					

Versatile Mobile Systems (Canada) Inc.

(formerly International Sales Information Systems Inc.)

Notes to Consolidated Financial Statements

June 30, 2000, 1999, 1998 and September 30, 2000 (Unaudited)

1 Nature of operations

Versatile Mobile Systems (Canada) Inc. (the company) is primarily engaged in software development and sales and marketing of computer software, hardware and system integration services related to sales force automation through its wholly owned subsidiaries, International Sales Information Systems Limited (ISIS-UK), ISISSOFT (U.S) Inc. (ISSISOFT) and Versatile Systems, Inc. (Versatile).

The company purchased 100% of the outstanding shares of Versatile during the year and the results of operations are included in the financial statements from April 1, 2000. Versatile's principal business is in the wireless mobile sales force management area.

Liquidation procedures are continuing for ISIS-Italia the operations of which were discontinued in 1999 (note 12).

2 Significant accounting policies

Basis of presentation

These consolidated financial statements include the accounts of the company and all of its wholly owned subsidiaries: ISIS-UK, ISISSOFT and Versatile. All intercompany accounts and transactions are eliminated on consolidation.

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 were assumed. Revenues 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. Operating 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.

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.

(formerly International Sales Information Systems Inc.)

Notes to Consolidated Financial Statements

June 30, 2000, 1999, 1998 and September 30, 2000 (Unaudited)

Inventory

Inventory comprises handheld computers and peripherals 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 the generally accepted criteria for the deferral of development costs. As at June 30, 2000, no development costs have been deferred.

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 differences between the financial reporting and tax basis of assets and liabilities and are measured using the tax rates and laws expected to be in effect when the differences are expected to reverse.

Capital assets

The company records capital assets at acquisition cost. The capital assets are amortized using the straight-line method at the following rates:

Computer and office equipment	20% - 33-1/3% per annum
Automobiles	20% per annum
Intangible assets	33-1/3% per annum

Revenue recognition

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

Maintenance revenues invoiced and received in advance of the provision of maintenance services are deferred and recognized over the terms of the related agreement.

Goodwill

Goodwill arising from the Versatile acquisition is being amortized on a straight-line basis over three years. The company evaluates the carrying value of goodwill each year to determine if there has been a decline in value based on estimates of future undiscounted cash flows from operations of the business taking into consideration operating trends and other relevant factors.

Versatile Mobile Systems (Canada) Inc.

(formerly International Sales Information Systems Inc.)

Notes to Consolidated Financial Statements

June 30, 2000, 1999, 1998 and September 30, 2000 (Unaudited)

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. Significant items requiring estimation include the estimation of the fair value of intangible assets upon acquisition and their estimated useful lives and the allowance for doubtful accounts. Actual results could differ from those estimates.

Financial instruments

The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

Two customers account for approximately 35% of accounts receivable at September 30, 2000. At June 30, 2000, two different customers accounted for approximately 37% and at June 30, 1999, three customers accounted for 75% of accounts receivable.

Loss per common share

Loss per common share is computed using the weighted average number of common shares outstanding during the period. Fully-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 has a stock compensation plan (notes 8 and 11). No stock-based compensation expense is recognized when stock options and awards are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to capital stock.

Versatile Mobile Systems (Canada) Inc.

(formerly International Sales Information Systems Inc.)

Notes to Consolidated Financial Statements

June 30, 2000, 1999, 1998 and September 30, 2000 (Unaudited)

3 Supplemental cash flow information

	Three-month periods ended September 30,		Years ended June 30,		
	2000 \$ (Unaudited)	1999 \$ (Unaudited)	2000 \$	1999 \$	1998 \$
Cash paid for taxes	14,125	-	-	-	-
Cash paid for interest	-	-	45,886	-	-
Non-cash investing and financing activities					
Common shares issued for acquisition of Versatile	-	-	4,429,223	-	-

4 Acquisition

The company acquired 100% of the outstanding common shares of Versatile effective April 1, 2000, for consideration comprising of cash of \$6,673,668 (U.S. \$4,520,231) and 2,605,425 common shares of the company. The acquisition has been accounted for using the purchase method and, accordingly, these consolidated financial statements include the results of operations from the date of acquisition. The fair value of assets and liabilities acquired, based on consideration paid, is as follows:

	\$
Current assets	2,256,700
Tangible capital assets	152,875
Other intangibles	8,890,000
Total assets other than goodwill	11,299,575
Goodwill	5,688,037
Total assets	16,987,612
Current liabilities	(1,548,170)
Short-term debt	(1,419,061)
Long-term debt	(520,581)
Future income tax liability, net of future income tax assets	(2,332,400)
Total liabilities	(5,820,212)
	11,167,400
Consideration paid and acquisition costs	
Cash	6,673,668
Common shares	4,429,223
Legal and other charges	166,900
Imputed interest from the effective date of acquisition to the date on which the consideration was given	(102,391)
	11,167,400

Versatile Mobile Systems (Canada) Inc.

(formerly International Sales Information Systems Inc.)

Notes to Consolidated Financial Statements

June 30, 2000, 1999, 1998 and September 30, 2000 (Unaudited)

5 Capital assets

Tangible capital assets

September 30, 2000

	Cost \$ (Unaudited)	Accumulated amortization \$ (Unaudited)	Net \$ (Unaudited)
Computer and office equipment	945,502	708,328	237,174
Automobiles	90,977	17,140	73,837
	1,036,479	725,468	311,011

Tangible capital assets

June 30, 2000

	Cost \$	Accumulated amortization \$	Net \$
Computer and office equipment	927,673	650,332	277,341
Automobiles	89,591	12,763	76,828
	1,017,264	663,095	354,169

June 30, 1999

	Cost \$	Accumulated amortization \$	Net \$
Computer and office equipment	484,921	298,203	186,718

Intangible assets

September 30, 2000

	Recorded value \$ (Unaudited)	Accumulated amortization \$ (Unaudited)	Net \$ (Unaudited)
Developed technology	5,692,000	948,666	4,743,334
Acquired workforce	3,198,000	533,000	2,665,000
	8,890,000	1,481,666	7,408,334

Intangible assets

June 30, 2000

	Recorded value \$	Accumulated amortization \$	Net \$
Developed technology	5,692,000	474,333	5,217,667
Acquired workforce	3,198,000	266,500	2,931,500
	8,890,000	740,833	8,149,167

Versatile Mobile Systems (Canada) Inc.

(formerly International Sales Information Systems Inc.)

Notes to Consolidated Financial Statements

June 30, 2000, 1999, 1998 and September 30, 2000 (Unaudited)

6 Goodwill

	September 30, 2000		
	Recorded value \$ (Unaudited)	Accumulated amortization \$ (Unaudited)	Net \$ (Unaudited)
Goodwill	5,688,037	948,006	4,740,031
	June 30, 2000		
	Recorded value \$	Accumulated amortization \$	Net \$
Goodwill	5,688,037	474,003	5,214,034

7 Long-term debt

	September 30, 2000 \$ (Unaudited)	June 30, 2000 \$
Automobile loan, bearing interest at lender's prime rate plus 1.5% (11.0% as at June 30, 2000), with monthly payments of \$566, due on July 15, 2003	25,206	26,904
Equipment loan, bearing interest at lender's prime rate plus 1.0%, (10.5% as at June 30, 2000), due on August 10, 2000	12,503	12,160
Automobile loan, bearing interest at 7.9%, with monthly payments of \$557, due on April 7, 2005	37,224	38,895
	74,933	77,959
Less: Current portion	18,655	27,210
	56,278	50,749

The automobile and equipment loans are collateralized by assets financed by these loans.

The fair value of these loans approximate their carrying values.

Versatile Mobile Systems (Canada) Inc.

(formerly International Sales Information Systems Inc.)

Notes to Consolidated Financial Statements

June 30, 2000, 1999, 1998 and September 30, 2000 (Unaudited)

8 Capital stock

Authorized

100,000,000 shares without par value

Issued and outstanding

	Number	Amount \$
Balance - June 30, 1998 and 1999	31,341,421	14,750,412
Shares issued during the period for cash		
Shares issued upon exercise of special warrants	1,000,000	490,138
Shares issued upon exercise of warrants	1,034,000	800,000
Shares issued upon exercise of stock options	3,070,000	1,042,400
Private placements during the year	6,541,600	5,242,655
Shares issued for other consideration		
Shares issued as partial consideration for the acquisition of Versatile (note 4)	2,605,425	4,429,223
	14,251,025	12,004,416
Balance - June 30, 2000	45,592,446	26,754,828
Shares issued upon exercise of stock options	325,000	123,250
Balance - September 30, 2000 (unaudited)	45,917,446	26,878,078

On September 2, 1999, a private placement of 3,141,600 units, each consisting of one common share and one share purchase warrant, was undertaken at a price of \$0.85 per unit. Proceeds for the private placement were \$2,483,119, net of share issuance costs. Each share purchase warrant entitles the holder to acquire one common share at \$1.10 per share for a period of twelve months.

On June 15, 2000, the company issued by way of private placement 3,400,000 units, each consisting of one common share and one-half share purchase warrant, for proceeds totalling \$4,250,000. Each whole share purchase warrant entitles the holder to acquire one common share at \$1.75 per share for a period of twelve months.

Of the issued and outstanding shares, 690,000 are being held in trust for employees of ISIS-UK 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 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 the payment to the company, by the beneficial holders of such common shares held in trust, of \$1 per share.

Versatile Mobile Systems (Canada) Inc.

(formerly International Sales Information Systems Inc.)

Notes to Consolidated Financial Statements

June 30, 2000, 1999, 1998 and September 30, 2000 (Unaudited)

The common shares issued to the former shareholders of Versatile are subject to a three-year escrow agreement and one-third are released at each anniversary date after the closing of the acquisition.

The common shares, special warrants and warrants issued in the year ended June 30, 2000 have been recorded on the basis of their fair values as follows:

	Common shares \$	Special warrants \$	Warrants \$	Total \$
September 2, 1999	1,778,142	-	704,977	2,483,119
June 15, 2000	3,464,513	-	785,487	4,250,000
June 15, 2000 special warrants (note 9)	-	9,445,767	-	9,445,767
	5,242,655	9,445,767	1,490,464	16,178,886

9 Special warrants

On June 15, 2000, the company completed a private placement consisting of 8,300,000 special warrants at \$1.25 per warrant exercisable for one unit at no additional cost upon the filing of a prospectus. Each unit consists of one common share and one non-transferable warrant for one-half of one share exercisable for twelve months at \$1.75 per share. The company received cash for the private placement totalling \$9,445,767, net of certain share issuance costs.

In connection with the issuance of the special warrants, the company granted a compensation option to the underwriter entitling the underwriter to 830,000 brokers' warrants. Each warrant entitles the holder to subscribe for one common share at \$1.25 per share for a period of twelve months. Each warrant also consists of one non-transferrable underwriters' warrant for one-half of one share exercisable for twelve months at \$1.75 per whole share. The special warrants and warrants have been recorded on the basis of their fair values (note 8). The terms of the warrants are described in note 10.

10 Warrants

The following warrants are outstanding:

Expiry date	Exercise price \$	Balance - June 30, 1998 \$	Exercised or expired \$	Issued	Balance - June 30, 1999	Exercised or expired	Issued	Balance - June 30, 2000	Balance - September 30, 2000
March 5, 2000	0.80	-	-	1,000,000	1,000,000	(1,000,000)	-	-	-
March 5, 2000	0.50	-	-	34,000	34,000	(34,000)	-	-	-
October 25, 2000	1.10	-	-	-	-	-	3,141,600	3,141,600	3,141,600
June 15, 2001	1.75	-	-	-	-	-	1,700,000	1,700,000	1,700,000
		-	-	1,034,000	1,034,000	(1,034,000)	4,841,600	4,841,600	4,841,600

Versatile Mobile Systems (Canada) Inc.

(formerly International Sales Information Systems Inc.)

Notes to Consolidated Financial Statements

June 30, 2000, 1999, 1998 and September 30, 2000 (Unaudited)

11 Stock options

Under the company's stock compensation plan, the company issues stock options to the employees, officers and directors. 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 four years. Options granted under these plans have vesting periods of up to three years.

A summary of stock option activity for the years ended June 30, 2000 and 1999 and the three-month period ended September 30, 2000 is presented below:

	Three-month period ended September 30, 2000		Years ended June 30,			
			2000		1999	
	Shares (Unaudited)	Weighted- average exercise price \$ (Unaudited)	Shares	Weighted- average exercise price \$	Shares	Weighted- average exercise price \$
Outstanding - Beginning of period	3,032,500	1.15	3,935,000	0.36	2,435,000	0.27
Granted	490,000	1.50	3,177,500	1.21	1,800,000	0.49
Exercised	(325,000)	0.38	(3,070,000)	0.34	-	-
Forfeited	(280,000)	0.97	(1,010,000)	0.73	(300,000)	0.36
Outstanding - End of period	<u>2,917,500</u>	1.31	<u>3,032,500</u>	1.15	<u>3,935,000</u>	0.36
Options exercisable - End of period	<u>1,254,665</u>	1.15	<u>1,259,832</u>	1.08	<u>2,632,500</u>	0.29

The following table summarizes information about stock options outstanding at June 30, 2000:

Range of exercise prices \$	Options outstanding			Options exercisable	
	Number outstanding at June 30, 2000	Weighted- average remaining contractual life (years)	Weighted- average exercise price \$	Number exercisable at June 30, 2000	Weighted- average exercise price \$
0.25 - 1.00	1,255,000	1.94	0.58	601,833	0.50
1.01 - 2.00	1,527,500	2.77	1.39	407,999	1.08
2.01 - 2.50	250,000	3.36	2.50	250,000	2.50
	<u>3,032,500</u>	<u>2.48</u>	<u>1.15</u>	<u>1,259,832</u>	<u>1.08</u>

Versatile Mobile Systems (Canada) Inc.

(formerly International Sales Information Systems Inc.)

Notes to Consolidated Financial Statements

June 30, 2000, 1999, 1998 and September 30, 2000 (Unaudited)

12 Discontinued operation

The operation of ISIS-Italia was discontinued during 1999 and is in the process of liquidation.

Accounts payable and accrued liabilities at September 30, 2000 and June 30, 2000 include remaining liabilities of \$43,709 (1999 - \$140,000) from the discontinued operation. Details of the gross revenue and operating income and the earnings for the discontinued operation are as set out below:

	June 30,	
	2000	1999
	\$	\$
Operations		
Gross revenue	-	302,853
Cost of sales	-	113,672
Administrative expenses	-	156,806
	-	270,478
Operating income	-	32,375
Reversal of prior years liabilities	-	555,272
Liquidation of ISIS-Italia	-	(140,000)
Write-off of intercompany balances	-	(279,688)
	-	135,584
Earnings from discontinued operation	-	167,959

Versatile Mobile Systems (Canada) Inc.

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Notes to Consolidated Financial Statements

June 30, 2000, 1999, 1998 and September 30, 2000 (Unaudited)

13 Related party transactions

During the period, the following amounts were paid to directors of the company or companies controlled by those directors:

	Three-month periods ended September 30,		Years ended June 30,		
	2000	1999	2000	1999	1998
	\$	\$	\$	\$	\$
	(Unaudited)	(Unaudited)			
Consulting fees and salaries	154,200	108,130	511,680	301,786	308,800
Directors fees	-	6,000	12,000	24,000	-
Legal fees	-	-	-	-	20,520
	154,200	114,130	523,680	325,786	329,320

The above noted amounts are included within general and administration expense. In addition, company related expense reimbursements paid to directors in the three-month period ended September 30, 2000 totalled \$39,964. For the years ended June 30, 2000, 1999 and 1998, these amounts totalled \$122,482, \$95,825 and \$139,122 respectively.

14 Commitments and contingencies

As at June 30, 2000 and September 30, 2000, future minimum lease payments for certain facilities, equipment and automobiles over the next five years are as follows:

	September 30, 2000	June 30, 2000
	\$	\$
	(Unaudited)	
2001	501,265	426,523
2002	280,591	357,595
2003	70,949	2,270
2004	-	-
2005	-	-

Secured accounts payable

A supplier of hardware equipment to the company has a second charge against the company's accounts receivable and inventory related to accounts payable of \$91,676.

Versatile Mobile Systems (Canada) Inc.

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Notes to Consolidated Financial Statements

June 30, 2000, 1999, 1998 and September 30, 2000 (Unaudited)

15 Income taxes

The company has tax losses at September 30, 2000 and June 30, 2000 available for offset against future taxable income in various jurisdictions for the following approximate amounts:

	September 30, 2000 \$ (Unaudited)	June 30, 2000 \$
Canada	4,900,000	4,562,000
United Kingdom	10,802,000	10,596,000
United States	2,163,000	2,030,000

Tax losses in Canada as at June 30, 2000 expire as follows:

	\$
2001	171,000
2002	264,000
2003	671,000
2004	559,000
2005	635,000
2006	1,050,000
2007	1,212,000
	<u>4,562,000</u>

The tax losses in the United Kingdom can be carried forward indefinitely subject to tax authority's approval. The tax losses in the U.S. expire in 2020. The potential tax benefit of the losses in Canada and the United Kingdom have not been recognized in these consolidated financial statements.

Versatile Mobile Systems (Canada) Inc.

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Notes to Consolidated Financial Statements

June 30, 2000, 1999, 1998 and September 30, 2000 (Unaudited)

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

	Three-month periods ended September 30,		Years ended June 30,		
	2000 \$ (Unaudited)	1999 \$ (Unaudited)	2000 \$	1999 \$	1998 \$
Accounting loss	(1,907,123)	(850,411)	(5,577,985)	(1,353,167)	(722,472)
Tax at the statutory tax rate of 46% (1999 - 46%; 1998 - 46%)	(877,277)	(391,189)	(2,565,873)	(622,457)	(332,337)
Difference in tax rates in other jurisdictions	147,586	137,920	679,749	219,457	13,001
Tax effect of goodwill not deductible for tax	218,041	-	218,041	-	-
Tax effect of expenses that are not deductible for income tax purposes	26,151	2,596	160,160	10,384	2,780
Future income tax asset not recognized	291,132	250,673	1,313,556	392,616	316,556
Tax expense (recovery)	(194,367)	-	(194,367)	-	-

The tax effects of temporary differences that give rise to significant portions of future income tax assets and future income tax liabilities.

	September 30, 2000 \$ (Unaudited)	June 30,	
		2000 \$	1999 \$
Future income taxes			
Future income tax assets			
Tax losses	6,229,795	5,967,549	4,465,399
Tangible capital assets	288,225	282,244	258,884
Share issuance costs	390,285	410,826	-
Other	6,221	20,288	10,384
Future income tax asset	6,914,526	6,680,907	4,734,667
Valuation allowance	(6,339,357)	(6,048,223)	(4,734,667)
Net future income tax asset	575,169	632,684	-
Future income tax liabilities			
Intangible assets	2,518,834	2,770,717	-
Net future income tax liability	(1,943,665)	(2,138,033)	-

Versatile Mobile Systems (Canada) Inc.

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Notes to Consolidated Financial Statements

June 30, 2000, 1999, 1998 and September 30, 2000 (Unaudited)

16 Segmented information

The company's only reportable segment is the development, sales and marketing of computer software and hardware and integration services.

The company's assets and sales by geographic area are as follows:

	2000		September 30, 1999	
	Capital assets and goodwill \$ (Unaudited)	Revenue from external customers \$ (Unaudited)	Capital assets and goodwill \$ (Unaudited)	Revenue from external customers \$ (Unaudited)
United States	12,327,865	3,560,321	11,418	-
UK and Europe	120,433	121,641	163,838	156,393
Canada	11,078	-	-	-
	12,459,376	3,681,962	175,256	156,393

	2000		1999		June 30, 1998	
	Capital assets and goodwill \$	Revenue from external customers \$	Capital assets and goodwill \$	Revenue from external customers \$	Capital assets and goodwill \$	Revenue from external customers \$
United States	13,576,300	2,747,588	-	-	-	-
UK and Europe	132,287	623,854	169,913	1,282,230	271,279	2,150,817
Canada	8,783	-	16,805	-	-	-
	13,717,370	3,371,442	186,718	1,282,230	271,279	2,150,817

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

Versatile Mobile Systems (Canada) Inc.

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Notes to Consolidated Financial Statements

June 30, 2000, 1999, 1998 and September 30, 2000 (Unaudited)

17 Subsequent event

Deniro Corp.

Subsequent to September 30, 2000, the company recorded the following transactions.

On November 9, 2000, the company purchased all of the assets of Deniro Corp. which consisted of software developed by Deniro Corp. for scheduling and dispatching together with a provisional patent and trademark registration and office equipment.

The purchase price for the assets was U.S. \$200,000 and common shares of the company equal in value to approximately U.S. \$300,000 to be issued in the future. The common shares of the company will be issued at the time of the successful deployment of the software to a designated customer. Likewise, the number of shares to be issued will be dependent on the closing price of the company's shares on the Canadian Venture Exchange at that time. Based upon the closing price of the common shares on November 21, 2000 of \$1.00 per common share, approximately 450,000 shares would be issued.

Warrants

400,000 warrants to purchase at \$1.10 were exercised for proceeds of \$440,000. 2,741,600 warrants to purchase shares at \$1.10 expired unexercised.

Options

Options to purchase 32,500 shares at \$0.40 were exercised.

Legal proceedings

A demand for arbitration was filed in a U.S. court alleging a breach of services agreement by Versatile for not paying a "success fee" of U.S. \$548,000 to an agent for the acquisition by the company of Versatile.

The company was notified on November 14, 2000 that the agent for the acquisition was dismissing its case. However, the company has requested the dismissal be staged pending submission and resolution of the company's request for an award of its reasonable attorney fees in defending the arbitration.

Prospectus

On November 24, 2000, the company filed a preliminary prospectus with the security regulatory authorities in the provinces of British Columbia, Alberta and Ontario to qualify the distribution of 8,300,000 common shares of the company and 4,150,000 common share purchase warrants which will be issued upon the exercise of 8,300,000 special warrants.

Versatile Systems, Inc.

Consolidated Financial Statements

June 30, 2000, December 31, 1999 and 1998

(expressed in U.S. dollars)

August 1, 2000

Auditors' Report

To the Shareholder of Versatile Systems, Inc.

We have audited the consolidated balance sheets of **Versatile Systems, Inc.** as at June 30, 2000, December 31, 1999 and 1998 and the consolidated statements of loss and deficit and cash flows for the six-month period ended June 30, 2000 and for the years ended December 31, 1999 and 1998. 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.

Except as explained in the following paragraph, 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.

Because we were appointed auditors of the company during 1999, we were not able to observe the counting of the physical inventories at the beginning of 1998 nor satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories enter into the determination of the results of operations and cash flows for 1998, we were unable to determine whether adjustments to cost of sales, income taxes, loss for the year, opening retained earnings and cash provided from operations might be necessary for 1998.

In our opinion, except for the effect on the financial statements for 1998 of adjustments, if any, which we might have determined to be necessary had we been able to examine opening inventory quantities as at January 1, 1998, as described in the preceding paragraph, the consolidated statements of loss and deficit and cash flows present fairly, in all material respects, the results of the company's operations and its cash flows for the six-month period ended June 30, 2000 and for the years ended December 31, 1999 and 1998 in accordance with Canadian generally accepted accounting principles. Further, in our opinion, the consolidated balance sheets present fairly, in all material respects, the financial position of the company as at June 30, 2000, December 31, 1999 and 1998 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Versatile Systems, Inc.

Consolidated Balance Sheets

(expressed in U.S. dollars)

	June 30, 2000 \$	December 31, 1999 \$	December 31, 1998 \$
Assets			
Current assets			
Cash and cash equivalents	47,495	175,150	170,909
Accounts receivable (note 11)	1,001,541	1,550,761	995,194
Income taxes recoverable	67,670	-	57,694
Inventory (note 4)	931,338	794,210	408,400
Future income taxes (note 10)	-	112,676	-
	2,048,044	2,632,797	1,632,197
Capital assets (note 5)	93,352	69,825	58,579
	2,141,396	2,702,622	1,690,776
Liabilities			
Current liabilities			
Bank indebtedness (note 6)	-	700,704	200,000
Accounts payable and accrued liabilities	1,549,610	1,795,992	1,084,389
Due to parent company (note 11)	1,393,247	-	-
Income taxes payable	-	3,735	-
Current portion of deferred revenue	58,313	27,800	27,800
Current portion of long-term debt (note 7)	18,378	62,101	10,945
	3,019,548	2,590,332	1,323,134
Deferred revenue	3,176	12,758	40,558
Long-term debt (note 7)	34,276	336,656	24,350
	3,057,000	2,939,746	1,388,042
Shareholder's (Deficiency) Equity			
Capital stock (note 8)	341,390	341,390	353,890
Deficit	(1,256,994)	(578,514)	(51,156)
	(915,604)	(237,124)	302,734
	2,141,396	2,702,622	1,690,776
Commitments and contingencies (note 9)			

Approved by the Board of Directors

“John R. Hardy”

Director

“Martin Hope”

Director

Versatile Systems, Inc.

Consolidated Statements of Loss and Deficit

(expressed in U.S. dollars)

	Six-month period ended June 30, 2000 \$	Years ended December 31, 1999 \$ 1998 \$	
Sales	3,463,615	6,890,468	6,460,093
Cost of sales	2,261,347	4,140,721	4,163,648
	1,202,268	2,749,747	2,296,445
Expenses			
Selling and marketing	672,854	1,230,535	1,175,278
Research and development	471,353	771,289	603,360
Administration	407,450	825,824	714,967
Interest	67,474	36,472	15,237
Amortization of capital assets	30,346	46,956	39,487
	1,649,477	2,911,076	2,548,329
Loss before undernoted item	(447,209)	(161,329)	(251,884)
Expenses incurred in connection with the sale of the company's shares	190,000	-	-
Loss before income taxes	(637,209)	(161,329)	(251,884)
Provision for (recovery of) income taxes			
Current	(71,405)	71,205	(57,694)
Future (note 10)	112,676	(112,676)	-
	41,271	(41,471)	(57,694)
Loss for the period	(678,480)	(119,858)	(194,190)
(Deficit) retained earnings - Beginning of period	(578,514)	(51,156)	143,034
Repurchase of common shares (note 8)	-	(407,500)	-
Deficit - End of period	(1,256,994)	(578,514)	(51,156)

Versatile Systems, Inc.

Consolidated Statements of Cash Flows

(expressed in U.S. dollars)

	Six-month period ended June 30, 2000 \$	Years ended December 31, 1999 1998 \$	
Cash flows from operating activities			
Loss for the period	(678,480)	(119,858)	(194,190)
Adjustments for			
Amortization	30,346	46,956	39,487
Future income taxes	41,271	(112,676)	-
Loss on disposal of capital assets	-	3,791	5,096
Other	-	-	13,890
	(606,863)	(181,787)	(135,717)
Net change in non-cash working capital	186,641	(196,145)	(357,006)
	(420,222)	(377,932)	(492,723)
Cash flows from investing activities			
Additions to capital assets	(53,873)	(91,557)	(76,757)
Proceeds on disposal of capital assets	-	29,564	35,000
	(53,873)	(61,993)	(41,757)
Cash flows from financing activities			
Advances from parent company	1,393,247	-	-
(Decrease) increase in bank indebtedness	(700,704)	500,704	100,000
Increase in long-term debt	26,270	30,713	39,675
Repayment of long-term debt	(372,373)	(37,251)	(4,380)
Capital stock issued	-	-	100,000
Repurchase of capital stock (note 8)	-	(50,000)	-
	346,440	444,166	235,295
(Decrease) increase in cash and cash equivalents	(127,655)	4,241	(299,185)
Cash and cash equivalents - Beginning of period	175,150	170,909	470,094
Cash and cash equivalents - End of period	47,495	175,150	170,909

Versatile Systems, Inc.

Notes to Consolidated Financial Statements June 30, 2000, December 31, 1999 and 1998

(expressed in U.S. dollars)

1 Nature of operations

Versatile Systems, Inc., incorporated on December 16, 1994 in the State of Washington, U.S., is primarily engaged in the development, sales and marketing of mobile workforce automation software and hardware. In addition, the company purchases, services and sells refurbished mobile communication hardware. For the six-month period ended June 30, 2000 and for the years ended December 31, 1999 and 1998, the majority of the company's customers were located in the United States.

2 Significant accounting policies

Basis of presentation

The consolidated financial statements include the accounts of Versatile Systems, Inc. ("Versatile") and Worldwide Scan, Inc. ("WWS") (herein referred to as "the company"). These companies were combined effective December 31, 1999. On the combination, each share of WWS was exchanged for 2.1875 Class A common shares of Versatile.

At the time of the combination, Versatile and WWS were under common control. As such, this transaction has been accounted for similar to a pooling of interests and, as a result, the consolidated financial statements have been prepared as though Versatile and WWS had been consolidated since their inception. Under this method, the assets and liabilities have been recorded at historical carrying values and the consolidated operations for each of the periods presented herein comprise the combined operations of Versatile and WWS. All common share numbers have been restated to reflect this combination.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the company will realize the carrying value of its assets and satisfy its obligations as they become due in the normal course of operations. The ability of the company to continue as a going concern is dependent on the success of future operations and the continuing financial support of the bank and the company's shareholders. These consolidated statements do not reflect adjustments in the carrying values of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate.

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.

Inventory

Inventory comprises handheld computers and peripherals held for resale. Inventory is valued at the lower of cost and net realizable value, determined on a first-in, first-out basis.

Versatile Systems, Inc.

Notes to Consolidated Financial Statements June 30, 2000, December 31, 1999 and 1998

(expressed in U.S. dollars)

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 the generally accepted criteria for the deferral of development costs. As at June 30, 2000, no development costs have been deferred.

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 differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws expected to be in effect when the differences are expected to reverse.

Capital assets

The company records capital assets at acquisition cost. The capital assets are amortized using the straight-line method at the following rates:

Computer and office equipment	33-1/3% per annum
Furniture and fixtures	20% per annum
Automobile	20% per annum

Revenue recognition

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

Maintenance revenues invoiced and received in advance of the provision of maintenance services are deferred and recognized over the terms of the related agreement.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. Actual results could differ from those estimates.

Concentration of credit risk

The financial instruments that potentially subject the company to a significant concentration of credit risk consist primarily of cash and accounts receivable. Concentrations 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 financial instruments.

Versatile Systems, Inc.

Notes to Consolidated Financial Statements June 30, 2000, December 31, 1999 and 1998

(expressed in U.S. dollars)

Interest rate risk exposure

Interest on the bank indebtedness and long-term debt changes with market interest rates (notes 6 and 7).

Fair values of financial instruments

Financial instruments are initially recorded at historical cost. If subsequent circumstances indicate that a decline in fair value of a financial asset is other than temporary, the financial asset is written down to its fair value.

The company's financial instruments include accounts receivable, bank indebtedness, accounts payable and accrued liabilities, due to parent company, and long-term debt. The fair values of these financial instruments approximate their carrying values.

3 Supplemental cash flow information

	Six-month period ended June 30, 2000 \$	Years ended December 31, 1999 \$		1998 \$
Cash paid for income taxes	-	10,482	-	-
Cash paid for interest expense	67,474	36,472	15,237	
Supplemental non-cash investing and financing activities				
Repurchase of common shares for promissory note	-	370,000	-	-
Common shares issued for extinguishment of a related party payable	-	-	200,000	

4 Inventory

	June 30, 2000 \$	December 31, 1999 \$		1998 \$
New hardware	600,161	481,541	252,286	
Used hardware	331,177	312,669	156,114	
	931,338	794,210	408,400	

Versatile Systems, Inc.

Notes to Consolidated Financial Statements June 30, 2000, December 31, 1999 and 1998

(expressed in U.S. dollars)

5 Capital assets

	June 30, 2000		
	Cost	Accumulated	Net
	\$	amortization	\$
	\$	\$	\$
Computer and office equipment	182,294	141,507	40,787
Furniture and fixtures	19,529	18,854	675
Automobile	60,510	8,620	51,890
	262,333	168,981	93,352
	December 31, 1999		
	Cost	Accumulated	Net
	\$	amortization	\$
	\$	\$	\$
Computer and office equipment	166,871	122,092	44,779
Furniture and fixtures	13,483	13,483	-
Automobile	28,106	3,060	25,046
	208,460	138,635	69,825
	December 31, 1998		
	Cost	Accumulated	Net
	\$	amortization	\$
	\$	\$	\$
Computer and office equipment	110,294	85,069	25,225
Furniture and fixtures	6,610	6,610	-
Automobiles	39,674	6,320	33,354
	156,578	97,999	58,579

Versatile Systems, Inc.

Notes to Consolidated Financial Statements June 30, 2000, December 31, 1999 and 1998

(expressed in U.S. dollars)

6 Bank indebtedness

	June 30, 2000 \$	December 31, 1999 \$	December 31, 1998 \$
Operating line of credit	-	700,704	200,000

The company had an authorized line of credit with a U.S. bank for the amount of \$1,000,000 at December 31, 1999 (December 31, 1998 - \$200,000). The line of credit bore interest at the U.S. bank prime rate plus 1.25% and was due on demand. The operating line was collateralized by a first charge on accounts receivable and inventory, and unlimited guarantees provided by two of the company's shareholders. The line of credit was repaid by the company on June 26, 2000 and was terminated.

The terms and conditions of the line of credit and automobile and equipment loans included in long-term debt include, among other covenants, restrictions on certain financial ratios.

7 Long-term debt

	June 30, 2000 \$	December 31, 1999 \$	December 31, 1998 \$
Promissory note to shareholder	-	370,000	-
Automobile loan, bearing interest at lender's prime rate plus 1.5%, 11% as at June 30, 2000, monthly payments of \$567, due on July 15, 2003	18,171	20,544	-
Equipment loan, bearing interest at lender's prime rate plus 1%, 10.5% as at June 30, 2000, due on August 10, 2000	8,213	8,213	-
Automobile loans, bearing interest at lender's prime rate plus 1.5%, 9.25% to 9.5% as at December 31, 1998, total monthly payments of \$988, due on October 15, 2001 to February 27, 2003	-	-	35,295
Automobile loan, bearing interest at 7.9%, monthly payments of \$557, due April 7, 2005	26,270	-	-
	52,654	398,757	35,295
Less: Current portion	18,378	62,101	10,945
	34,276	336,656	24,350

The promissory note to shareholder bore interest at 9% and was due on December 31, 2005. The loan was unsecured and was repayable with quarterly payments of \$20,121. The note payable arose due to a

Versatile Systems, Inc.

Notes to Consolidated Financial Statements

June 30, 2000, December 31, 1999 and 1998

(expressed in U.S. dollars)

shareholder's sale of WWS shares to Versatile on December 28, 1999 (note 8). The shareholder had provided a subordination agreement to the company's U.S. bank. The note was repaid on June 19, 2000.

The equipment loans are collateralized by properties financed by the loans and the automobile loans were fully repaid in 1999.

A supplier of hardware equipment to the company has a second charge against the company's accounts receivable and inventory.

8 Capital stock

Authorized

10,350,000 (1999 - 500,000) Class A voting common shares without par value

150,000 (1999 - nil) Class B non-voting common shares

Issued

Class A common shares

	Number of shares	Amount \$
Balance - December 31, 1997	4,687,657	40,000
Shares issued	5,208,526	313,890
Balance - December 31, 1998	9,896,183	353,890
Repurchase of shares	(21,875)	(12,500)
Balance - December 31, 1999 and June 30, 2000	9,874,308	341,390

On March 6, 1998, 5,184,219 Class A common shares were issued at \$0.05787 per share for cash of \$100,000 and an extinguishment of a related party payable of \$200,000 to certain principals of the company, and on March 11, 1998, the company issued 24,307 Class A common shares at \$0.57143, for a total of \$13,890, as consideration for management fees charged by certain principals of the company.

On September 7, 1999, the company amended its articles of incorporation, and increased the authorized number of Class A common shares from 500,000 to 9,850,000. On December 28, 1999, the company further amended its articles of incorporation and increased the authorized number of Class A common shares from 9,850,000 to 10,350,000.

On September 7, 1999, the Class A common shares were split on a basis of 48.6019 shares to each share previously held. The number of Class A common shares has been retroactively restated in prior year figures to reflect this stock split.

Versatile Systems, Inc.

Notes to Consolidated Financial Statements

June 30, 2000, December 31, 1999 and 1998

(expressed in U.S. dollars)

On December 28, 1999, Versatile purchased 21,875 Class A common shares of WWS for \$420,000 from a shareholder of WWS. Since the amounts are consolidated using the pooling of interest method, the amount in excess of the original subscription paid of the Class A common shares of \$407,500, has been charged to retained earnings. Consideration for the purchase was \$50,000 in cash and a promissory note of \$370,000 (note 7).

On December 31, 1999, Versatile and WWS were combined. Each share of WWS was exchanged for 2.1875 Class A common shares of Versatile. All Class A common share numbers have been restated retroactively to reflect this exchange ratio.

Class B common shares

On September 7, 1999, the company amended its articles of incorporation and created Class B non-voting common shares. Other than with respect to voting rights, Class A common shares and Class B common shares have identical rights.

As at June 30, 2000 and December 31, 1999 and 1998, no Class B non-voting common shares were outstanding.

9 Commitments and contingencies

The company leases certain facilities, equipment and automobiles under lease agreements. As at June 30, 2000, lease commitments for the next five years are as follows:

	\$
2001	253,814
2002	178,872
2003	1,533
2004	-
2005	-
	434,219

Legal proceedings

As at August 1, 2000, there was a demand for arbitration filed in a U.S. court alleging a breach of services agreement by the company for not paying a "success fee" of U.S. \$548,000 to an agent for the sale of the company. Notwithstanding that the company alleges that an error was made in calculating the amount of the claim, which would be U.S. \$350,906, the company has not yet responded to the complaint in arbitration but intends to vigorously defend the claim. Further, the previous owners of the company have undertaken to hold the company harmless for any costs resulting from these proceedings.

Versatile Systems, Inc.

Notes to Consolidated Financial Statements June 30, 2000, December 31, 1999 and 1998

(expressed in U.S. dollars)

Secured accounts payable

A supplier of hardware equipment to the company has a second charge against the company's accounts receivable and inventory related to accounts payable of \$91,676.

10 Income taxes

	June 30, 2000 \$	December 31, 1999 \$	December 31, 1998 \$
Future income tax assets			
Tax losses	466,275	-	-
Inventory provision	-	98,540	6,785
Other	6,876	14,136	140
	473,151	112,676	6,925
Less: Valuation allowance	(473,151)	-	-
	-	112,676	6,925

The company has tax losses available for offset against future taxable income for \$1,371,000. The tax losses expire in 2020.

The potential tax benefit of the loss has not been recognized in these consolidated financial statements.

11 Related parties

- As at June 30, 2000, included in accounts receivable is a promissory note receivable of \$9,900 (1999 - \$109,758; 1998 - \$109,758) due from a shareholder. The promissory note bears interest at 4.5% per annum with no set repayment terms. During the year, interest income recorded was \$2,358 (1999 - \$5,145; 1998 - \$2,265).
- During the six-month period ended June 30, 2000, compensation to the three shareholders totalled \$260,034 (1999 - \$488,018; 1998 - \$501,008).
- In 1999, the company sold capital assets with a book value of \$23,674 to a shareholder for a loss of \$5,674.
- The due to the parent company balance is non-interest bearing and has no specified term of repayment.
- Other related party balances and transactions are disclosed elsewhere in the notes to these consolidated financial statements.

Compilation Report

To the Board of Directors of
Versatile Mobile Systems (Canada) Inc.
(formerly International Sales Information Systems Inc.)

We have reviewed, as to compilation only, the accompanying pro forma condensed consolidated statement of operations of Versatile Mobile Systems (Canada) Inc. (formerly International Sales Information Systems Inc.) for the year ended June 30, 2000 which has been prepared for inclusion in the prospectus relating to the distribution of 8,300,000 common shares of the company and 4,150,000 common share purchase warrants which will be issued upon exercise of 8,300,000 special warrants. In our opinion, the pro forma condensed consolidated statement of operations has been properly compiled to give effect to the transaction and the assumptions described in the notes thereto.

PricewaterhouseCoopers LLP

Chartered Accountants

November 23, 2000
Vancouver, British Columbia

Versatile Mobile Systems (Canada) Inc.

(formerly International Sales Information Systems Inc.)

Pro forma Condensed Consolidated Statement of Operations

(Unaudited)

	Versatile Mobile Systems (Canada) Inc. (formerly International Sales Information Systems Inc.)	Versatile Systems, Inc.		Pro forma Consolidated
	Year ended June 30, 2000 \$	Nine months ended March 31, 2000 \$		Year ended June 30, 2000 \$
Sales	3,371,442	7,531,289	-	10,902,731
Cost of sales	2,076,446	4,750,535	-	6,826,981
	1,294,996	2,780,754	-	4,075,750
Expenses				
Administration	2,168,881	983,195	-	3,152,076
Selling and marketing	1,794,990	1,435,605	-	3,230,595
Research and development	1,544,553	1,051,442	-	2,595,995
Amortization of capital assets	149,721	73,393	-	223,114
Amortization of intangible assets	740,833	-	3(a) 2,222,499	2,963,332
Amortization of goodwill	474,003	-	3(a) 1,422,009	1,896,012
Non-recurring items	-	279,397	-	279,397
Interest income	-	-	3(b) (301,000)	(301,000)
	6,872,981	3,823,032	3,343,508	14,039,521
Loss before income tax recovery	(5,577,985)	(1,042,278)	(3,343,508)	(9,963,771)
Income tax recovery	(194,367)	(93,579)	3(c) (522,410)	(810,356)
Loss for the period	(5,383,618)	(948,699)	(2,821,098)	(9,153,415)
Loss per share	(0.14)			(0.18)
Weighted average number of shares outstanding	37,841,164			51,016,195

Versatile Mobile Systems (Canada) Inc.

(formerly International Sales Information Systems Inc.)

Notes to Pro forma Condensed Consolidated Statement of Operations

(Unaudited)

For the year ended June 30, 2000

1 Basis of preparation

The pro forma condensed consolidated statement of operations gives effect to (i) the acquisition of Versatile Systems, Inc. ("Versatile") by Versatile Mobile Systems (Canada) Inc. (formerly International Sales Information Systems Inc.) (the "company") assuming the acquisition occurred on July 1, 1999 and (ii) the interest income arising from the issuance of the 8,300,000 special warrants and the concurrent private placement 3,400,000 units assuming the issuance occurred on July 1, 1999. The agreement for the acquisition of Versatile was signed on March 7, 2000 and effective on April 1, 2000, subject to certain due diligence requirements, and closed on June 19, 2000. The company's consolidated statement of operations includes Versatile's operations from April 1, 2000. The details of the acquisition are described in note 4 of the consolidated financial statements of the company.

The pro forma condensed consolidated statement of operations for the year ended June 30, 2000 has been prepared by the company's management.

The pro forma condensed consolidated statement of operations of the company for the year ended June 30, 2000 is based on the audited consolidated statement of operations of the company for the year ended June 30, 2000 and the audited consolidated statement of operations for Versatile for the six months ended June 30, 2000 adjusted to remove the post-acquisition results of operations for the three months ended June 30, 2000 and include the results of operations for the six months ended December 31, 1999.

This pro forma financial information is not necessarily indicative of what the results of operations would have been if the transactions reflected herein had been completed on the dates indicated, nor does it purport to project results of operations for any future period. The pro forma financial information should be read in conjunction with the consolidated financial statements of the company and Versatile appearing elsewhere in this Prospectus.

2 Significant accounting policies

The significant accounting policies used in the preparation of the pro forma condensed consolidated statement of operations are those disclosed in the consolidated financial statements of the company.

3 Pro forma condensed consolidated statement of operations adjustments

- a) This adjustment records amortization of goodwill and other intangible assets on the acquisition of Versatile assuming the acquisition of Versatile occurred on July 1, 1999.
- b) This adjustment records interest income of \$301,000, reflecting the estimated interest income that would be earned, at an assumed rate of 4.3%, on surplus cash had the special warrants and private placement issued June 15, 2000 occurred on July 1, 1999.

Versatile Mobile Systems (Canada) Inc.

(formerly International Sales Information Systems Inc.)

Notes to Pro forma Condensed Consolidated Statement of Operations

(Unaudited)

For the year ended June 30, 2000

- c) This adjustment records the recovery of future taxes resulting from the amortization of goodwill and other intangible assets.

4 Pro forma loss per share

The weighted average number of shares used to compute pro forma loss per share is comprised of the historical weighted average number of shares of the company adjusted for the share issuance resulting from the acquisition of Versatile assuming the acquisition of Versatile and issuance of shares occurred on July 1, 1999, and the effect that would result if the special warrants had been converted to common shares on July 1, 1999 and the private placement had been issued on July 1, 1999.

CERTIFICATE OF THE COMPANY

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 8 of the *Securities Act* (Alberta), Part XV of the *Securities Act* (Ontario) and the respective rules and regulations thereunder.

DATED: December 27, 2000

"John Hardy"

John Hardy
Chief Executive Officer

"Martin Hope"

Martin Hope
Chief Financial Officer

On Behalf of the Board

"Robert Polychron"

Robert Polychron
Director

"Larry Oliver"

Larry Oliver
Director

CERTIFICATE OF THE UNDERWRITER

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 8 of the *Securities Act* (Alberta), Part XV of the *Securities Act* (Ontario) and the respective rules and regulations thereunder.

DATED: December 27, 2000

DUNDEE SECURITIES CORPORATION

Per:

"David G. Anderson"

David G. Anderson