

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2008

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from [ ] to [ ]

Commission file number 000-27387

**VOICE MOBILITY INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

**NEVADA**

(State or other jurisdiction of incorporation or organization)

**33-0777819**

(I.R.S. Employer Identification No.)

**100 - 4190 Lougheed Highway  
Burnaby, British Columbia, Canada**

(Address of principal executive offices)

**V5C 6A8**

(Zip Code)

Registrant's telephone number, including area code **(604) 482-0000**

Securities registered under Section 12(b) of the Act:

Title of each class  
Nil

Name of each exchange on which registered  
Nil

Securities registered pursuant to Section 12(g) of the Act:

**Common Shares, par value \$0.001**

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [ ] No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

**46,149,122 common shares @ \$0.18<sup>(1)</sup> = \$8,306,842**

(1) Closing price as quoted on the OTC Bulletin Board on June 30, 2008.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

**56,842,571 common shares issued and outstanding as of March 1, 2009.**

#### **DOCUMENTS INCORPORATED BY REFERENCE**

None

**VOICE MOBILITY INTERNATIONAL, INC.**

**TABLE OF CONTENTS**

	<u>Page No.</u>
<b>Part I</b>	
Item 1	Business 2
Item 2	Properties 17
Item 3	Legal Proceedings 17
Item 4	Submission of Matters to a Vote of Security Holders 18
<b>Part II</b>	
Item 5	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities 18
Item 6	Selected Financial Data 19
Item 7	Management’s Discussions and Analysis of Financial Conditions and Results of Operations 19
Item 7A	Quantitative and Qualitative Disclosures About Market Risk 30
Item 8	Financial Statements 31
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure 68
Item 9A(T)	Controls and Procedures 68
Item 9B	Other Information 69
<b>Part III</b>	
Item 10	Directors, Executive Officers and Corporate Governance 69
Item 11	Executive Compensation 72
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters 78
Item 13	Certain Relationships and Related Transactions, and Director Independence 79
Item 14	Principal Accounting Fees and Services 80
Item 15	Exhibits, Financial Statement Schedules 81
	Signatures 83

## PART I

### Item 1. Business.

This annual report contains forward-looking statements which are not purely historical and include any statements regarding beliefs, plans, expectations, or intentions, including without limitation statements that relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may”, “should”, “expects”, “plans”, “anticipates”, “believes”, “estimates”, “predicts”, “potential” or “continue” or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled “Risk Factors”, that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States dollars (US\$) and are prepared in accordance with United States generally accepted accounting principles.

In this annual report, unless otherwise specified, all dollar amounts are expressed in United States dollars. All references to “Cdn\$” refer to Canadian dollars and all references to “common shares” refer to the common shares in our capital stock.

#### *Corporate Overview*

We were incorporated on October 2, 1997 in the State of Nevada under the name “Equity Capital Group, Inc.”, and we are the successor to the voice service and related messaging business founded by Voice Mobility Inc. in 1993. On June 24, 1999, we changed our name to “Voice Mobility International, Inc.” We have four wholly-owned subsidiaries: Voice Mobility Inc., which is a Canadian corporation incorporated on September 15, 1993; Voice Mobility (US) Inc., which is a Nevada corporation incorporated on April 6, 2000; Voice Mobility Canada Limited, which is a Canadian corporation incorporated on May 26, 1999; and VM Sub Limited, which is a Canadian corporation incorporated on May 26, 1999.

Unless otherwise indicated, all references to “we”, “us”, “our” and “Voice Mobility” means Voice Mobility International, Inc., its predecessor company, Voice Mobility Inc. and its other subsidiaries.

Our principal executive and head offices are located at 100 - 4190 Lougheed Highway, Burnaby, British Columbia, Canada. Sales and marketing operations are primarily based out of our head office. Research, development and technical support are based out of our office located at 1001 Wharf Street, 3<sup>rd</sup> floor, Victoria, British Columbia, Canada.

#### *History*

Our subsidiary, Voice Mobility Inc., was incorporated in 1993 under the name “WGT Teleserve Inc.”, and was originally focused on providing enhanced telecommunications services such as voice mail, fax handling and internet access to specific vertical markets. In the spring of 1997, we decided to shift focus and began developing a comprehensive enhanced messaging product. Early versions of our messaging products were subsequently released in 1998, 1999 and 2000.

In June 1999, the shareholders of Voice Mobility Inc. completed a reverse acquisition whereby Voice Mobility Inc. became a wholly owned subsidiary of our company. At that point, we effectively commenced operations as a

United States company and our common stock was quoted on the OTC Bulletin Board under the symbol VMII. In April 2001, we completed an equity financing and subsequently began trading on the Toronto Stock Exchange in July under the symbol VMY.

### *Business Overview*

We are engaged in the enhanced and multimedia messaging area of the telecommunications market. We market and deploy next generation messaging solutions that provide enhanced messaging features and functionality while ensuring integration with or replacement of existing first generation voicemail messaging systems. Our enhanced messaging software suite:

- allows telecommunications companies to replace their aging legacy voicemail systems and incorporate incremental offerings such as real time call connect, voicemail to email, fax to email and unified mailbox services;
- can serve as a first generation voice-mail and messaging system for telecommunications companies that do not have an existing voice-mail system, with the added capability of providing incremental offerings such as real time call connect, voicemail to email, fax to email and unified mailbox services; and
- is an ideal solution for telecommunication companies or enterprise customers that have both a large central location and many secondary locations of varied size but wish to put them all under a single umbrella for voice and unified communications. Whether the remote locations have their own telephone legacy systems or utilize voice over internet protocol (VOIP) technology, the software solution can ensure that company-wide deployment of voice and unified messaging is uniform, consistent and integrated.

Legacy voicemail systems are systems that use technology that is 15 to 20 years old. These legacy systems are incapable of being upgraded, or economically upgraded, to offer enhanced messaging services, like real time call connect, voicemail to email, fax to email services and unified mailbox services. We are focused on the development of technology that takes advantage of the market known as the voice over internet protocol (VOIP) market. Voice over internet protocol (VOIP) is a general term for technologies that use internet protocol for transmission of packets of data which include voice, video, text, fax, and other forms of information that have traditionally been carried over the dedicated circuit-switched connections of the public switched telephone network (PSTN). General industry and analyst consensus shows that the voice over internet protocol (VOIP) market is being adopted by the public and growing at a considerable rate.

Our family of products are based upon open systems hardware and software to create a solution that has low “per subscriber” fixed costs in the industry. The solution is designed to be delivered as a messaging software solution only, or as a complete turnkey solution including complete hosting, hardware, system configuration, migration, operating support system integration and billing support system integration. In addition, customers may license one or more of the incremental services or choose to license our entire enhanced messaging software suite.

With the increased use of personal communication devices, such as cell phones, personal digital assistants (PDAs) and laptops, it has become a considerable challenge to manage the information retrieval process from these various devices. Users of these multiple communication devices are increasingly demanding a means of easily managing these devices in a time saving manner. In addition, users are increasingly demanding instant access to voicemails, faxes and emails regardless of which communication device is available to them or their physical location at any point in time.

Our enhanced messaging software suite addresses all of these demands by:

- allowing users to access their voicemail messages, email messages and faxes at anytime, from any location, from a wide variety of devices;
- providing a speech interface which allows any speech recognition software to interface with our software application;

- allowing users to receive any type of communication regardless of its incoming format or medium (i.e. voicemails and faxes) into one unified mailbox with the ability to control, sort and prioritize all such messages;
- providing instant notification of all messages;
- allowing users to direct faxes to any fax machine;
- providing users a single unified phone number which allows subscribers to merge all their wired and wireless communication devices, including cellular telephone, pager, fax, home and office numbers under that one number;
- providing a fully synchronized message storage area for enterprise so that a user would only have to go to one location to retrieve all types of messages: email, fax and voice mail;
- providing several new revenue options for operating telecommunication companies such as the ability to notify mobile workers that their office or home voice mail has just received a voice mail message from a specific person or number and the ability to forward a fax image to a mobile device for viewing and forwarding; and
- providing highly innovative methodologies to allow telecommunication companies the ability to create new service offerings that takes internet content and forwards that content to a voicemail box (of a mobile handset, like a cell phone) in voice form, thereby allowing a person to access in real time internet content through a spoken interface.

Our product offering is an enhanced messaging software solution through which telecommunications companies:

- can increase their revenues by increasing the services they can offer to their subscribers;
- can offer modern and technologically advanced messaging services to ensure that there is no loss of customers to competitors offering these enhanced services;
- can reduce their costs by replacing their old legacy voicemail systems and eliminating the additional costs of maintaining their existing voice mail systems; and
- can transition their customers from their old legacy voicemail systems to a new voicemail system with no disruption in service.

Telecommunication companies/carriers have been facing downward price pressure on services such as long distance, local telephone service and data service. To combat this downward price pressure, these telecommunication companies have usually introduced other revenue sources like call answer, call waiting, call display, internet access and packages of local and long distance calling. Our enhanced messaging software allows these telecommunication companies to create further sets of product/service offerings to allow them to increase or maintain their revenues.

#### *Components of Our Enhanced Messaging Product Offering*

Our enhanced messaging software suite includes the following core service features:

- legacy voicemail replacement;
- one number;
- voicemail to email;

- fax to email;
- a single unified mailbox;
- find-me and follow-me / real time call connect;
- call announce and call screening;
- message notification;
- voice based text messaging (allows users to record a voice message and deliver it as a text message);
- tools that allow internet developers to deliver text based internet content to a voicemail box of a mobile handset (like a cell phone) using a spoken interface (human voice), thereby allowing a person to access in real time internet content through a spoken interface;
- storage of messages;
- webfeeds; and
- speech recognition integration.

Our legacy voicemail replacement feature allows a telecommunication company to replace existing voicemail systems currently being used by telecommunications companies. The first stage involves installing our enhanced messaging software and migrating any existing voicemail subscribers to our messaging system. Our messaging software has been designed to allow telecommunication companies to transition their subscribers between the telecommunication company's old system and the new system. We also have the ability to interface with existing "legacy" voice-mail systems, allowing for the transfer of messages between systems. Finally, we emulate legacy voicemail telephone systems, both in terms of interfaces and features. Once the legacy voicemail subscribers are transitioned to the new messaging system, the telecommunication company has the option of adding and selling one or more of the enhanced messaging features described below.

Our real time call connect feature allows subscribers to merge all their wired and wireless communication devices, including cellular telephone, pager, fax, home and office numbers, into a single unified phone number where they can be reached. Subscribers only have to provide this one phone number which lets them receive all their calls, faxes or voice messages, no matter how many different telephone, cell phone or fax numbers they use.

Our voicemail to email feature allows subscribers to receive voicemail messages through the subscriber's one number and have them delivered to one or more email mailboxes. This service gives the subscriber the ability to choose the method of retrieving voicemail messages, through email, email enabled wireless devices or more traditional retrieval methods (like over the telephone). Our software is also capable of providing voicemail notifications via pagers, short message service (SMS) devices or other wireless devices.

Our fax to email feature allows subscribers to receive faxes through the subscriber's one number and have them delivered to one or more email mailboxes. The subscriber then has the power to determine if and where the fax is printed. Our fax-to-email service converts faxes to email attachments, and allows subscribers to view them on-screen, print, save, or forward them. This functionality essentially eliminates the need for fax machines and/or dedicated fax lines, and it also minimizes the privacy concerns with respect to communal fax machines. Our software is also capable of providing fax mail notifications via pagers, short messaging service (SMS) devices or other wireless devices.

Our single unified mailbox feature allows subscribers to retrieve, store and manage all of their messages. Our service is email neutral (meaning that it does not matter which email software a subscriber actually uses), so any email application on the market today can be configured as the subscriber's unified mailbox. In addition, subscribers are not forced to change their e-mail addresses.

Our find-me and follow-me feature allows a subscriber to program our service to locate them at up to five different telephone numbers according to the subscriber's personal preference. For example, they may divide their working time between the office and home. To be sure they do not miss any important calls, they could program the find-me and follow-me feature so that any incoming calls are directed first to their office, then to home and finally to their cell phone. The search numbers can be arranged in any desired order and can be changed as circumstances change.

Voice short messaging service (SMS) and web feeds are new features meant to connect the content of the message mailbox to real-time internet based content. Voice short messaging service (SMS) allows a voice mail to be created for the purpose of a one time single replay to the intended recipient. The short messaging service (SMS) network is used to notify the recipient and then direct him to the location of the message.

Web feeds is a feature that allows for the real-time "delivery" to a mobile device, like a cell phone, of text and multimedia based internet content that is forwarded to the mobile device when the user requests. The content is delivered based upon user-defined criteria.

Our call-announce and call-screening feature allows subscribers to identify the caller and then decide whether or not to answer a particular call or direct it to their unified mailbox. Our message notification feature notifies subscribers of new or urgent messages by voicemail, email, pager or any wireless device. Our speech recognition integration interface allows service providers to select their preferred speech recognition vendor as our enhanced messaging software can interface with all vendors' specifications.

For the year ended December 31, 2008, sales consisted of technical training and support services provided to Avaya Inc. and product license sales, hardware and software product sales and training and installation services to eight resellers. For the year ended December 31, 2007, sales consisted of technical training and support services provided to Avaya Inc. and product license sales, hardware product sales and training services to three resellers.

#### *Pricing of Our Enhanced Messaging Software*

We have customized pricing structures in place for strategic partners, system integrators and original equipment manufacturer (OEM) distributors that resell our enhanced messaging software to telecommunication companies.

#### *Target Market for Our Enhanced Messaging Software*

Currently, we are focussing on one primary adopter of our enhanced messaging software: telecommunication companies.

Telecommunication companies represent our target customer opportunity. "Tier I" telecommunication companies, defined to include providers of messaging services to 100,000 - 35,000,000 end users, in particular tend to have large existing installed bases of voicemail users. The customer base of many of these telecommunication companies using legacy voicemail systems continues to grow at a rate of between 10% and 30% per year as a result of the growth in the use of wireless telecommunication devices. Currently, the Tier I telecommunication companies are looking for methods to limit spending in legacy voicemail systems and methods to cost effectively implement enhanced messaging technology.

We believe that Tier I telecommunication companies will no longer be willing to invest in legacy systems which cannot be upgraded to offer enhanced messaging services and will therefore be required to replace such legacy systems. We also believe that their decision will be driven by the demand from current and potential subscribers that they offer and implement enhanced messaging technology services. We anticipate that some of these telecommunication companies will install our enhanced messaging software and migrate their current voicemail customers over to our enhanced messaging software without interruption in service. We then expect that these telecommunication companies would begin to incrementally market the value-added service available as part of our enhanced messaging software, such as our real time call connect, voicemail to email, fax to email and unified mailbox service offerings. To support our customers, we have developed significant research that identifies end users' perceptions of enhanced messaging features; their pricing tolerances and willingness to purchase such

additional enhanced messaging features. With our research, we can assist these telecommunication companies in effectively marketing our enhanced messaging services to their current and potential customer base.

We are also aware of the rapid growth of telephone services provided by companies who provide cable television services, the voice over internet protocol (VOIP) provider and the internet telephony service provider (ITSP).

Among the most unique attributes of our products is the ability for a telecommunication company service provider to offer residential or broadband users as well as mobile users the same software solution for all of these different markets.

The software platform has been designed and engineered to meet the demanding needs for the operating telecommunication company market. It is capable of delivering large scale while running on equipment and technology that is "commercial grade" and not proprietary or custom. The software can deliver functionality that is consistent with the needs of a mobile user, a residential user, a business user and a broadband user (persons who utilize the internet for their telephone needs). This flexibility allows the product to be utilized in all of these different customer markets, thereby increasing the scale of the product and driving the price per subscriber down considerably.

A telecommunication company does not have to purchase separate systems to serve each of the above customer markets. They can serve all of these customer markets from a single software based product. This lessens the risk of having to purchase additional hardware to run the software, the risk that the software will become obsolete because of new product offerings in any of these customer markets and the risk of being obligated to run the software on a propriety or custom built hardware device or system.

We currently believe that there may be further opportunities for the deployment of our enhanced messaging services through the consolidation presently occurring amongst telecommunications companies. As such telecommunications companies merge and consolidate, their customer base and technology will need to be consolidated and standardized and therefore we believe that there likely will be further opportunities and demand for our enhanced messaging software.

#### *Marketing and Distribution Methods*

The complexity of the current voicemail systems used by telecommunication companies requires not only a sound understanding of the systems capabilities but a thorough understanding of where and how these systems can interconnect with other systems. There are very few companies that have earned the trust of the largest telecommunication companies to deal directly with the systems and technologies that are fundamental to the basic business of a telecommunication company. These companies include large switch manufacturers and large system integrators and consultants. We recognize this reality and understand that these relationships have been forged over an extended period of time. As a result of these established relationships, we anticipate that telecommunication companies will purchase their technology directly from these "trusted" companies. We are therefore dedicated to building strategic relationships with these companies or system integrators. We anticipate that telecommunication companies will purchase our enhanced messaging software directly from these companies or system integrators. The company or system integrator will assist in installation, maintenance and support of our enhanced messaging software. We will play a supporting role to these companies, system integrators and original equipment manufacturer distributors. We intend to limit the number of relationships we enter into with such companies and systems integrators, distribution partners and original equipment manufacturer distributors. The key in this area of the business is the quality of the partner, not the quantity of partners.

We will target original equipment manufacturer distributors who wish to include our enhanced messaging software as a component on a messaging system that they manufacture and distribute. The original equipment manufacturer distributors will be responsible for all selling, distribution, support and maintenance of our enhanced messaging software. The original equipment manufacturer distributors may sell the product directly to the telecommunication companies utilizing their own sales force and distribution network.

There are some target markets where our company has no specific representation through strategic partners, system integrators and original equipment manufacturer distributors. In these markets, we intend to sell directly to the customer.

#### *Key Strategic Partners*

**NMS Communications:** NMS provides to us communication boards, software interfaces for their hardware solutions, and access to a broad range of resources for sales, marketing and development.

**IBM:** IBM makes a family of hardware platforms that scale from the very small to the very large. We have had success and acceptance with this hardware platform and intend to continue using this hardware platform as one of our preferred vendors.

Service providers now have the ability to operate our software on Intel processor based hardware made and distributed by commercial-off-the-shelf computer hardware vendors such as IBM, DELL, HP and others. This provides our strategic partners and system integrators (many have strategic relationships with certain computer hardware vendors) and telecommunication companies with comfort that they can choose their preferred computer hardware on which to operate our enhanced messaging software.

In summary, our marketing efforts will be spread across multiple addressable markets:

**OEM:** One primary characteristic of the telecommunication marketplace is that traditional voice technologies are slowly converting to voice over internet protocol (VOIP), that is telephone services being delivered over the internet. This trend is impacting the systems purchased by service providers (network operators) as well as enterprise customers. Our software can reside on virtually any hardware platform and, as a result, can be an easy addition for a manufacturer with a desire to include several “applications” with the sale of a complete (hardware and software) system that allows the customer to provide telephone services over the internet. Our software can run on its own hardware or be embedded into and form part of a larger software solution. We sell on the ability for the solution set to be delivered entirely in software to enhance the overall product offering and to increase margins.

**Channels:** Our product can easily be used in small and large applications because it is easily scalable. Our product uses a series of predefined hardware profiles from the very small (up to 5000 subscribers) to the very large (over 1 million subscribers). Each hardware profile can be incremented to meet the needs of a larger subscriber base. This is attractive as it offers a low price point for entry and does not require the “throw away” of any old hardware or the purchase of additional software as the customer’s user base grows. As a result of this flexibility, our product is an excellent solution for large telecommunication companies. We will be continuing to offer our product through value-added resellers.

**International:** Our product is rendered in several languages today and, as such, is attractive to the more mature markets as well as the emerging telephony markets. We will approach each market with caution but we will invest in intelligent opportunities when they arise.

#### *International Markets*

We believe international markets should offer us opportunities in the long-term. Mature markets are seeking replacement technologies to enhance and replace legacy voicemail systems that are reaching the end of their useful lives. Emerging markets are being fuelled by the very basic need for high performance and low cost telecommunications infrastructure.

We perceive a specific opportunity with telecommunications companies that are either introducing messaging services to their markets for the first time, or are seeking to supplant incumbent, aging, or manufacturer discontinued platforms with next generation technology that creates new revenue opportunities through the delivery of enhanced features and functionality.

We are targeting both incumbent and emerging telecommunications companies. We intend on forming relationships with original equipment manufacturers and systems integration partners in these international markets as a means to further expand and facilitate market penetration and the acquisition of market share. Key attributes of our enhanced messaging software that facilitate this expansion are the user-friendly interfaces, our multi-language support, and our broad support for many variants of telephony connectivity.

In 2005, we experienced interest from our international markets. As we continue to offer telecommunication companies seeking to cost-effectively replace legacy messaging systems with the opportunity to enhance and expand existing systems with the deployment of our enhanced messaging system, and by delivering an enhanced messaging system to companies initiating their first deployment of messaging services, we believe our presence in, and revenues from, non-North American markets will expand in the coming years.

See Note 4 to our audited consolidated financial statements included elsewhere in this filing for financial information by geographic area.

### *Competition*

Well-established suppliers such as Lucent and Comverse currently dominate the Tier I telecommunication company messaging market. These competitors have provided voice mail services to both wired and wireless telecommunication companies since the early 1980's. In evaluating the competitive landscape, we believe our closest competitors are companies offering voicemail and enhanced messaging systems built to satisfy the high capacity and high resiliency needs of the telecommunications company environment. Lucent and Comverse are also developing legacy voicemail replacement products. In this segment, we have identified three primary competitors: Lucent, Comverse and IP Unity.

- Lucent is a well-entrenched supplier of voicemail systems to the Tier I telecommunications company market. Existing products include the Lucent Sierra and the Lucent IMA-CA. These products currently service 50% of the North American voicemail market. Its replacement product is the Lucent Anypath, a product built for the evolution from voicemail to unified messaging. Lucent is a large company headquartered in Murray Hills, New Jersey with 33,000 employees. The company has a portfolio stretching from switching, data networking, optical equipment and software, next-generation third generation (3G) mobility solutions, a network services organization - designing, engineering, installing, managing, monitoring and repairing some of the most sophisticated networks in the world, and the world-renowned Bell Labs.

- Comverse Technologies Inc. is a supplier of software and systems enabling enhanced communications services for telecommunication companies. Comverse is based in the United States with research and development facilities in Israel. Its customer base includes wireless and wired telecommunications companies worldwide. The company employs over 5,000 employees, including 2,000 dedicated to research and development.

- IP Unity is a relatively new player to the unified messaging market. They offer a solution targeted at the internet providers / broadband providers in the market. Their strength lies in their ability to integrate and interface with voice-over IP networks. IP Unity is a private company and does not report its financial information or company details. In December 2006, IP Unity acquired all of the assets of Glenayre Technology, Inc.'s integrated messaging division. Glenayre has some excellent historical relationship in the North American market and we will continue to watch their growth and strategic decisions.

All of our primary competitors and some of our other competitors have significantly greater financial, technical, manufacturing, sales, marketing and other resources than us and have achieved greater name recognition for their existing products and technologies than we have. We cannot guarantee that we will be able to successfully develop or, once developed, increase our market penetration or our overall share of the basic voicemail and enhanced messaging marketplace. Our results of operations could be adversely impacted if we are unable to effectively develop and, once developed, increase our share of this market.

Our success depends in large part upon the rate at which Tier I telecommunication companies incorporate our products into their systems. If we are not successful in having our products used by the leading Tier I telecommunication companies, there will be a material adverse effect on our business, financial condition and results of operations.

No assurance can be given that our competitors will not develop new technologies or enhancements to existing products or introduce new products that will offer superior price or performance features. We expect our competitors to offer new and existing products at prices necessary to gain or retain market share. Certain of our competitors have substantial financial resources, which may enable them to withstand sustained price competition or a market downturn better than us. There can be no assurance that we will be able to compete successfully in the pricing of our products, or otherwise, in the future.

#### *Competitive Advantages*

We compete on the basis of price and product completeness/performance. We believe we have a number of competitive advantages over our competitors as follows:

- our business and pricing models are designed to set a new expectation in the market for price and flexibility;
- our enhanced messaging software provides the same features and functionality as current voicemail solutions but offers additional value-added messaging features;
- our system provides a lower cost of ownership to the telecommunication companies as they no longer have to make a substantial investment in maintaining, upgrading or replacing their legacy voicemail systems;
- we have developed a series of migration options designed to migrate large blocks of mailboxes from legacy voicemail systems while ensuring that our software can also emulate features and interfaces of the legacy voicemail systems;
- our solutions have the unique ability to be placed with the telecommunication companies environment or physically installed in the customer's premises;
- we have developed a highly available, scale-able, hosted solution that can be separated to provide functionality for multiple end user segments such as residential, wireless, enterprise and broadband; and
- our enhanced messaging software platform is designed to accommodate and support more users while also satisfying the stringent availability requirements of the telecommunication companies.

Our enhanced messaging software provides all of the following features:

- legacy voicemail replacement;
- one number;
- voicemail to email;
- fax to email;
- a single unified mailbox;
- find-me and follow-me / real-time call connect;
- call announcement and call screening;

- message notification;
- voice short messaging service (SMS);
- storage of messages;
- web feeds; and
- speech recognition integration.

We are not aware of any competitor that has developed a messaging solution that provides all of these features, that incorporates the ability to emulate existing voicemail technology, provides advanced unified communications features and capabilities and provides migration options from legacy voicemail systems at a lower total cost of ownership.

### *Industry Description*

The telecommunication industry is slowly realizing that it is currently utilizing aging technology to provide voice-messaging services. This technology dates back to older voicemail systems developed in the 1980s and is in need of replacement. We believe that the telecommunications companies realize that these older systems require replacement and are currently looking for next generation messaging platforms and solutions that will allow them to bring to market new product offerings that are being demanded by the marketplace. In particular, Tier 1 telecommunications companies, incumbent telephone companies, are moving towards decisions regarding replacement of legacy voice mail systems. Part of the reason for this is the current and expected demands of businesses and individuals to better manage their various communications devices. Market drivers include subscriber demand for new services, telecommunications companies demand for lower priced technology and manufacturer discontinuances of existing voice messaging technology.

Currently, the market is being serviced by legacy voicemail systems, and with a small number of carriers offering enhanced messaging features and functionality. These telecommunications companies who are offering these features are having limited success in deployment and penetration. There are very few telecommunications companies offering new features to date despite all such companies expressing interest in offering such enhanced features. The largest barrier is the migration of voicemail subscribers from the aging legacy voicemail technology to new enhanced messaging technology. Being able to complete this migration in a cost effective and non-disruptive manner to existing customers is of top priority for the entire telecommunications industry.

Operating telecommunications companies are extremely protective of current revenue streams. They are also reluctant to move to newer technology until the value of doing so can be proven. While newer technologies have proven to be less costly from an operations perspective, the inertia of these legacy voicemail systems will not fully be overcome until:

- it is abundantly clear that new features have considerable end user demand;
- it has been proven that the new features can command an attractive price point;
- vendors can demonstrate that they can build platforms which allow access to new revenue without disrupting current revenue; and
- it is clear that IP based initiatives such as voice over internet protocol (VOIP) will require equipment changes.

All of these prerequisites are in place now in many telecommunications companies to a lesser or greater degree. The overall expenditures for voice messaging systems in the next several years are expected to increase. This expected increase in spending is partly due to the lack of investment over the last several years and partly due to the fact that

many telecommunications companies are evolving their networks to voice over internet protocol (VOIP ) and other relevant next generation technology infrastructure.

#### *Significant Customers*

Sales for the fiscal year ended December 31, 2008 were from technical training and support services provided to Avaya and product license sales, hardware and software product sales and training and installation services to eight resellers. Sales for the fiscal year ended December 31, 2007 were from technical training and support services provided to Avaya and product license sales, hardware product sales and training services to three resellers. Sales to Avaya comprised 15% of revenue for the fiscal year ended December 31, 2008. Sales to Avaya comprised 88% of revenue for the fiscal year ended December 31, 2007.

#### *Research and Development*

Our research and development team is primarily located in our facility located in Victoria, British Columbia, Canada. Our research and development team designs, develops, tests, documents, and localizes our enhanced messaging product. The research and development team's feature and release direction is governed by all strategic product stakeholders. Each feature is detailed in written business requirements created by our business requirements team. A change control board also directs the lower level problems and enhancements for all other development work. Releases are coordinated with our marketing, sales, and system integration/partner support departments to ensure timely delivery of the grouped features to our partners, clients, and ultimately our target market. Appropriate technology is chosen for all work after performing a technical analysis of each requested feature and also ensuring a match for that release's system requirements. All development work is carried out with reviews and decision gates as part of an overall product development process. The research and development team follows industry best practices for software engineering and encourages continuous process improvement. Research and development expenses for the years ended December 31, 2008 and 2007 were \$632,043 and \$898,721 respectively.

#### *Intellectual Property*

We rely on trade secrets to protect our intellectual property. We do not have any registered patents, trademarks, or copyrights. We execute confidentiality and non-disclosure agreements with our employees and limit access to and distribution of our proprietary information. We do not have and do not intend to apply for patents on our products. Management believes that the patent application process in many countries in which we intend to sell products would be time-consuming and expensive and any patent protection may be out of date by the time the patent is granted.

The departure of any of our management or significant technical personnel, the breach of their confidentiality and non-disclosure obligations, or the failure to achieve our intellectual property objectives may have a material adverse effect on our business, financial condition and results of operations. We believe our success depends upon the knowledge and experience of our management and technical personnel and our ability to market our existing products and to develop new products. We do not have non-compete agreements with our employees who are employed on an "at-will" basis. While we believe that we have adequately protected our proprietary technology, and we will take all appropriate and reasonable legal measures to protect it, the use of our processes by a competitor could have a material adverse effect on our business, financial condition and results of operations.

#### *Employees*

As of March 1, 2009, we employed eleven people, five of who are engaged in marketing and sales, three in research, development and support, and three in management and administration. We are not subject to any collective bargaining agreements and we consider relations with our employees to be excellent.

### **RISK FACTORS**

Much of the information included in this annual report includes or is based upon estimates, projections or other "forward-looking statements". Such forward-looking statements include any projections or estimates made by us

and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Such estimates, projections or other “forward-looking statements” involve various risks and uncertainties as outlined below. We caution readers of this annual report that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other “forward-looking statements”. In evaluating us, our business and any investment in our business, readers should carefully consider the following factors.

*We have had negative cash flows from operations and if we are not able to obtain further financing our business operations may fail.*

To date, we have had negative cash flows from operations and have depended on sales of our equity securities and debt financing to meet our cash requirements. We will need to raise additional funds to:

- support our planned growth and carry out our business plan,
- develop new or enhanced services and technologies,
- increase our marketing efforts,
- acquire complementary businesses or technologies,
- respond to regulatory requirements, and
- respond to competitive pressures or unanticipated requirements.

We may not be able to obtain additional equity or debt financing on acceptable terms when we need it. Even if financing is available it may not be available on terms that are favourable to us or in sufficient amounts to satisfy our requirements. If we require, but are unable to obtain, additional financing in the future, we may be unable to implement our business plan and our growth strategies, respond to changing business or economic conditions, withstand adverse operating results and compete effectively. More importantly, if we are unable to raise further financing when required, our continued operations may have to be scaled down or even ceased and our ability to generate revenues would be negatively affected.

*A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our ability to continue our normal operations.*

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. Because a significant portion of our operations have been financed through the sale of equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our operations. Such reductions would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations. If our stock price declines, there can be no assurance that we can raise additional capital or generate funds from operations sufficient to meet our obligations. If we are unable to raise sufficient capital in the future, we may not be able to have the resources to continue our normal operations.

*We have a history of losses and fluctuating operating results, which raise substantial doubt about our ability to continue as a going concern.*

Since inception through December 31, 2008, we have incurred aggregate net losses of approximately \$50.2 million. Our loss for the fiscal year ended December 31, 2008 was \$0.2 million which includes an unusual gain of \$3.2 million and the fiscal year ended December 31, 2007 was \$3.4 million. We also incurred an operating loss since inception. There is no assurance that we will operate profitably or will generate positive cash flow in the future. In addition, our operating results in the future may be subject to significant fluctuations due to many factors not within our control, such as the unpredictability of when customers will order products, the size of customers' orders, the demand for our products, and the level of competition and general economic conditions.

We expect to incur operating losses and negative cash flow until our products gain market acceptance sufficient to generate a commercially viable and sustainable level of sales, and/or additional products are developed and commercially released and sales of such products made so that we are operating in a profitable manner. These circumstances raise substantial doubt about our ability to continue as a going concern, as described in the explanatory paragraph in our independent registered public accounting firm's report on the December 31, 2008 consolidated financial statements. Our audited consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

*We could lose our competitive advantages if we are not able to protect any proprietary technology and intellectual property rights against infringement, and any related litigation could be time-consuming and costly.*

Our success and ability to compete depends to a significant degree on our proprietary technology. If any of our competitors copies or otherwise gains access to our proprietary technology or develops similar software independently, we would not be able to compete as effectively. The measures we take to protect our proprietary technology and other intellectual property rights may not be adequate to prevent their unauthorized use. Further, the laws of foreign countries may provide inadequate protection of such intellectual property rights. We may need to bring legal claims to enforce or protect such intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and diversions of resources. In addition, notwithstanding the rights we have secured in our intellectual property, other persons may bring claims against us that we have infringed on their intellectual property rights, including claims based upon the content we license from third parties or claims that our intellectual property right interests are not valid. Any claims against us, with or without merit, could be time consuming and costly to defend or litigate, divert our attention and resources, result in the loss of goodwill associated with our service marks or require us to make changes to our technologies.

*We hold no patents on our proprietary technology and may not be able to protect our proprietary technology.*

We do not have and do not intend to apply for patents on our software products. Management believes that the patent application process in many countries in which we intend to sell products would be time-consuming and expensive and any patent protection might be out of date by the time the patent were to be granted.

The departure of any of our management or significant technical personnel, the breach of their confidentiality and non-disclosure obligations, or the failure to achieve our intellectual property objectives may have a material adverse effect on our business, financial condition and results of operations. We believe our success depends upon the knowledge and experience of our management and technical personnel and our ability to market our existing products and to develop new products. Employees may and have left us to go to work for a competitor. While we believe that we have adequately protected our proprietary technology, and we will take all appropriate and reasonable legal measures to protect it, the use of our processes by a competitor could have a material adverse effect on our business, financial condition and results of operations. Our ability to compete successfully and achieve future revenue growth will depend, in part, on our ability to protect our proprietary technology and operate without infringing upon the rights of others. We may not be able to successfully protect our proprietary technology, and our proprietary technology may otherwise become known or be independently developed by competitors. Competitors' products may add features, increase performance or sell at lower prices. We cannot predict whether our products will continue to compete successfully with such existing rival architectures or whether new architectures will establish or gain market acceptance or provide increased competition with our products.

*Substantially all of our assets, and all of our directors and officers are outside the United States, with the result that it may be difficult for investors to enforce within the United States any judgments obtained against us or any of our directors or officers.*

Substantially all of our assets are located outside the United States and we do not currently maintain a permanent place of business within the United States. In addition, all of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, you may be effectively prevented from pursuing remedies under U.S. federal securities laws against them.

*We are currently dependent on a small number of channel partners for the sale of our products and if we are unable to expand our channel partner relationships or if our channel partners are unable to generate significant sales of our products, then our revenues may not increase significantly.*

We shifted our sales model from a direct sales model to a channel partner model. A channel partner is a party who will purchase our product for resale to telecommunication companies. This fundamentally shifted the way our company was structured. Instead of selling and supporting the customer directly, we will utilize the channel partner to conduct the sales and support activities for our enhanced messaging software. Instead of being dependent on a small number of customers for the sales of our products as we were in our previous fiscal years, we are currently dependent on our channel partners for sales of our products. If our channel partners are unable to generate significant sales of our products or we are unable to expand the number of channel partner relationships, our business, financial condition and results of operations would be materially and adversely affected.

*We operate in a highly competitive industry and our failure to compete effectively may adversely affect our ability to generate revenue.*

The market for unified messaging software is highly competitive and subject to frequent product introductions with improved price and/or performance characteristics. Even if we are able to introduce products which meet evolving customer requirements in a timely manner, there can be no assurance that our new products will gain market acceptance. Many companies, including Lucent, Comverse and IP Unity and others have greater financial, technical, sales and marketing resources, better name recognition and a larger customer base than ours. In addition, many of our large competitors may offer customers a broader product line, which may provide a more comprehensive solution than our current solutions. Increased competition in the unified messaging industry could result in significant price competition, reduced profit margins or loss of market share, any of which could have a material adverse effect on our ability to generate revenues and successfully operate our business.

*Rapid technological changes in our industry could render our products non-competitive or obsolete and consequently affect our ability to generate revenues.*

The telecommunications industry is characterized by rapidly changing technology and evolving industry standards. We believe that our success will depend on our ability to continuously develop our products, to enhance our current products and to introduce them promptly into the market. We can make no assurance that our technology or systems will not become obsolete due to the introduction of alternative technologies. If we are unable to continue to develop and introduce new products to meet technology changes and changes in market demands, our business and operating results, including our ability to generate revenues, could be adversely affected.

*If we fail to effectively manage our growth our future business results could be harmed and our managerial and operational resources may be strained.*

As we proceed with the development of our technology, we expect to experience significant and rapid growth in the scope and complexity of our business. We will need to add staff to market our services, manage operations, handle sales and marketing efforts and perform finance and accounting functions. We will be required to hire a broad range of additional personnel in order to successfully advance our operations. This growth is likely to place a strain on our

management and operational resources. The failure to develop and implement effective systems, or to hire and retain sufficient personnel for the performance of all of the functions necessary to effectively service and manage our potential business, or the failure to manage growth effectively, could have a materially adverse effect on our business and financial condition.

*Our future growth and our ability to generate revenues may be materially and adversely affected by continued reductions in spending on telecommunications infrastructure by our potential customers.*

Any slow down in capital spending by telecommunication service providers may affect our future revenues more than we currently expect. Moreover, the significant slowdown in capital spending by telecommunication service providers has created uncertainty as to market demand for the type of products we produce. As a result, revenues and operating results for a particular period can be difficult to predict. In addition, there can be no certainty as to the severity or duration of the current industry adjustment. As a result of the recent changes in industry and market conditions, many of our potential customers have reduced their capital spending on telecommunications infrastructure. Our revenues and operating results are expected to continue to be affected by the continued reductions in capital spending on telecommunications infrastructure by our potential customers.

*The global financial crisis may have impacts on our business and financial condition that we currently cannot predict.*

The continued credit crisis and related turmoil in the global financial system, as well as the global economic recession, may have an impact on our business and our financial condition, and we may face challenges if conditions in the financial markets do not improve. The current economic situation could have a material adverse impact on our customers causing them to fail to meet their obligations to us. Additionally, the current economic worldwide situation could lead to further reduced demand for our products and services, which could have a material negative impact on our revenues, results of operations and financial conditions.

*Our Articles of Incorporation and Bylaws and Nevada law contain provisions that could delay or prevent a change of control and could limit the market price of our common stock.*

Our authorized capital stock consists of 100,000,000 shares of common stock and 1,000,000 shares of preferred stock. To date, 1 share of Series A preferred stock has been designated and is issued and outstanding and, 666,667 shares of Series B preferred stock have been designated, of which nil are issued and outstanding. Our board of directors, without any action by stockholders, is authorized to designate and issue shares of preferred stock in any class or series as it deems appropriate and to establish the rights, preferences and privileges of these shares, including dividends, liquidation and voting rights. The rights of holders of shares of preferred stock that may be issued may be superior to the rights granted to the holders of existing shares of our common stock. Further, the ability of our board of directors to designate and issue such undesignated shares could impede or deter an unsolicited tender offer or takeover proposal and the issuance of additional shares having preferential rights could adversely affect the voting power and other rights of holders of our common stock.

*Trading of our stock may be restricted by the SEC's penny stock regulations, which may limit a stockholder's ability to buy and sell our stock.*

The Securities and Exchange Commission has adopted regulations which generally define "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors". The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC, which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-

dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

*Financial Industry Regulatory Authority (FINRA) sales practice requirements may also limit a stockholder's ability to buy and sell our stock.*

In addition to the "penny stock" rules described above, the FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, the FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

*Our common stock is illiquid and the price of our common stock may be negatively impacted by factors which are unrelated to our operations.*

Our common stock currently trades on a limited basis on the OTC Bulletin Board and the Toronto Stock Exchange. The market price of our common stock could fluctuate substantially due to a variety of factors, including market perception of our ability to achieve our planned growth, quarterly operating results of other telecommunication companies, trading volume in our common stock, changes in general conditions in the economy and the financial markets or other developments affecting our competitors or us. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their operating performance and could have the same effect on our common stock.

## **Item 2. Properties.**

Our principal executive offices are located at 100 - 4190 Lougheed Highway, Burnaby, British Columbia, Canada, V5C 6A8. We lease the office facility, which is approximately 2,000 square feet in size, at a basic rate of \$20,888 (Cdn\$25,441) per year plus expenses. This lease expired on June 30, 2008 and we are continuing on a month to month basis.

We also lease an engineering facility located at 107 - 645 Fort Street, Victoria, British Columbia, Canada, V8W 1G2. The space is approximately 1,300 square feet in size, and is leased at a basic rate of \$14,427 (Cdn\$17,572) per year plus expenses. This lease expires on January 31, 2011.

We believe that our existing facilities are adequate for our needs through the end of the year ending December 31, 2009. Should we require additional space at that time, or prior thereto, we believe that such space can be secured on commercially reasonable terms.

## **Item 3. Legal Proceedings.**

To our knowledge, we are not a party to any material pending legal proceeding as at March 1, 2009. We anticipate that, from time to time, we periodically may become subject to legal proceedings in the ordinary course of our business.

**Item 4. Submissions of Matters to a Vote of Security Holders.**

There were no matters submitted to a vote of our security holders either through solicitation of proxies or otherwise in the fourth quarter of the fiscal year ended December 31, 2008.

**PART II**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock was listed and commenced trading on the OTC Bulletin Board on June 30, 1999 under the symbol “VMII” and on the Toronto Stock Exchange on July 16, 2001 under the symbol “VMY”. Since June 30, 1999, trading in our common stock has been limited and sporadic. The following table sets forth, for the periods indicated, the high and low sales prices for our common stock on the OTC Bulletin Board and the Toronto Stock Exchange:

OTC Bulletin Board <sup>(1)</sup>			Toronto Stock Exchange <sup>(2)</sup>		
Quarter Ended	High	Low	Quarter Ended	High (Cdn\$)	Low (Cdn\$)
December 31, 2008	\$0.18	\$0.03	December 31, 2008	\$0.21	\$0.05
September 30, 2008	\$0.25	\$0.17	September 30, 2008	\$0.25	\$0.18
June 30, 2008	\$0.36	\$0.17	June 30, 2008	\$0.33	\$0.18
March 31, 2008	\$0.42	\$0.23	March 31, 2008	\$0.41	\$0.22
December 31, 2007	\$0.45	\$0.20	December 31, 2007	\$0.43	\$0.19
September 30, 2007	\$0.29	\$0.18	September 30, 2007	\$0.30	\$0.19
June 30, 2007	\$0.39	\$0.21	June 30, 2007	\$0.44	\$0.23
March 31, 2007	\$0.41	\$0.30	March 31, 2007	\$0.49	\$0.30

(1) These prices were taken from Bloomberg L.P. Such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark down or commission and may not necessarily represent actual transactions.

(2) These prices were taken from Bloomberg L.P.

Our common shares are issued in registered form. Computershare Trust Company of Canada, 401 - 510 Burrard Street, Vancouver, British Columbia, Canada, V6C 3B9, (telephone: (604) 661-0271; facsimile (604) 685-3694) is the registrar and transfer agent for our common shares.

On March 1, 2009, the shareholders’ list for our common stock showed 124 registered stockholders and 56,842,571 shares issued and outstanding. The closing sale price for our common stock on March 1, 2009, as reported on the OTC Bulletin Board, was \$0.04.

*Dividend Policy*

During the years ended December 31, 2008 and 2007, we did not pay any cash dividends to any holders of our equity securities.

We have not paid any cash dividends on our common stock and have no present intention of paying any dividends on the shares of our common stock. Our current policy is to retain earnings, if any, for use in our operations and in the development of our business. Our future dividend policy will be determined from time to time by our board of directors.

*Recent sales of unregistered securities*

We did not sell or issue any securities during the year ended December 31, 2008 without the registration of the securities under the Securities Act of 1933 in reliance on exemptions from such registration requirements that have not otherwise been disclosed in a quarterly report on Form 10-Q or in a quarterly report on Form 8-K.

*Equity Compensation Plan Information*

We adopted our current stock option plan, entitled the Second Amended and Restated Stock Option Plan on April 25, 2001 and the plan was approved by our shareholders on June 14, 2001. The following table provides a summary of the number of options granted under our stock option plan, the weighted average exercise price and the number of options remaining available for issuance all as at December 31, 2008.

	Number of securities to be issued upon exercise of outstanding options	Weighted-Average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans <sup>(1)</sup>
Equity compensation plans approved by security holders	7,733,585	\$0.53	1,551,451
Equity compensation plans not approved by security holders	N/A	N/A	N/A
<b>Total</b>	<b>7,733,585</b>	<b>\$0.53</b>	<b>1,551,451</b>

(1) The maximum number of options issuable under our stock option plan is 12,000,000, less 9,948,549 options that have been granted and exercised under the plan and less 500,000 options, which the Toronto Stock Exchange required that we remove from the plan in connection with a transaction with Aliant Inc. in December 2001.

*Purchases of Equity Securities by the Issuer and Affiliated Purchasers*

We did not purchase any of our shares of common stock or other securities during the year ended December 31, 2008.

**Item 6. Selected Financial Data.**

Not Applicable.

**Item 7. Management's Discussions and Analysis of Financial Condition and Results of Operations.**

OVERVIEW

You should read the following discussion of our financial condition and results of operations together with the consolidated audited financial statements and the notes to the consolidated audited financial statements included elsewhere in this filing. This discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those anticipated in these forward-looking statements.

We are engaged in the development and sales and marketing of unified voice messaging software through our wholly-owned operating subsidiaries, Voice Mobility Inc. and Voice Mobility (US) Inc. Our enhanced messaging software suite allows for legacy voice-mail replacement and incremental offerings such as real time call connect, voice-mail to e-mail, and fax to e-mail services. These unified communication services are facilitated by the creation of a single personal digital mailbox that can receive any type of communication regardless of its incoming format or medium.

During the year ended December 31, 2008, we continued the shift of our sales model from a direct sales model to a channel partner model. A channel partner is a party who will purchase our product for resale to telecommunication companies. This fundamentally shifted the way our company was structured. Instead of selling and supporting the customer directly, we intend to utilize the channel partner to conduct the sales and support activities for our enhanced messaging software. This shift in our structure allows us to reduce expenses in the areas of support and training. This allowed us to stretch the funds we received through equity and debt financing to execute on our business plan.

### **Results of Operations for the fiscal years ended December 31, 2008 and December 31, 2007**

#### *Sales*

Sales for the fiscal year ended December 31, 2008 were \$469,793 compared to sales of \$245,206 for the fiscal year ended December 31, 2007, representing a 92% increase. Sales for the fiscal year ended December 31, 2008 were from support services, product license sales, hardware and software product sales and installation and training services. Sales to Avaya comprised 15% of revenue and sales to four customers comprised 65% of revenue for the fiscal year ended December 31, 2008. Sales for the fiscal year ended December 31, 2007 were from technical training and support services provided to Avaya, product license sales, hardware product sales and training services. Sales to Avaya comprised 88% of revenue and sales to three customers comprised 12% of revenue for the fiscal year ended December 31, 2007. For the fiscal years ended December 31, 2008 and 2007, we derived 100% of our sales from our Canadian operations.

We continue to shift our sales approach from direct sales to sales through channel partners. During the fiscal year ended December 31, 2008, our focus was to establish and develop a relationship with a channel partner that would provide us with opportunities for sales to Tier I telecommunication companies and small and medium size business enterprises.

#### *Cost of Sales*

Cost of sales were \$232,188 and \$24,807 for the fiscal years ended December 31, 2008 and 2007 respectively. Cost of sales for the fiscal year ended December 31, 2008 were related to hardware and software costs as well as costs incurred while providing support services. Cost of sales for the fiscal year ended December 31, 2007 were related to hardware and software costs as well as costs incurred while providing support services and training.

#### *Operating Expenses*

Total operating costs for the year ended December 31, 2008 were \$2,797,283 compared to \$2,785,095 for the previous year. The increase in total costs of \$12,188, was primarily attributable to decreases in stock-based compensation expenses of approximately \$191,000, professional fees of approximately \$134,000, development costs of approximately \$63,000 and change in gain on disposal of property and equipment of approximately \$58,000. There were corresponding increases in salaries of approximately \$122,000, travel expenses of approximately \$76,000, bad debts expense of approximately \$34,000, consulting fees of approximately \$29,000, tradeshow costs of approximately \$18,000, bank charges of approximately \$14,000, regulatory fees of approximately \$12,000, rent expenses of approximately \$9,000, telecommunication costs of approximately \$9,000, meals and entertainment expenses of approximately \$7,000, promotional expenses of approximately \$5,000, office expenses of approximately \$4,000, courier and freight costs of approximately \$4,000, dues and subscription expenses of approximately \$3,000 and insurance costs of approximately \$2,000.

#### *Sales and Marketing*

Our sales and marketing costs consist primarily of stock-based compensation, personnel, advertising, promotions, public relations and business development. Total costs were \$1,216,691 and \$715,564 for the fiscal years ended December 31, 2008 and December 31, 2007, respectively, representing an increase of \$501,127 or 70%. The increase was primarily attributable to an increase in salaries of approximately \$305,000, travel costs of

approximately \$98,000, consulting fees of approximately \$62,000, meals and entertainment of approximately \$18,000 and tradeshow costs of approximately \$18,000.

#### *Research and Development*

Our research and development costs consist primarily of development costs, stock-based compensation, personnel, data and voice transmission, and related facility costs. Our research and development costs were \$632,043 and \$898,721 for the fiscal years ended December 31, 2008 and 2007, respectively, representing a decrease of \$266,678 or 30%. The decrease was primarily due to a decrease in salaries of approximately \$148,000, development costs of approximately \$63,000 and stock-based compensation expenses of approximately \$57,000.

#### *General and Administrative*

Our general and administrative costs consist primarily of stock-based compensation, personnel costs, professional and legal costs, consulting fees, travel, and the lease of office space. General and administrative costs were \$948,549 and \$1,170,810 for the fiscal years ended December 31, 2008 and 2007, respectively, representing a decrease of \$222,261 or 19%. The decrease was primarily attributed to decreases in professional fees of approximately \$135,000, stock-based compensation expenses of approximately \$118,000, salaries of approximately \$34,000, consulting fees of approximately \$33,000 and travel costs of approximately \$20,000. There were corresponding increases in the change in gain on disposal of property and equipment of approximately \$58,000, bad debts of approximately \$34,000, bank charges of approximately \$14,000, regulatory fees of approximately \$12,000, rent expenses of approximately \$3,000 and insurance costs of approximately \$2,000.

#### *Interest Expense*

Our interest expense was \$880,302 and \$877,703 for the fiscal years ended December 31, 2008 and 2007 respectively. The interest expense for the fiscal year ended December 31, 2008 includes the amortization of the debt discount on the Series C and D notes of \$11,935 (Cdn\$12,645), the amortization of the 15% repayment premium of the Series D note of \$1,848 (Cdn\$1,961) issued in September 2003 and the amortization of the deferred charges relating to our debt restructuring transaction in September 2005 of \$198,185 (Cdn\$210,235). The interest expense for the fiscal year ended December 31, 2007 includes the amortization of the debt discount on the Series C and D notes of \$11,823 (Cdn\$12,645), the amortization of the 15% repayment premium of the Series D note of \$1,833 (Cdn\$1,961) issued in September 2003 and the amortization of the deferred charges relating to our debt restructuring transaction in September 2005 of \$196,568 (Cdn\$210,235). The remaining interest expense for the fiscal years ended December 31, 2008 and 2007 consist of the stated interest rate on the principal amount of the then outstanding notes.

#### *Unusual Gain*

Effective December 31, 2008, we entered into a settlement agreement with Aliant Telecom Inc. / Telecommunications Aliant Inc. whereby we paid \$9,880 (Cdn\$12,000) in cash to release any and all obligations related to a Promissory Note dated December 28, 2001 to Innovatia in the principal amount of Cdn\$2,720,142; the LivingLab Agreement dated February 27, 2001 and March 4, 2002 and Software License Agreements dated May 23, 2000, March 1, 2001 and June 14, 2002, including any amendment and addenda.

As a result of the settlement agreement we recorded an unusual gain of \$3,195,836. In addition to eliminating the promissory note payable, certain assets and liabilities related to the promissory note payable were also eliminated by the settlement agreement including deferred contract costs of \$81,631, accrued liabilities of \$57,223, accounts payable of \$83,730 and deferred revenue of \$318,685.

#### *Income Taxes*

At December 31, 2008, we had \$5,417,000 United States tax net operating losses that will expire in the years 2020 through to 2028. As at December 31, 2008, we had Canadian tax non-capital losses of approximately \$10,987,000 that will expire in the years 2009 through 2027. Pursuant to Section 382 of the Internal Revenue Code, use of our

net operating loss carry forwards may be limited if we experience a cumulative change in ownership of greater than 50% in a moving three year period. Ownership changes could impact our ability to utilize net operating losses and credit carry forwards remaining at the ownership change date. The limitation will be determined by the fair market value of common stock outstanding prior to the ownership change, multiplied by the applicable federal rate.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. For fiscal years ended December 31, 2008 and 2007 respectively, we recognized a valuation allowance equal to deferred tax assets for which realization is not more likely than not.

#### *Net Loss*

Our net loss was \$228,754 and \$3,357,597 for the fiscal years ended December 31, 2008 and 2007 respectively. The decrease in net loss of \$3,128,843, or 93%, was primarily attributable to an unusual gain on the settlement agreement with Aliant Telecom of approximately \$3,196,000. We also had decreases in stock-based compensation expenses of approximately \$191,000, professional fees of approximately \$134,000, interest income of approximately \$69,000, development costs of approximately \$63,000 and gain on disposal of property and equipment of approximately \$53,000. There were corresponding increases in salaries of approximately \$122,000, travel expenses of approximately \$76,000, bad debt expense of approximately \$34,000, consulting fees of approximately \$29,000, gross profits of approximately \$25,000, tradeshow costs of approximately \$18,000, bank charges of approximately \$14,000, regulatory fees of approximately \$12,000, rent expenses of approximately \$9,000, telecommunication costs of approximately \$9,000, meals and entertainment expenses of approximately \$7,000, promotional expenses of approximately \$5,000, office expenses of approximately \$4,000, courier and freight costs of approximately \$4,000, dues and subscription expenses of approximately \$3,000 and insurance costs of approximately \$2,000.

Since inception through December 31, 2008, we incurred aggregate net losses of \$50.2 million. The losses were primarily incurred as a result of our focus on the development and testing of our product and the marketing of our product. We have moved our focus from the development of our product and we are now in a position to focus on the sales of our product and we believe that we will continue to incur losses until we generate sufficient revenues to cover all of our operating expenses. Because we are uncertain as to the rate at which telecommunications companies will replace their legacy voicemail systems with technology like our enhanced messaging product, we cannot accurately predict when we will be able to generate revenues which will exceed our ongoing operating expenses.

#### **Results of Operations for the fiscal years ended December 31, 2007 and December 31, 2006**

##### *Sales*

Sales for the fiscal year ended December 31, 2007 were \$245,206 compared to sales of \$94,000 for the fiscal year ended December 31, 2006, representing a 161% increase. Sales for the fiscal year ended December 31, 2007 were from technical training and support services provided to Avaya, product license sales, hardware product sales and training services. Sales to Avaya comprised 88% of revenue and sales to three customers comprise 12% of revenue for the fiscal year ended December 31, 2007. Sales for the fiscal year ended December 31, 2006 were from technical training and support services provided to Avaya and T2MCI. Sales to these two customers comprised 100% of revenue for the fiscal year ended December 31, 2006. For the fiscal year ended December 31, 2007, we derived 100% of our sales from our Canadian operations (100% for the fiscal year ended December 31, 2006).

We continue to shift our sales approach from direct sales to sales through channel partners. During the fiscal year ended December 31, 2007, our focus was to establish and develop a relationship with a channel partner that would provide us with opportunities for sales to Tier I telecommunication companies and small and medium size business enterprises.

### *Cost of Sales*

Cost of sales were \$24,807 and \$26,195 for the fiscal years ended December 31, 2007 and 2006 respectively. Cost of sales for the fiscal year ended December 31, 2007 were related to hardware and software costs as well as costs incurred while providing support services and training. Cost of sales for the fiscal year ended December 31, 2006 was related to costs incurred while providing technical support and support services to Avaya and T2MCI.

### *Operating Expenses*

Total operating costs for the year ended December 31, 2007 were \$2,785,095 compared to \$2,593,748 for the previous year. The increase in total costs of \$191,347, or 7%, was primarily attributable to an increase in development costs of approximately \$104,000, consulting fees of approximately \$118,000, professional fees of approximately \$100,000, travel costs of approximately \$92,000, gain on disposal of property and equipment of approximately \$60,000, meals and entertainment expenses of approximately \$31,000, regulatory fees of approximately \$13,000 and tradeshow costs of approximately \$10,000. There were corresponding decreases in stock-based compensation expenses of approximately \$103,000, salaries of approximately \$95,000, investor relation expenses of approximately \$15,000 and amortization expenses of approximately \$14,000.

### *Sales and Marketing*

Our sales and marketing costs consist primarily of stock-based compensation, personnel, advertising, promotions, public relations and business development. Total costs were \$715,564 and \$364,590 for the fiscal years ended December 31, 2007 and December 31, 2006, respectively, representing an increase of \$350,974 or 96%. The increase was primarily attributable to an increase in consulting fees of approximately \$130,000, travel costs of \$89,000, salaries of approximately \$69,000, meals and entertainment costs of approximately \$28,000, tradeshow costs of approximately \$10,000 and stock-based compensation expenses of approximately \$5,000.

### *Research and Development*

Our research and development costs consist primarily of development costs, stock-based compensation, personnel, data and voice transmission, and related facility costs. Our research and development costs were \$898,721 and \$921,518 for the fiscal years ended December 31, 2007 and 2006, respectively, representing a decrease of \$22,797 or 2%. The decrease was primarily due to a decrease in salaries of approximately \$101,000, stock-based compensation expenses of approximately \$37,000. There was a corresponding increase in development costs of approximately \$104,000 and consulting fees of approximately \$9,000.

### *General and Administrative*

Our general and administrative costs consist primarily of stock-based compensation, personnel costs, professional and legal costs, consulting fees, travel, and the lease of office space. General and administrative costs were \$1,170,810 and \$1,307,640 for the fiscal years ended December 31, 2007 and 2006 respectively, representing a decrease of \$136,830 or 10%. The decrease was primarily attributed to decreases in stock-based compensation expenses of approximately \$70,000, salaries of approximately \$63,000, consulting fees of approximately \$21,000 and amortization expenses of approximately \$14,000. There were also increases in professional fees of approximately \$100,000 and gain on disposal of property and equipment of approximately \$60,000.

### *Interest Expense*

Our interest expense was \$877,703 and \$820,899 for the fiscal years ended December 31, 2007 and 2006 respectively. The interest expense for the fiscal year ended December 31, 2007 includes the amortization of the debt discount on the Series C and D notes of \$11,823 (Cdn\$12,645), the amortization of the 15% repayment premium of the Series D note of \$1,833 (Cdn\$1,961) issued in September 2003 and the amortization of the deferred charges relating to our debt restructuring transaction in September 2005 of \$196,568 (Cdn\$210,235). The interest expense for the fiscal year ended December 31, 2006 includes the amortization of the debt discount on the Series C and D notes of \$11,161 (Cdn\$12,645), the amortization of the 15% repayment premium of the Series D note of \$1,731

(Cdn\$1,961) issued in September 2003 and the amortization of the deferred charges relating to our debt restructuring transaction in September 2005 of \$185,561 (Cdn\$210,235). The remaining interest expense for the fiscal years ended December 31, 2007 and 2006 consist of the stated interest rate on the principal amount of the then outstanding notes.

#### *Income Taxes*

At December 31, 2007, we had \$5,592,000 United States tax net operating losses that will expire in the years 2019 through to 2027. As at December 31, 2007, we had Canadian tax non-capital losses of approximately \$22,704,000 that will expire in the years 2008 through 2027. Pursuant to Section 382 of the Internal Revenue Code, use of our net operating loss carry forwards may be limited if we experience a cumulative change in ownership of greater than 50% in a moving three year period. Ownership changes could impact our ability to utilize net operating losses and credit carry forwards remaining at the ownership change date. The limitation will be determined by the fair market value of common stock outstanding prior to the ownership change, multiplied by the applicable federal rate.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. For fiscal years ended December 31, 2007 and 2006 respectively, we recognized a valuation allowance equal to deferred tax assets for which realization is uncertain.

#### *Net Loss*

Our net loss was \$3,357,597 and \$3,304,275 for the fiscal years ended December 31, 2007 and 2006 respectively. The increase in net loss of \$53,322, or 2%, was primarily attributable to an increase in gross profits of approximately \$153,000, development costs of approximately \$104,000, consulting fees of approximately \$118,000, professional fees of approximately \$100,000, travel costs of approximately \$92,000, gain on disposal of property and equipment of approximately \$60,000, meals and entertainment expenses of approximately \$31,000, regulatory fees of approximately \$13,000 and tradeshow costs of approximately \$10,000. There were corresponding decreases in stock-based compensation expenses of approximately \$103,000, salaries of approximately \$95,000, investor relation expenses of approximately \$15,000 and amortization expenses of approximately \$14,000.

Since inception through December 31, 2007, we incurred aggregate net losses of \$50 million. The losses were primarily incurred as a result of our focus on the development and testing of our product and the marketing of our product. We have moved our focus from the development of our product and we are now in a position to focus on the sales of our product and we believe that we will continue to incur losses until we generate sufficient revenues to cover all of our operating expenses. Because we are uncertain as to the rate at which telecommunications companies will replace their legacy voicemail systems with technology like our enhanced messaging product, we cannot accurately predict when we will be able to generate revenues which will exceed our ongoing operating expenses.

#### **Liquidity and Capital Resources**

As of December 31, 2008, we had \$74,779 in cash and cash equivalents and net working capital deficiency of \$8,294,047 and as of December 31, 2007, we had \$1,606,488 in cash and cash equivalents and working capital of \$886,798.

Between the months of August to November 2008, we issued a series of demand promissory notes to shareholders with a maximum aggregate principal amount of \$1,087,800 (Cdn\$1,225,000). The demand promissory notes bears interest at prime plus 4% (prime rate at December 31, 2008 was 3.5%) and is repayable on demand. On September 24, 2008, the Company settled \$217,035 (Cdn\$225,000) of the demand promissory notes and paid the accrued interest of \$1,260 (Cdn\$1,313). As at December 31, 2008, the net principal amount outstanding was \$720,033 (Cdn\$877,000) and the Company had the capacity to draw an additional \$100,985 (Cdn\$123,000).

### *Operating Activities*

Our operating activities resulted in net cash outflows of \$2.3 million and \$2.1 million for the fiscal years ended December 31, 2008 and 2007 respectively. The operating cash outflows for these periods resulted from investments in research and development and sales and marketing, which led to operating losses in all periods.

### *Investing Activities*

Investing activities resulted in net cash inflows of \$3,267 for the fiscal year ended December 31, 2008. During the fiscal year ended 2008, we received proceeds of \$8,400 from the sale of property and equipment and spent \$5,133 on property and equipment purchased during the period. Investing activities resulted in net cash outflows of \$1,526 for the fiscal year ended December 31, 2007. During the fiscal year ended 2007, we received proceeds of \$21,000 from the sale of property and equipment and spent \$22,526 on property and equipment purchased during the period. The investing activities in fiscal 2008 and 2007 were limited due to our cash conservation plans. At December 31, 2008, we did not have any material commitments for future capital expenditures.

### *Financing Activities*

Financing activities resulted in net cash inflows of \$739,636 for the fiscal year ended December 31, 2008. During the fiscal year ended 2008, we received net proceeds of \$749,516 from the issuance of a series of demand promissory notes payable and we paid \$9,880 in cash in a settlement agreement with Aliant Telecom Inc.

Financing activities resulted in net cash inflows of \$104,507 for the fiscal year ended December 31, 2007 from the exercise of stock options

### *Debt Obligations*

As at December 31, 2008, we had \$8,355,644 in debt obligations and accrued interest with maturity dates as follows:

	Amount outstanding as at December 31, 2008	Maturity Date
Demand promissory note	\$724,152	On demand
Series C notes payable	5,176,846	December 31, 2009 (1)
Series D notes payable	617,605	December 31, 2009 (1)
Series E notes payable	744,114	December 31, 2009 (1)
Series F convertible note payable	167,639	December 31, 2009 (1)
Series G notes payable	446,814	December 31, 2009 (1)
Series H notes payable	478,474	December 31, 2009 (1)
	8,355,644	

(1) On September 19, 2005, we extended the maturity date of the Series C, D, E, F, G and H notes to December 31, 2009 and included a provision which provides for the scheduled repayment of these debts based upon a certain percentage of our earnings before interest, tax, depreciation and amortization. See note 7 to the consolidated financial statements included elsewhere in this filing.

### *Settlement Agreement - Innovatia Inc. Promissory Note Payable*

Effective December 31, 2008, our company entered into a settlement agreement with Aliant Telecom Inc. / Telecommunications Aliant Inc. whereby we paid \$9,880 (Cdn\$12,000) in cash to release any and all obligations related to a Promissory Note dated December 28, 2001 to Innovatia in the principal amount of Cdn\$2,720,142; the LivingLab Agreement dated February 27, 2001 and March 4, 2002 and Software License Agreements dated May 23, 2000, March 1, 2001 and June 14, 2002, including any amendment and addenda.

As a result of the settlement agreement, our company recorded an unusual gain of \$3,195,836. In addition to eliminating the promissory note payable, certain assets and liabilities related to the promissory note payable were also eliminated by the settlement agreement including deferred contract costs of \$81,631, accrued liabilities of \$57,223, accounts payable of \$83,730 and deferred revenue of \$318,685.

#### *Trends and Uncertainties*

Our ability to generate revenues in the future is dependent on when telecommunication companies will replace their legacy voicemail systems and implement new technology, like our enhanced messaging software. We cannot predict when telecommunication companies will adopt such technology and this causes some uncertainty with respect to the growth of and our ability to generate ongoing revenues.

The continued downturn in the telecommunications industry is causing some telecommunications companies to delay making any capital expenditures in connection with replacing their legacy voicemail systems. If telecommunication companies delay their capital expenditures, then the generation of our revenues could also be delayed.

#### *Future Operations*

Presently, our revenues are not sufficient to meet operating and capital expenses and we have incurred operating losses since inception, which are likely to continue for the foreseeable future. We anticipate that we will have negative cash flows during the year ended December 31, 2009. Management projects that we may require an additional \$2.5 million to fund our ongoing operating expenses and working capital requirements for the next twelve months. However, if conditions change outside of management's expectations, we will need to raise additional capital. We intend to raise the capital required to satisfy our needs primarily through the sale of our equity securities or debt.

We currently anticipate that we will generate revenues in the long-term as we increase our sales and marketing activities and gain acceptance of our software from Tier 1 telecommunications companies and small and medium sized business enterprises. We have implemented cost reductions and expect to keep our operating costs to a minimum until cash is available through financing or operating activities. Based on current projections, we anticipate revenues from telecommunications providers in 2009 generated through the replacement of legacy voicemail systems or new deployments by such providers.

Due to the uncertainty of our ability to meet our current operating and capital expenses, in their report on the annual consolidated financial statements for the year ended December 31, 2008, our independent registered public accounting firm included an explanatory paragraph regarding concerns about our ability to continue as a going concern in their audit report.

There is substantial doubt about our ability to continue as a going concern as the continuation of our business is dependent upon obtaining further financing, successful and sufficient market acceptance of our current products and any new products that we may introduce, the continuing successful development of our products and related technologies, and, finally, achieving a profitable level of operations. The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

There are no assurances that we will be able to obtain further funds required for our continued operations. We are pursuing various financing alternatives to meet our immediate and long-term financial requirements. There can be no assurance that additional financing will be available to us when needed or, if available, that it can be obtained on commercially reasonable terms. If we are not able to obtain the additional financing on a timely basis, we will be forced to scale down or perhaps even cease the operation of our business.

### *Off-Balance Sheet Arrangements*

As of December 31, 2008, we did not have any off-balance sheet arrangements, including any outstanding derivative financial instruments, off-balance sheet guarantees, interest rate swap transactions or foreign currency contracts. Our Company does not engage in trading activities involving non-exchange traded contracts.

### APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements and accompanying notes are prepared in accordance with United States generally accepted accounting principles. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. We believe that understanding the basis and nature of the estimates and assumptions involved with the following aspects of our consolidated financial statements is critical to an understanding of our operating results and financial position.

#### *Revenue Recognition*

Revenues are derived from sales of software licenses, hardware and maintenance and training services. We sell software licenses with maintenance and training services, hardware on a stand-alone basis and bundled arrangements including software, hardware and maintenance and training services. We generally license our software to customers for an indefinite period of time.

We recognize revenue in accordance with Statement of Position SOP 97-2 "Software Revenue Recognition" and Staff Accounting Bulletin 104 "Revenue Recognition".

SOP 97-2 requires that the total arrangement fee from software arrangements that include rights to multiple software products, post contract customer support and/or other services be allocated to each element of the arrangement based on their relative fair values. Under SOP 97-2, the determination of fair value is based on vendor specific objective evidence.

Software revenue is recognized under SOP 97-2 when persuasive evidence of an arrangement exists, when all elements essential to the functionality of the software including installation and training are delivered in accordance with the terms and conditions of the customer contracts, when the fee is fixed or determinable, and when collection is reasonably assured. Fees are considered fixed or determinable if the contracts are similar to others for which we have a standard business practice and a history of successful collection under the original payment terms.

For software arrangements involving multiple elements, we allocate revenue to each element based on vendor specific objective evidence of relative fair values, which are derived by allocating a value to each element that is based upon the prices charged when the element is sold separately. If vendor specific objective evidence does not exist, the revenue is recognized upon delivery of all elements. Our product and services are generally sold as part of a contract involving software, hardware, maintenance and training. Vendor specific objective evidence is used to determine the relative fair values of these various elements in each of the contracts.

Revenue for hardware sold separately is recognized under Staff Accounting Bulletin 104. Hardware revenue, net of trade discounts is recognized upon shipment or when all elements essential to functionality are complete and when all significant contractual obligations have been satisfied and collection is reasonably assured. When contracts contain specific contingencies, we defer revenue recognition until such time as the contingencies are resolved.

Revenues from consulting and maintenance are recognized rateably over the term of the arrangement, generally one year, and revenues from training are generally recognized as the services are performed.

From time to time we enter into multiple contracts with a single customer or group of related parties. We reference AICPA Technical Practice Aid 5100.39, Software Revenue Recognition for Multiple-Element Arrangements when making our assessment if multiple agreements or contracts with a customer should be considered separate arrangements or one multiple-element arrangement.

### *Software Development Costs*

Costs incurred internally to develop computer software products and the costs to acquire externally developed software products (which have no alternative future use) to be sold, leased or otherwise marketed are charged to expense until the technological feasibility of the product has been established. After technological feasibility is established and until the product is available for general release, software development, product enhancements and acquisition costs will be capitalized and amortized on a product-by-product basis, pursuant to SFAS No. 86, computer software to be sold, leased or otherwise marketed.

### *Stock-Based Compensation*

On January 1, 2006, we began accounting for stock options under the provisions of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("FAS 123(R)"), which requires the recognition of the fair value of stock-based compensation. Under the fair value recognition provisions for FAS 123(R), stock-based compensation cost is estimated at the grant date based on the fair value of the awards expected to vest and recognized as expense ratably over the requisite service period of the award. We have used the Black-Scholes valuation model to estimate fair value of our stock-based awards which requires various judgmental assumptions including estimating stock price volatility and expected life. Our computation of expected volatility is based on a combination of historical and market-based implied volatility. In addition, we consider many factors when estimating expected life, including types of awards and historical experience. If any of the assumptions used in the Black-Scholes valuation model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

### *Income Tax*

In accordance with SFAS No. 109, Accounting for Income Taxes, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be settled. We record a valuation allowance to reduce deferred tax assets to the amount believed more likely than not to be realized.

On January 1, 2007, we began accounting for income tax under the provisions of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Financial Accounting Standards Board Statement 109, "Accounting for Income Taxes", and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We and our subsidiaries are subject to U.S. federal income tax, Canadian income tax, as well as income tax of multiple state and local jurisdictions. Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements. Our evaluation was performed for the tax years ended December 31, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007 and 2008, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2008. We may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to our financial results. In the event we receive an assessment for interest and/or penalties, it has been classified in the financial statements as selling, general and administrative expense.

### *Fair Value Measurements*

During the first quarter of 2008, we adopted Statement of Financial Accounting Standard 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the Financial Accounting Standards Board having previously concluded in those accounting pronouncements that fair value is the

relevant measurement attribute. Accordingly, this SFAS 157 does not require any new fair value measurements. In February 2008, the Financial Accounting Standards Board delayed for one year the effective date of adoption with respect to certain non-financial assets and liabilities. The adoption of this standard does not have a material impact on our consolidated results of operations, cash flows or financial position.

During the first quarter of 2008, we adopted Statement of Financial Accounting Standard No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115” (“SFAS 159”) which permits entities to choose to measure many financial instruments and certain other items at fair value. The adoption of this standard does not have a material impact on our consolidated results of operations, cash flows or financial position.

## RECENT ACCOUNTING PRONOUNCEMENTS

In May, 2008, the FASB issued FAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. This Statement is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. Our company does not expect that this Statement will result in a change in current practice.

In March 2008, the FASB issued FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities , an amendment of FAS No. 133. FAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance and cash flows. Entities are required to provide enhanced disclosures about: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under FAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. FAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, which, for our company, would be the fiscal year beginning January 1, 2009. Our company is currently assessing the impact of FAS No. 161 on its financial position and results of operations.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets (“FSP FAS 142-3”). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (“SFAS 142”). The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other applicable accounting literature. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, which for our company, would be the fiscal year beginning January 1, 2009. Our company is currently assessing the impact of FSP FAS 142-3 on its financial position and results of operations.

In December 2007, the FASB issued FAS No. 141 (revised 2007), Business Combinations (“141R”). FAS No. 141R significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under FAS No. 141R, changes in an acquired entity’s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. This standard will change accounting treatment for business combinations on a prospective basis. FAS No. 141R is effective for fiscal years beginning after December 15, 2008, which, for our company, would be the fiscal year beginning January 1, 2009. Our company is currently assessing the impact of FAS No. 141R on its financial position and results of operations.

On January 1, 2008, our company began accounting for noncontrolling interests in consolidated financial statements under the provisions of Financial Accounting Standard No. 160, “Noncontrolling Interests in Consolidated Financial Statement – an amendment of ARB No. 51” (“SFAS160”). SFAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity

that should be reported as equity in the consolidated financial statements. SFAS 160 requires consolidated net income to be reported at the amounts that include the amounts attributable to both the parent and the noncontrolling interest. This statement also establishes a method of accounting for changes in a parent's ownership interest in a subsidiary that does result in deconsolidation. SFAS 160 is effective for fiscal years, and interim periods within 2008 and 2007, presentation and disclosure of SFAS 160 shall be applied retrospectively for all periods presented. The adoption of this standard does not have a material impact on our consolidated results of operations, cashflows or financial position until adoption.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

**Item 8. Financial Statements.**

*Financial Statements filed as part of this Annual Report on Form 10-K*

Our financial statements are stated in United States dollars (US\$) and are prepared in accordance with United States generally accepted accounting principles.

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets at December 31, 2008 and 2007.

Consolidated Statements of Operations for the years ended December 31, 2008 and 2007.

Consolidated Statements of Stockholders' Deficiency for the years ended December 31, 2008 and 2007.

Consolidated Statements of Cash Flows for the years ended December 31, 2008 and 2007.

Notes to the Consolidated Financial Statements.

Consolidated Financial Statements

**Voice Mobility International, Inc.**

December 31, 2008 and 2007

**REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
**Voice Mobility International, Inc.**

We have audited the accompanying consolidated balance sheets of **Voice Mobility International, Inc.** as of December 31, 2008 and 2007 and the related consolidated statements of operations, stockholders' deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position and stockholders' deficiency of Voice Mobility International, Inc. at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company's recurring net losses and stockholders' deficiency raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Vancouver, Canada,  
March 20, 2009

/s/ Ernst & Young LLP  
Chartered Accountants

**Voice Mobility International, Inc.**

**CONSOLIDATED BALANCE SHEETS**

[See Note 1 - Basis of Presentation]

As at December 31

(expressed in U.S. dollars)

	2008	2007
	\$	\$
<b>ASSETS [note 7]</b>		
Current		
Cash and cash equivalents	74,779	1,606,448
Accounts receivable [net of allowance for doubtful debts: 2008 – \$33,700; 2007 – nil] [note 3]	215,480	100,702
Other receivables	14,019	14,318
Prepaid expenses	26,113	65,451
Inventory	64,780	1,828
Total current assets	395,171	1,788,747
Deferred contract costs [note 8]	-	81,631
Deferred finance costs [note 7]	174,216	428,117
Property and equipment, net [note 5]	14,462	34,391
Total assets	583,849	2,332,886
<b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>		
Current		
Accounts payable [note 8]	214,777	203,134
Accrued liabilities [note 8]	67,345	161,150
Employee related payables	51,452	72,971
Demand promissory notes [note 6]	724,152	-
Notes payable [note 7]	7,631,492	
Current portion of promissory note payable [note 8]	-	464,694
Total current liabilities	8,689,218	901,949
Deferred revenue [note 8]	-	391,565
Notes payable [note 7]	-	8,818,749
Promissory note payable [note 8]	-	2,851,252
Total liabilities	8,689,218	12,963,515
Commitments and contingencies [note 12]		
Stockholders' deficiency [note 10]		
Common stock, \$0.001 par value, authorized 100,000,000 56,842,571 outstanding [2007 – 56,842,571]	56,843	56,843
Preferred stock, \$0.001 par value, authorized 1,000,000 Series A Preferred stock, 1 outstanding	1	1
Additional paid-in capital	42,505,826	42,151,402
Accumulated deficit	(50,168,649)	(49,939,895)
Other accumulated comprehensive loss	(499,390)	(2,898,980)
Total stockholders' deficiency	(8,105,369)	(10,630,629)
Total liabilities and stockholders' deficiency	583,849	2,332,886

See accompanying notes

**Voice Mobility International, Inc.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

Year ended December 31

(expressed in U.S. dollars)

	2008	2007
	\$	\$
Sales [note 4]	<b>469,793</b>	245,206
Cost of sales	<b>232,188</b>	24,807
Gross profit	<b>237,605</b>	220,399
Operating expenses [note 10[c]]		
Sales and marketing	<b>1,216,691</b>	715,564
Research and development	<b>632,043</b>	898,721
General and administrative	<b>948,549</b>	1,170,810
	<b>2,797,283</b>	2,785,095
Loss from operations	<b>2,559,678</b>	2,564,696
Interest income	<b>(15,390)</b>	(84,802)
Interest expense	<b>880,302</b>	877,703
Loss before unusual items	<b>3,424,590</b>	3,357,597
Gain on settlement agreement [note 8]	<b>(3,195,836)</b>	-
Net loss for the year	<b>228,754</b>	3,357,597
Basic and diluted loss per share [note 9]	<b>(0.00)</b>	(0.06)

*See accompanying notes*

**Voice Mobility International, Inc.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY**

Year ended December 31

(expressed in U.S. dollars)

	Common Stock		Series A Preferred Stock		Additional Paid-in Capital	Accumulated Deficit	Other Accumulated Comprehensive	
	Number of Shares	Amount	Number of Shares	Amount			Loss	Total
	#	\$	#	\$				
Balance, December 31, 2005	48,368,134	48,368	1	1	38,012,541	(43,278,023)	(1,572,637)	(6,789,750)
Common stock issued pursuant to private placement, net of share issue costs of \$124,530	6,931,000	6,931	-	-	2,832,287	-	-	2,839,218
Common stock issued pursuant to exercise of stock options	40,000	40	-	-	9,867	-	-	9,907
Common stock issued on exchange of exchangeable shares	400,000	400	-	-	(400)	-	-	-
Stock based compensation	-	-	-	-	648,350	-	-	648,350
Components of comprehensive loss:								
Net loss	-	-	-	-	-	(3,304,275)	-	(3,304,275)
Foreign currency translation loss	-	-	-	-	-	-	68,565	68,565
Total comprehensive loss								(3,235,710)
Balance, December 31, 2006	55,739,134	55,739	1	1	41,502,645	(46,582,298)	(1,504,072)	(6,527,985)
Common stock issued on exchange of exchangeable shares	512,500	513	-	-	(513)	-	-	-
Common stock issued pursuant to exercise of stock options	590,937	591	-	-	103,916	-	-	104,507
Stock based compensation	-	-	-	-	545,354	-	-	545,354
Components of comprehensive loss:								
Net loss	-	-	-	-	-	(3,357,597)	-	(3,357,597)
Foreign currency translation loss	-	-	-	-	-	-	(1,394,908)	(1,394,908)
Total comprehensive loss								(4,752,505)
Balance, December 31, 2007	56,842,571	56,843	1	1	42,151,402	(49,939,895)	(2,898,980)	(10,630,629)
Stock based compensation	-	-	-	-	354,424	-	-	354,424
Components of comprehensive income / (loss):								
Net loss	-	-	-	-	-	(228,754)	-	(228,754)
Foreign currency translation gain	-	-	-	-	-	-	2,399,590	2,399,590
Total comprehensive income / (loss)								2,170,836
Balance, December 31, 2008	56,842,571	56,843	1	1	42,505,826	(50,168,649)	(499,390)	(8,105,369)

See accompanying notes

**Voice Mobility International, Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Year ended December 31

(expressed in U.S. dollars)

	2008	2007
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	<b>(228,754)</b>	(3,357,597)
Non-cash items included in net loss		
Amortization of property and equipment	<b>21,049</b>	20,088
Amortization of deferred finance costs	<b>200,033</b>	198,402
Non-cash interest expense	<b>11,935</b>	11,823
Stock based compensation	<b>354,424</b>	545,354
Gain on disposal of property and equipment	<b>(8,400)</b>	(66,404)
Gain on settlement agreement [note 8]	<b>(3,195,836)</b>	-
Net change in operating assets and liabilities [note 13]	<b>592,792</b>	582,958
Cash used in operating activities	<b>(2,252,757)</b>	(2,065,376)
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<b>(5,133)</b>	(22,526)
Proceeds on sale of property and equipment	<b>8,400</b>	21,000
Cash provided by (used in) investing activities	<b>3,267</b>	(1,526)
<b>FINANCING ACTIVITIES</b>		
Proceeds on demand promissory notes payable	<b>966,551</b>	-
Repayment of demand promissory notes payable	<b>(217,035)</b>	-
Cash paid on settlement agreement [note 8]	<b>(9,880)</b>	-
Proceeds on exercise of stock options	-	104,507
Cash provided by financing activities	<b>739,636</b>	104,507
Effect of change in foreign exchange rate on cash and cash equivalents	<b>(21,815)</b>	408,367
Decrease in cash and cash equivalents	<b>(1,531,669)</b>	(1,554,028)
Cash and cash equivalents, beginning of year	<b>1,606,448</b>	3,160,476
Cash and cash equivalents, end of year	<b>74,779</b>	1,606,448

Supplemental Cash Flow Information:

Interest paid in the year

**6,943**

-

*See accompanying notes*

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**1. NATURE OF BUSINESS AND BASIS OF PRESENTATION**

**Nature of business**

Voice Mobility International, Inc., (the “Company”) is a Nevada corporation engaged in the development and sales and marketing of enhanced messaging software systems through its wholly owned operating subsidiaries, Voice Mobility Inc. and Voice Mobility (US) Inc. The Company’s enhanced messaging software suite will allow for legacy voice-mail replacement and incremental offerings such as real time call connect, voice-mail to e-mail, and fax to e-mail services. These unified communication services are facilitated by the creation of a single personal digital mailbox that can receive any type of communication regardless of its incoming format or medium. The Company’s principal geographic market is North America.

**Basis of presentation**

The financial statements have been prepared by management in accordance with United States generally accepted accounting principles on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

The Company incurred a net loss of \$228,754 for the year ended December 31, 2008 [2007 - \$3,357,597] and has a total shareholders’ deficiency of \$8,105,369 [2007 - \$10,630,629] and working capital deficiency of \$8,294,047 that raises substantial doubt about its ability to continue as a going concern. Management has been able, thus far, to finance the operations through a series of equity and debt financings. In fiscal 2008, the Company received gross proceeds of \$966,551 (Cdn\$1,102,000) in connection with the issuance of debt financing. In fiscal 2007, the Company received gross proceeds of \$104,507 in connection with the exercise of outstanding options. Management plans to continue to seek other sources of financing on favorable terms; however, there are no assurances that any such financing can be obtained on favorable terms, if at all. Management believes it has implemented significant cost reductions and expects to keep its operating costs to a minimum until cash is available through financing or operating activities. There are no assurances that the Company will be successful in achieving these goals.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**1. NATURE OF BUSINESS AND BASIS OF PRESENTATION (cont'd.)**

In view of these conditions, the ability of the Company to continue as a going concern is in substantial doubt and dependent upon achieving a profitable level of operations and on the ability of the Company to obtain necessary financing to fund ongoing operations. Management believes that its current plans enable it to continue as a going concern. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements:

**Principles of consolidation**

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Voice Mobility Inc., Voice Mobility (US), Inc., Voice Mobility Canada Limited, an inactive company and VM Sub Limited, also an inactive company. All intercompany balances and transactions have been eliminated on consolidation.

**Use of estimates**

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

**Revenue recognition**

Revenues are derived from sales of software licenses, hardware, maintenance, training services and language localization services. The Company has sold software licenses with maintenance and training services, hardware on a stand-alone basis and bundled arrangements including software, hardware and maintenance and training services. The Company generally licenses software to customers for an indefinite period of time.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)**

The Company recognizes revenue in accordance with Statement of Position SOP 97-2, "Software Revenue Recognition" ("SOP 97-2") and Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104").

SOP 97-2 requires that the total arrangement fee from software arrangements that include rights to multiple software products, post contract customer support and/or other services be allocated to each element of the arrangement based on their relative fair values. Under SOP 97-2, the determination of fair value is based on vendor specific objective evidence.

Software revenue is recognized under SOP 97-2 when persuasive evidence of an arrangement exists, when all elements essential to the functionality of the software including installation and training are delivered in accordance with the terms and conditions of the customer contract, when the fee is fixed or determinable, and when collection is reasonably assured. Fees are considered fixed or determinable if the contracts are similar to others for which the Company has a standard business practice and a history of successful collection under the original payment terms.

For software arrangements involving multiple elements, the Company allocates revenue to each element based on vendor specific objective evidence of relative fair values, which are derived by allocating a value to each element that is based upon the prices charged when the element is sold separately. If vendor specific objective evidence does not exist, the revenue is recognized upon delivery of all elements. The Company's product and services are generally sold as part of a contract involving software, hardware, maintenance and training. Vendor specific objective evidence is used to determine the relative fair values of these various elements in each of the contracts.

Revenue for hardware sold separately is recognized under SAB 104. Hardware revenue, net of trade discounts is recognized upon shipment or when all elements essential to functionality are complete and when all significant contractual obligations have been satisfied and collection is reasonably assured. When contracts contain specific contingencies, the Company defers revenue recognition until such time as the contingencies are resolved.

Revenues from consulting and maintenance are recognized ratably over the term of the arrangement, generally one year, and revenues from training are generally recognized as the services are performed.

From time to time the Company enters into multiple contracts with a single customer or group of customers. The Company references AICPA Technical Practice Aid 5100.39, Software Revenue Recognition for Multiple-Element Arrangements when making their assessment if multiple agreements or contracts with a customer should be considered separate arrangements or one multiple-element arrangement.

**Foreign currency**

These consolidated financial statements have been presented in United States dollars. The functional currency of the Company is the Canadian dollar. The functional currency of the Company's Canadian subsidiary is the Canadian dollar. Accordingly, all assets and liabilities of the Canadian subsidiary which are denominated in Canadian dollars are translated at the year-end exchange rate and revenues and expenses are translated using a weighted average exchange rate for the applicable period. Any resulting exchange gains and losses are presented as cumulative foreign currency translation gains (losses) within other accumulated comprehensive loss.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)**

Transactions denominated in foreign currencies are translated at the exchange rate in effect on the respective transaction dates and gains and losses are reflected in the consolidated statements of operations.

**Financial instruments**

The Company's financial instruments consists of cash and cash equivalents, accounts receivable, other receivables, accounts payable, employee related payables, notes payable, and promissory notes payable. Unless otherwise stated the fair value of the financial instruments approximates their carrying value. The Company has not entered into any derivative contracts.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash and short term deposits with original maturities of ninety days or less and are recorded at amortized cost.

**Inventory**

Inventory is valued at the lower of cost, determined on a first in first out basis, and net realizable value. Inventory consists of computer hardware and software acquired from suppliers to be resold to the Company's customers.

**Property and equipment**

Property and equipment are recorded at cost. Amortization is provided using the straight-line method over the assets estimated useful lives as follows:

Computer equipment	3 years
Computer software	2 years
Office equipment and furniture	5 years
Leasehold improvements	Term of the lease

**Software development costs**

Costs incurred internally to develop computer software products and the costs to acquire externally developed software products (which have no alternative future use) to be sold, leased or otherwise marketed are charged to expense until the technological feasibility of the product has been established. After technological feasibility is established and until the product is available for general release, software development, product enhancements and acquisition costs are capitalized and amortized on a product-by-product basis, pursuant to SFAS No. 86, computer software to be sold, leased or otherwise marketed.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)**

**Stock-based compensation**

On January 1, 2006, the Company began accounting for stock options under the provisions of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("FAS 123(R)"), which requires the recognition of the fair value of stock-based compensation. Under the fair value recognition provisions for FAS 123(R), stock-based compensation cost is estimated at the grant date based on the fair value of the awards expected to vest and is recognized as expense ratably over the requisite service period of the award. The Company has used the Black-Scholes valuation model to estimate the fair value of its stock-based awards which requires various judgmental assumptions including estimating stock price volatility, expected life and forfeiture rates. The Company's computation of expected volatility is based on a combination of historical and market-based implied volatility. In addition, the Company considers many factors when estimating expected life, including types of awards and historical experience. If any of the assumptions used in the Black-Scholes valuation model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

**Income taxes**

In accordance with SFAS No. 109, Accounting for Income Taxes, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be settled. The Company records a valuation allowance to reduce deferred tax assets to the amount believed more likely than not to be realized.

On January 1, 2007, the Company began accounting for income taxes under the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109, "Accounting for Income Taxes", and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company and its subsidiaries are subject to U.S. federal income tax, Canadian income tax, as well as income tax of multiple state and local jurisdictions in the U.S.A. Based on the Company's evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements. The Company's evaluation was performed for the tax years ended December 31, 2000, 2001, 2002, 2003, 2004, 2005, 2006 and 2007, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2008. The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to the Company's financial results. In the event the Company has received an assessment for interest and/or penalties, it has been classified in the financial statements as selling, general and administrative expense.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)**

**Fair Value Measurements**

During the first quarter of 2008, the Company adopted Statement of Financial Accounting Standard 157, Fair Value Measurements (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the Financial Accounting Standards Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this SFAS 157 does not require any new fair value measurements. In February 2008, the Financial Accounting Standards Board delayed for one year the effective date of adoption with respect to certain non-financial assets and liabilities. The adoption of this standard does not have a material impact on the Company’s consolidated results of operations, cash flows or financial position.

During the first quarter of 2008, the Company adopted Statement of Financial Accounting Standard No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115” (“SFAS 159”) which permits entities to choose to measure many financial instruments and certain other items at fair value. The adoption of this standard does not have a material impact on the Company’s consolidated results of operations, cash flows or financial position.

**Loss per share**

Basic loss per share is computed by dividing loss available to common stockholders by the weighted average number of common stock and exchangeable shares outstanding for the period. Diluted loss per share reflects the dilutive potential of outstanding securities using the treasury stock method.

**Comprehensive loss**

Comprehensive loss consists of two components, net loss and other comprehensive loss. Other comprehensive loss refers to revenue, expenses, gains and losses that under U.S. GAAP are recorded as an element of shareholders’ deficit but are excluded from net loss. The Company’s other comprehensive loss consists of foreign currency translation adjustments.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)**

**Recent Accounting Pronouncements**

In May, 2008, the FASB issued FAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company does not expect that this Statement will result in a change in current practice.

In March 2008, the FASB issued FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities , an amendment of FAS No. 133. FAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. Entities are required to provide enhanced disclosures about: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under FAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. FAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, which, for the Company, would be the fiscal year beginning January 1, 2009. The Company is currently assessing the impact of FAS No. 161 on its financial position and results of operations.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other applicable accounting literature. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, which for the Company, would be the fiscal year beginning January 1, 2009. The Company is currently assessing the impact of FSP FAS 142-3 on its financial position and results of operations.

In December 2007, the FASB issued FAS No. 141 (revised 2007), Business Combinations ("141R"). FAS No. 141R significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under FAS No. 141R, changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. This standard will change accounting treatment for business combinations on a prospective basis. FAS No. 141R is effective for fiscal years beginning after December 15, 2008, which, for the Company, would be the fiscal year beginning January 1, 2009. The Company is currently assessing the impact of FAS No. 141R on its financial position and results of operations.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)**

On January 1, 2008, the Company began accounting for noncontrolling interests in consolidated financial statements under the provisions of Financial Accounting Standard No. 160, "Noncontrolling Interests in Consolidated Financial Statement – an amendment of ARB No. 51" ("SFAS160"). SFAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 requires consolidated net income to be reported at the amounts that include the amounts attributable to both the parent and the noncontrolling interest. This statement also establishes a method of accounting for changes in a parent's ownership interest in a subsidiary that does result in deconsolidation. SFAS 160 is effective for fiscal years, and interim periods within 2008 and 2007, presentation and disclosure of SFAS 160 shall be applied retrospectively for all periods presented. The adoption of this standard does not have a material impact on its consolidated results of operations, cashflows or financial position until adoption.

**3. CONCENTRATION OF CREDIT RISK**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents, accounts receivable and the other receivables. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses which, when realized, have been within the range of management's expectations. At December 31, 2008 an allowance for doubtful accounts totalled \$33,700 (2007 – nil).

Amounts owing from three customers comprised 92% of the gross accounts receivable balance at December 31, 2008. Amounts owing from four customers comprised 100% of the gross accounts receivable balance at December 31, 2007.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**4. SEGMENTED INFORMATION AND ECONOMIC DEPENDENCE**

The Company operates in one major line of business, the development, sales and marketing of enhanced messaging software systems.

Revenue from external customers, by location of customer, is as follows:

	Canada	US	Total
2008	<b>35,400</b>	<b>434,393</b>	<b>469,793</b>
2007	<b>-</b>	<b>245,206</b>	<b>245,206</b>

Sales from technical training and support services to one customer comprised 15% of revenue and revenue from four other customers comprise 65% of revenue in 2008. Sales from technical training and support services to one customer comprised 88% of revenue and revenue from three other customers comprise 12% of revenue in 2007.

The Company has substantially all its assets in Canada and its current and planned future operations are, and will be, located in Canada.

**5. PROPERTY AND EQUIPMENT**

	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
2008			
Computer equipment	<b>1,907,660</b>	<b>1,896,680</b>	<b>10,980</b>
Computer software	<b>551,773</b>	<b>550,814</b>	<b>959</b>
Office equipment and furniture	<b>123,391</b>	<b>120,868</b>	<b>2,523</b>
Leasehold improvements	<b>30,279</b>	<b>30,279</b>	<b>-</b>
	<b>2,613,103</b>	<b>2,598,641</b>	<b>14,462</b>
2007			
Computer equipment	2,393,244	2,376,930	16,314
Computer software	677,114	670,330	6,784
Office equipment and furniture	151,609	146,277	5,332
Leasehold improvements	37,204	31,243	5,961
	3,259,171	3,224,780	34,391

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**6. DEMAND PROMISSORY NOTES**

	2008		2007	
	US\$	Cdn\$	US\$	Cdn\$
Principal	<b>720,033</b>	<b>877,000</b>	-	-
Accrued interest	<b>4,119</b>	<b>5,017</b>	-	-
	<b>724,152</b>	<b>882,017</b>	-	-

Between the months of August to November 2008, the Company issued a series of demand promissory notes to shareholders with a maximum aggregate principal amount of \$1,087,800 (Cdn\$1,225,000). The demand promissory notes bear interest at prime plus 4% per annum (prime rate at December 31, 2008 was 3.5%) and are repayable on demand. On September 24, 2008, the Company repaid \$217,035 (Cdn\$225,000) of the demand promissory notes and paid the accrued interest of \$1,260 (Cdn\$1,313). As at December 31, 2008, the net principal amount outstanding was \$720,033 (Cdn\$877,000) and the Company had the capacity to draw an additional \$100,985 (Cdn\$123,000).

**7. NOTES PAYABLE**

	2008		2007	
	US\$	Cdn\$	US\$	Cdn\$
Series C notes payable	<b>5,176,846</b>	<b>6,305,399</b>	5,975,756	5,923,767
Series D notes payable	<b>617,605</b>	<b>752,242</b>	715,323	709,100
Series E notes payable	<b>744,114</b>	<b>906,330</b>	865,730	858,198
Series F convertible note payable	<b>167,639</b>	<b>204,184</b>	193,832	192,145
Series G notes payable	<b>446,814</b>	<b>544,220</b>	516,627	512,132
Series H notes payable	<b>478,474</b>	<b>582,782</b>	551,481	546,683
	<b>7,631,492</b>	<b>9,295,157</b>	8,818,749	8,742,025

The outstanding Series C, D, E, F, G and H notes payable bear interest at 8% per annum and are due on December 31, 2009. All scheduled principal repayments and interest payments are based upon tiered percentages of the Company's earnings before interest, tax, depreciation and amortization, calculated and repayable quarterly. The immediate repayment of all amounts due is required upon the occurrence of a qualified triggering event such as a change of control, merger, amalgamation, acquisition or liquidation.

The Series F note is convertible at the option of the holder at any time before December 31, 2009 into units at a price of \$0.94 (Cdn\$1.15) per unit. Each unit will consist of one common share and one non-transferable common share purchase warrant. Each warrant entitles the holder, upon giving 61 days notice to the Company, to purchase one common share of the Company at a price of \$0.94 (Cdn\$1.15) per share at any time before December 31, 2009.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**7. NOTES PAYABLE (cont'd)**

All of the outstanding notes payable are denominated in Canadian dollars and include accrued and unpaid interest. Repayment of all series of notes payable have been guaranteed by the Company and are collateralized by the assets of the Company's subsidiary, Voice Mobility Inc.

**SERIES C NOTES PAYABLE**

	2008		2007	
	US\$	Cdn\$	US\$	Cdn\$
Principal	<b>3,807,493</b>	<b>4,637,526</b>	4,678,227	4,637,526
Unamortized debt discount	<b>(7,893)</b>	<b>(9,613)</b>	(19,395)	(19,226)
	<b>3,799,600</b>	<b>4,627,913</b>	4,658,832	4,618,300
Accrued interest	<b>1,377,246</b>	<b>1,677,486</b>	1,316,924	1,305,467
	<b>5,176,846</b>	<b>6,305,399</b>	5,975,756	5,923,767

On September 9, 2003, the Company completed a restructuring arrangement whereby certain existing debt and convertible preferred stock were settled in full in exchange for the issuance of Series C notes, common stock and Class T share purchase warrants. The gross proceeds have been allocated to the notes and the warrants based on the relative fair value of each security at the time of issuance. Accordingly, \$3,300,127 (Cdn\$4,454,841) was allocated to the notes and \$272,379 (Cdn\$367,685) was allocated to the warrants. The fair value of the warrants was estimated using the Black-Scholes option-pricing model. The discount on the notes as a result of the warrants was subject to accretion over the 27-month term to maturity of the notes and is being recorded as interest expense.

On September 19, 2005, the Company amended the maturity date and repayment provision in exchange for the issuance of 980,137 Class Z share purchase warrants. The relative fair value of warrants of \$502,894 (Cdn\$588,082) was estimated using the Black-Scholes option pricing model and was recorded as a deferred finance charge and is subject to amortization over the 51-month term to maturity of the notes and is being recorded as interest expense. The remaining balance of the discount on the notes is subject to accretion over the 51-month term to the amended date of maturity of December 31, 2009.

The Series C notes bear interest at 8% per annum and are payable based upon a tiered percentage of the Company's earnings before interest, tax, depreciation and amortization. 68% of the aggregate amount payable to service the notes are payable quarterly and mature on December 31, 2009.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**7. NOTES PAYABLE (cont'd.)**

**SERIES D NOTES PAYABLE**

	2008		2007	
	US\$	Cdn\$	US\$	Cdn\$
Principal	<b>410,509</b>	<b>500,000</b>	504,388	500,000
Repayment premium	<b>61,576</b>	<b>75,000</b>	75,658	75,000
Unamortized debt discount	<b>(2,490)</b>	<b>(3,033)</b>	(6,119)	(6,065)
	<b>469,595</b>	<b>571,967</b>	573,927	568,935
Accrued interest	<b>148,010</b>	<b>180,275</b>	141,396	140,165
	<b>617,605</b>	<b>752,242</b>	715,323	709,100

On September 9, 2003, the Company issued an aggregate of \$366,838 (Cdn\$500,000) Series D notes and 574,999 Class R share purchase warrants to four stockholders, one of whom was a director of the Company.

The notes are subject to a repayment premium equal to 15% of the outstanding principal balance. The repayment premium of \$61,576 (Cdn\$75,000) was recorded as an increase to the notes balance and as a deferred financing cost. The deferred financing cost was being amortized to interest expense over the 27-month term to maturity. The gross proceeds have been allocated to the notes and the warrants based on the relative fair value of each security at the time of issuance. Accordingly, \$284,466 (Cdn\$384,000) was allocated to the notes and \$85,932 (Cdn\$116,000) was allocated to the warrants. The fair value of the warrants was estimated using the Black-Scholes option-pricing model. The discount on the notes as a result of the warrants was subject to accretion over the 27-month term to maturity of the notes and is being recorded as interest expense.

On September 19, 2005, the Company amended the maturity date and repayment provision in exchange for the issuance of 120,221 Class Z share purchase warrants. The relative fair value of warrants of \$61,683 (Cdn\$72,133) was estimated using the Black-Scholes option pricing model and was recorded as a deferred finance charge and is subject to amortization over the 51-month term to maturity of the notes and recorded as interest expense. The remaining balance of the deferred financing cost and discount on the notes is subject to accretion over the 51-month term to the amended date of maturity of December 31, 2009.

The Series D notes bear interest at 8% per annum and are payable based upon a tiered percentage of the Company's earnings before interest, tax, depreciation and amortization. 8% of the aggregate amount payable to service the notes are payable quarterly and mature on December 31, 2009.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**7. NOTES PAYABLE (cont'd.)**

**SERIES E NOTES PAYABLE**

	2008		2007	
	US\$	Cdn\$	US\$	Cdn\$
Principal	<b>492,611</b>	<b>600,000</b>	605,266	600,000
Repayment premium	<b>73,892</b>	<b>90,000</b>	90,790	90,000
	<b>566,503</b>	<b>690,000</b>	696,056	690,000
Accrued interest	<b>177,611</b>	<b>216,330</b>	169,674	168,198
	<b>744,114</b>	<b>906,330</b>	865,730	858,198

During the months of November and December 2003, the Company issued an aggregate of \$457,754 (Cdn\$600,000) Series E notes to two stockholders. The notes are subject to a repayment premium equal to 15% of the outstanding principal balance. The repayment premium of \$69,418 (Cdn\$90,000) was recorded as an increase to the notes payable balance and expensed immediately as interest since the notes were due on demand.

On September 19, 2005, the Company amended the maturity date and repayment provision in exchange for the issuance of 144,266 Class Z share purchase warrants. The relative fair value of warrants of \$74,021 (Cdn\$86,560) was estimated using the Black-Scholes option pricing model and was recorded as a deferred finance charge and is subject to amortization over the 51-month term to maturity of the notes and recorded as interest expense.

The Series E notes bear interest at 8% per annum and are payable based upon a tiered percentage of the Company's earnings before interest, tax, depreciation and amortization. 10% of the aggregate amount payable to service the notes are payable quarterly and mature on December 31, 2009.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**7. NOTES PAYABLE (cont'd.)**

**SERIES F CONVERTIBLE NOTE PAYABLE**

	2008		2007	
	US\$	Cdn\$	US\$	Cdn\$
Principal	<b>123,214</b>	<b>150,075</b>	151,392	150,075
Accrued interest	<b>44,425</b>	<b>54,109</b>	42,440	42,070
	<b>167,639</b>	<b>204,184</b>	193,832	192,145

On June 17, 2004, the Company issued a \$112,517 (Cdn\$150,075) Series F convertible note to one shareholder. The convertible note contains an embedded beneficial conversion feature amounting to \$32,000 that was calculated as the difference between the conversion price and the fair value of the units into which the note is convertible multiplied by the number of units. The \$32,000 was expensed immediately as interest since the note was due on demand.

On September 19, 2005, the Company amended the maturity date, conversion date and repayment provision in exchange for the issuance of 31,684 Class Z share purchase warrants. The relative fair value of warrants of \$16,256 (Cdn\$19,010) and extension of the conversion feature from June 17, 2006 to December 31, 2009 of \$20,096 (Cdn\$23,500) were estimated using the Black-Scholes option pricing model and was recorded as a deferred finance charge and is subject to amortization over the 51-month term to maturity of the notes and recorded as interest expense.

The note is convertible at the option of the holder at any time before December 31, 2009 into units at a price of \$0.94 (Cdn\$1.15) per unit. Each unit will consist of one common share and one non-transferable common share purchase warrant. Each warrant entitles the holder, upon giving 61 days notice to the Company, to purchase one common share of the Company at a price of \$0.94 (Cdn\$1.15) per share at any time before December 31, 2009.

The Series F convertible note bears interest at 8% per annum and is payable based upon a tiered percentage of the Company's earnings before interest, tax, depreciation and amortization. 2% of the aggregate amount payable to service the notes are payable quarterly and mature on December 31, 2009.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**7. NOTES PAYABLE (cont'd.)**

**SERIES G NOTES PAYABLE**

	2008		2007	
	US\$	Cdn\$	US\$	Cdn\$
Principal	<b>328,407</b>	<b>400,000</b>	403,511	400,000
Accrued interest	<b>118,407</b>	<b>144,220</b>	113,116	112,132
	<b>446,814</b>	<b>544,220</b>	516,627	512,132

On July 1, 2004, the Company issued an aggregate of \$303,882 (Cdn\$400,000) Series G notes to two shareholders.

On September 19, 2005, the Company amended the maturity date and repayment provision in exchange for the issuance of 84,448 Class Z share purchase warrants. The relative fair value of warrants of \$43,329 (Cdn\$50,669) was estimated using the Black-Scholes option pricing model and was recorded as a deferred finance charge and is subject to amortization over the 51-month term to maturity of the notes and recorded as interest expense.

The Series G notes bear interest at 8% per annum and are payable based upon a tiered percentage of the Company's earnings before interest, tax, depreciation and amortization. 6% of the aggregate amount payable to service the notes are payable quarterly and mature on December 31, 2009.

**SERIES H NOTES PAYABLE**

	2008		2007	
	US\$	Cdn\$	US\$	Cdn\$
Principal	<b>369,458</b>	<b>450,000</b>	453,949	450,000
Accrued interest	<b>109,016</b>	<b>132,782</b>	97,532	96,683
	<b>478,474</b>	<b>582,782</b>	551,481	546,683

During the months of March and May 2005, the Company issued an aggregate of \$367,227 (Cdn\$450,000) Series H notes to three stockholders.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**7. NOTES PAYABLE (cont'd.)**

On September 19, 2005, the Company amended the maturity date and repayment provision in exchange for the issuance of 89,244 Class Z share purchase warrants. The relative fair value of warrants of \$45,789 (Cdn\$53,546) was estimated using the Black-Scholes option pricing model and was recorded as a deferred finance charge and is subject to amortization over the 51-month term to maturity of the notes and recorded as interest expense.

The Series H notes bear interest at 8% per annum and are payable based upon a tiered percentage of the Company's earnings before interest, tax, depreciation and amortization. 6% of the aggregate amount payable to service the notes are payable quarterly and mature on December 31, 2009.

**8. PROMISSORY NOTE PAYABLE**

Effective December 31, 2008, the Company entered into a settlement agreement with Aliant Telecom Inc. / Telecommunications Aliant Inc. whereby the Company paid \$9,880 (Cdn\$12,000) in cash to release any and all obligations related to a promissory note dated December 28, 2001 to Innovatia in the principal amount of Cdn\$2,720,142; the LivingLab Agreement dated February 27, 2001 and March 4, 2002 and Software License Agreements dated May 23, 2000, March 1, 2001 and June 14, 2002, including any amendment and addenda.

As a result of the settlement agreement the Company recorded an unusual gain of \$3,195,836. In addition to eliminating the promissory note payable, certain assets and liabilities related to the promissory note payable were also eliminated by the settlement agreement including deferred contract costs of \$81,631, accrued liabilities of \$57,223, accounts payable of \$83,730 and deferred revenue of \$318,685.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**9. LOSS PER SHARE**

The following table sets forth the computation of loss per share:

	2008	2007
	\$	\$
Numerator:		
Net loss for the year	<b>(228,754)</b>	(3,357,597)
Denominator:		
Weighted average number of common stock outstanding	<b>56,842,571</b>	56,501,964
Weighted average number of common stock issuable on exercise of Exchangeable Shares	-	9,829
Weighted average number of common stock equivalents outstanding	<b>56,842,571</b>	56,511,793
Basic and diluted loss per share	<b>(0.00)</b>	(0.06)

In connection with the 1999 recapitalization of the Company, Voice Mobility Canada Limited (VM Canada), a wholly-owned subsidiary, issued 6,600,000 VM Canada Exchangeable Shares. Each VM Canada Exchangeable Share is exchangeable for one common share of the Company at any time at the option of the stockholder, and will be exchanged no later than July 1, 2009, and has essentially the same voting, dividend and other rights as one common share. A share of Series A preferred voting stock, which was issued to a trustee in trust for the holders of the VM Canada Exchangeable Shares, provides the mechanism for holders of the VM Canada Exchangeable Shares to have voting rights in the Company. The Company considers each Exchangeable Share as equivalent to one share of its common stock and therefore the Exchangeable Shares are included in the computation of basic loss per share. During 2007, holders of the Exchangeable Shares exchanged 512,500 Exchangeable Shares into 512,500 common shares of the Company for no additional consideration. No Exchangeable Shares are outstanding.

For the years ending December 31, 2008 and 2007, the Company's common shares issuable upon the exercise of stock options, warrants and other convertible securities were excluded from the determination of diluted loss per share as their effect would be anti-dilutive.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**10. SHARE CAPITAL**

**[a] Authorized**

The Company is authorized to issue up to 100,000,000 shares of common stock, par value \$0.001 per share and up to 1,000,000 shares of preferred stock, par value \$0.001 per share.

**[b] Common stock**

**2008**

No common stock was issued during the year ended December 31, 2008.

**2007**

**Exchangeable Shares**

During 2007, a holder of the Exchangeable Shares exchanged 512,500 Exchangeable Shares into 512,500 common shares of the Company for no additional consideration.

**Stock Options**

On February 1, 2007, the Company issued 20,000 shares of common stock from the exercise of stock options for gross proceeds of \$4,764 (Cdn\$5,600).

On February 15, 2007, the Company issued 34,062 shares of common stock from the exercise of stock options for gross proceeds of \$6,746 (Cdn\$7,850).

On February 21, 2007, the Company issued 20,000 shares of common stock from the exercise of stock options for gross proceeds of \$4,823 (Cdn\$5,600).

On February 23, 2007, the Company issued 80,000 shares of common stock from the exercise of stock options for gross proceeds of \$19,335 (Cdn\$22,400).

On July 6, 2007, the Company issued 9,375 shares of common stock from the exercise of stock options for gross proceeds of \$1,431 (Cdn\$1,500).

On September 19, 2007, the Company issued 427,500 shares of common stock from the exercise of stock options for gross proceeds of \$67,408 (Cdn\$68,400).

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**10. SHARE CAPITAL (cont'd.)**

**[c] Stock options**

**Second Amended and Restated 1999 Stock Option Plan**

On June 14, 2001, an amendment to the Amended and Restated 1999 Stock Option Plan was approved to meet the requirements for listing of the Company's securities on The Toronto Stock Exchange. The Second Amended and Restated 1999 Stock Option Plan ("Plan") authorizes an aggregate amount of 12,000,000 common shares to be issued pursuant to the exercise of stock options.

The Plan provides for the granting of options, which either qualify for treatment as incentive stock options or non-statutory stock options, and entitles directors, employees and consultants to purchase common shares of the Company. Options granted are subject to approval of the Board of Directors or the Compensation Committee.

Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on 3 years of continuous service and have 5-year contractual terms. Any options that do not vest as the result of a grantee leaving the Company are forfeited and the common shares underlying them are returned to the reserve.

Activity under the Plan is as follows:

	Options Outstanding			
	Shares Available for Grant	Number of Shares	Price per Share	Weighted Average Exercise Price
Balance, December 31, 2006	2,311,928	7,564,045	\$0.14 – \$1.70	\$0.64
Options granted	(2,420,500)	2,420,500	\$0.23 - \$0.61	\$0.37
Options expired	396,250	(396,250)	\$0.16 – \$0.28	0.19
Options forfeited	1,272,474	(1,272,474)	\$0.23 – \$1.11	\$0.73
Options exercised	-	(590,937)	\$0.16 – \$0.28	\$0.19
Balance, December 31, 2007	1,560,152	7,724,884	\$0.23 – \$1.31	\$0.71
Options granted	(1,235,000)	1,235,000	\$0.16 - \$0.19	\$0.17
Options expired	472,334	(472,334)	\$0.27 – \$0.37	\$0.31
Options forfeited	753,965	(753,965)	\$0.22 – \$1.07	\$0.54
Balance, December 31, 2008	1,551,451	7,733,585	\$0.16 – \$0.91	\$0.53

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**10. SHARE CAPITAL (cont'd.)**

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at December 31, 2008 are as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2008	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable at December 31, 2008	Weighted Average Exercise Price
\$0.16 - \$0.50	3,666,806	\$0.27	3.75	2,068,395	\$0.32
\$0.51 - \$0.91	4,066,779	\$0.77	0.93	4,032,642	\$0.77
	7,733,585	\$0.53	2.27	6,101,037	\$0.62

As at December 31, 2008, 7,733,585 [2007 - 7,724,884] options outstanding have an exercise price denominated in Canadian dollars with a weighted average exercise price of Cdn\$0.65 [2007 - Cdn\$0.70].

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**10. SHARE CAPITAL (cont'd.)**

**Impact of Adoption of FAS 123(R)**

Prior to December 31, 2005, the Company accounted for options issued under the plan per the recognition and measurement provisions of APB Opinion No.25, Accounting for Stock Issued to Employees, and related Interpretations, as permitted by FASB Statement No 123, Accounting for Stock-Based Compensation. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), Share-Based Payment, using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the year ended December 31, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payment granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R).

As FAS123(R) requires that stock-based compensation expense be based on awards that are ultimately expected to vest, stock-based compensation expense for the year ended December 31, 2008 has considerations for estimated forfeitures. When estimating forfeitures, we consider voluntary termination behavior as well as trends of actual option forfeitures.

Total stock-based compensation for the year ended December 31, 2008 includes stock-based compensation expense related to employees of \$354,424 [2007 - \$545,354] reported in the statement of operations as follows:

	2008	2007
	\$	\$
Stock-based compensation		
Sales and marketing	<b>79,842</b>	95,384
Research and development	<b>62,384</b>	119,535
General and administrative	<b>212,198</b>	330,435
Total stock-based compensation	<b>354,424</b>	545,354

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**10. SHARE CAPITAL (cont'd.)**

**Valuation Assumptions**

The fair value of the Company's stock-based awards granted to employees for the year ended December 31, 2008 and 2007 was estimated using the Black-Scholes option pricing model.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. Because the Black-Scholes option pricing model incorporates ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities are based on historical volatility of the Company's stock, and other factors. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the options is based on the Bank of Canada T-Bill rate in effect at the time of grant.

	2008	2007
Expected life of employee stock options (in years)	<b>3.0</b>	3.0
Weighted average volatility	<b>84%</b>	79%
Expected volatility	<b>82% - 85%</b>	78% - 80%
Risk-free interest rate	<b>3.07% - 3.37%</b>	4.03% - 4.66%
Dividend yields	<b>0%</b>	0%
Weighted average fair value of stock options under employee stock option plans granted during the period	<b>\$0.09</b>	\$0.16

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**10. SHARE CAPITAL (cont'd.)**

**Stock-based Payment Award Activity**

A summary of option activity under the Plan as of December 31, 2008, and changes during the year ended is presented below:

Options	Shares	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value \$
Outstanding at January 1, 2008	7,724,884	0.71		
Granted	1,235,000	0.17		
Expired	(472,334)	0.31		
Forfeited	(753,965)	0.54		
Outstanding at December 31, 2008	7,733,585	0.53	2.27	-
[Vested or expected to vest subsequent to December 31, 2008]	7,733,585	0.53	2.27	-
Exercisable at December 31, 2008	6,101,037	0.62	1.77	-

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for the nil options that were in-the-money at December 31, 2008. The weighted-average grant date fair value of options granted during the year ended December 31, 2008 and 2007 was \$0.09 and \$0.15, respectively.

A summary of the status of the Company's nonvested shares as of December 31, 2008 and changes during the year ended December 31, 2008, is presented below:

Nonvested Shares	Shares	Weighted Average Grant-Date Fair Value \$
Nonvested at January 1, 2008	2,213,154	0.23
Granted	1,063,472	0.11
Vested	(1,644,078)	0.24
Nonvested at December 31, 2008	1,632,548	0.14

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**10. SHARE CAPITAL (cont'd.)**

As of December 31, 2008, there was \$228,557 of total unrecognized compensation cost related to nonvested share based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 4.12 years. The total fair value of shares vested during the year ended December 31, 2008 was \$354,424.

**[d] Warrants**

The Company has the following common stock warrants outstanding:

	Outstanding at January 1	Issued	Exercised	Forfeited or Cancelled	Outstanding at December 31	Exercise Price	Expiry Date
	#	#	#	#	#	Cdn\$	
<b>2008</b>							
Class R warrants	574,999	-	-	574,999	-	0.425	Sep. 8/08
Class S warrants	1,176,470	-	-	1,176,470	-	0.425	Sep. 8/08
Class T warrants	3,198,350	-	-	3,198,350	-	0.425	Sep. 8/08
Class X warrants	2,063,560	-	-	2,063,560	-	0.25	Jul. 18/08
Class Y warrants	70,000	-	-	70,000	-	1.10	Aug. 18/08
Class Z warrants	1,450,000	-	-	1,450,000	-	1.10	Sep. 18/08
Class A warrants	3,465,500	-	-	-	3,465,500	0.65	Dec 19/09
	11,998,879	-	-	8,533,379	3,465,500		
<b>2007</b>							
Class R warrants	574,999	-	-	-	574,999	0.425	Sep. 8/08
Class S warrants	1,176,470	-	-	-	1,176,470	0.425	Sep. 8/08
Class T warrants	3,198,350	-	-	-	3,198,350	0.425	Sep. 8/08
Class U warrants	466,875	-	-	466,875	-	1.36	Mar. 4/07
Class V warrants	4,000,000	-	-	4,000,000	-	1.14	May 31/07
Class W warrants	76,923	-	-	76,923	-	1.00	Aug. 26/07
Class W warrants	1,229,450	-	-	1,229,450	-	1.00	Sep. 21/07
Class X warrants	2,063,560	-	-	-	2,063,560	1.10	Jun. 26/08
Class Y warrants	70,000	-	-	-	70,000	1.10	Aug. 18/08
Class Z warrants	1,450,000	-	-	-	1,450,000	1.10	Sep. 18/08
Class A warrants	3,465,500	-	-	-	3,465,500	0.65	Dec 19/09
	17,772,127	-	-	5,773,248	11,998,879		

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**10. SHARE CAPITAL (cont'd.)**

The share purchase warrants outstanding have exercise prices denominated in Canadian dollars.

3,465,500 Class A warrants have a call feature by which the Company can demand exercise of the share purchase warrants if the common stock trades at a price equal to or greater than Cdn\$1.30 on the Toronto Stock Exchange for a period of 30 consecutive days and the average daily trading volume is greater than 100,000 shares for such 30 consecutive trading day period. If the share purchase warrants have not been exercised then such share purchase warrants will terminate on the date that is 120 days from the date such demand is given to the holders.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**11. INCOME TAXES**

The Company adopted the provisions of FIN 48, on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109, "Accounting for Income Taxes", and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company and its subsidiaries are subject to U.S. federal income tax, Canadian income tax, as well as income tax of multiple state and local jurisdictions. Based on the Company's evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements. The Company's evaluation was performed for the tax years ended December 31, 2000, 2001, 2002, 2003, 2004, 2005, 2006 and 2007, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2008. The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to the Company's financial results. In the event the Company has received an assessment for interest and/or penalties, it has been classified in the financial statements as selling, general and administrative expense.

The Company is subject to United States federal and state income taxes at an approximate rate of 35%. The Company is also subject to Canadian federal and British Columbia provincial taxes in Canada. The reconciliation of the provision (recovery) for income taxes at the United States federal statutory rate compared to the Company's income tax expense is as follows:

	2008	2007
	\$	\$
Tax recovery at U.S. statutory rates	<b>(80,000)</b>	(1,182,000)
Higher effective income taxes of		
Canadian subsidiary	<b>(59,000)</b>	24,000
Change in valuation allowance	<b>(729,000)</b>	144,000
Change in tax rate applied in valuation allowance	<b>(7,000)</b>	246,000
Imputed interest	<b>222,000</b>	256,000
Non-deductible expenses	<b>653,000</b>	512,000
Income tax expense (recovery)	-	-

Deferred tax assets reflect the effects of tax losses, credits and the future income tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and are measured using enacted tax rates that apply to the taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company has recognized a valuation allowance for those deferred tax assets for which realization is not more likely than not to occur.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**11. INCOME TAXES (cont'd.)**

Significant components of the Company's deferred tax assets as of December 31 are as follows:

	2008	2007
	\$	\$
Net operating loss carry forwards	<b>4,900,000</b>	8,218,000
Property and equipment	<b>1,099,000</b>	1,399,000
Unrealized foreign exchange	<b>(465,000)</b>	(1,298,000)
Debt discount accretion	<b>94,000</b>	110,000
Deferred revenue	-	106,000
Other	<b>7,000</b>	6,000
Total deferred tax assets	<b>5,635,000</b>	8,541,000
Valuation allowance	<b>(5,635,000)</b>	(8,541,000)
Net deferred tax assets	-	-

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**11. INCOME TAXES (cont'd.)**

The non-capital and net operating loss carry forwards expire as follows:

	\$
Canada	
2009	2,276,000
2010	1,853,000
2014	2,291,000
2015	1,541,000
2026	1,472,000
2027	1,554,000
Total Canada	10,987,000
U.S.	
2020	2,301,000
2021	2,339,000
2022	259,000
2023	-
2024	293,000
2025	-
2026	-
2027	-
2028	225,000
Total US	5,417,000
	16,404,000

Pursuant to Section 382 of the Internal Revenue Code, use of the Company's net operating loss carry forwards may be limited if the Company experiences a cumulative change in ownership of greater than 50% in a moving three year period. Ownership changes could impact the Company's ability to utilize net operating losses and credit carry forwards remaining at the ownership change date. The limitation will be determined by the fair market value of common stock outstanding prior to the ownership change, multiplied by the applicable federal rate.

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**12. COMMITMENTS AND CONTINGENCIES**

The Company leases two premises under operating leases, one of which expires in 2012 and the other which is under a month to month lease. The minimum lease payments are as follows:

	\$
2009	13,225
2010	14,427
2011	14,427
2012	1,202
	43,281

The rental expense charged to the consolidated statements of operations in 2008 amounted to \$165,788 [2007 - \$157,508].

**Voice Mobility International, Inc.**

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**

December 31, 2008

(expressed in U.S. dollars)

**13. SUPPLEMENTAL CASH FLOW INFORMATION**

Net changes in operating assets and liabilities are as follows:

	2008	2007
	\$	\$
Accounts receivable	(114,778)	(22,886)
Other receivables	(2,701)	1,877
Prepaid expenses	32,219	(23,187)
Inventory	(66,371)	(1,846)
Accounts payable	117,199	(11,013)
Accrued liabilities	(6,648)	(13,243)
Employee related payables	(11,965)	(12,543)
Accrued interest on promissory note payable	132,342	161,553
Accrued interest on notes payable	513,495	504,246
Net change in operating assets and liabilities	592,792	582,958

**14. RELATED PARTY TRANSACTIONS**

During the months of August and September 2008, the Company obtained a loan from Tsalix Investments Inc., a company owned by a shareholder in the amount of \$113,683 (Cdn\$120,000). On September 24, 2008, The Company repaid the entire loan in full and paid the accrued interest of \$690 (Cdn\$712).

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

Not applicable.

**Item 9A(T). Controls and Procedures.**

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by the annual report, being December 31, 2008, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's chief executive officer. Based upon that evaluation, our company's Chief Executive Officer concluded that our company's disclosure controls and procedures are effective as at the end of the period covered by this report. There have been no significant changes in our internal controls over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Disclosure controls and procedures and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management including our chief executive officer as appropriate, to allow timely decisions regarding required disclosure.

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13(a) - 15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets and our consolidated entities;
2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of our company are being made only in accordance with authorizations of management and our directors; and
3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, no system of internal control over financial reporting, including those determined to be effective, may prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, under the supervision and with the participation of our Chief Executive Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2008. In conducting this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on this evaluation, management concluded that, as of December 31, 2008, our company's internal control over financial reporting was effective.

Our Independent Registered Chartered Accountants have not issued an attestation report on our internal control over financial reporting pursuant to the temporary rules of the U.S. Securities and Exchange Commission that permit us to provide only management's report for the year ended December 31, 2008.

No change in our internal control over financial reporting occurred as of the end of the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The following table sets forth the names, positions and ages of our executive officers and directors. All our directors serve until the next annual meeting of shareholders or until their successors are elected and qualify. The board of directors elects officers and their terms of office are, except to the extent governed by employment contract, at the discretion of the board of directors.

<b>Name</b>	<b>Position Held with the Company</b>	<b>Age</b>	<b>Date First Elected or Appointed</b>
<i>Randy G. Buchamer</i>	<i>Chief Executive Officer and Director</i>	<i>52</i>	<i>August 2001</i>
<i>David Raffa<sup>(1)(2)</sup></i>	<i>Director</i>	<i>50</i>	<i>March 2006</i>
<i>William H. Laird<sup>(1)(2)</sup></i>	<i>Director</i>	<i>61</i>	<i>June 2007</i>
<i>William Krebs<sup>(1)(2)</sup></i>	<i>Director</i>	<i>62</i>	<i>Chairman of the Board of Directors - June 2008; 1995</i>
<i>Tanner Philp</i>	<i>Secretary</i>	<i>34</i>	<i>June 2008</i>

<sup>(1)</sup> Members of our Audit Committee

<sup>(2)</sup> Members of our Corporate Governance Committee

*Randy G. Buchamer - Chief Executive Officer and Director*

Mr. Buchamer has been our Chief Executive Officer and a director of our Company since August, 2001. Between August, 2001 and March, 1999, Mr. Buchamer provided management consulting services to various public companies for a consulting company called Rydan Management. From February, 1998 to March, 1999, Mr. Buchamer served as the Managing Director of Operations for the Jim Pattison Group and was responsible for supporting the \$4.5 billion operations of 55 companies owned by the Jim Pattison Group. Some of the Jim Pattison Group businesses are involved in grocery stores, specialty packaging, advertising, magazine distribution, broadcasting, automotive retailing as well as other business. From 1996 to 1998, he served as Vice President and Chief Operating Officer of Mohawk Oil Retail Small Business Unit and from 1989 to 1996 as Vice President Corporate Services and Chief Information Officer for Mohawk Oil Company. Mohawk is a producer and seller of petroleum products. From 1987 to 1988, he was Retail Market Specialist for Digital Equipment of Canada Limited. Mr. Buchamer founded and served, from 1981 to 1988, as President of Vartech Systems Corporation and RB Computer Products, an IBM value added reseller and North American software publisher and distributor of retail, distribution and manufacturing software solutions. He received his Executive MBA from Simon Fraser University's Executive Management Development Program in 1994 and attended the Business Administration program at the University of Illinois. He also has completed courses at the IBM Canada Business Management School.

Mr. Buchamer is also a director of Bradner Ventures Ltd., a public company with a class of securities registered under the Securities Exchange Act of 1934.

*David J. Raffa - Director*

David Raffa is a co-founder of and Fund Manager with Lions Capital Corp., manager of BC Advantage Funds and Lions Liquidity Investment Fund LP, and a founder and principal of Valeo Corporate Finance. Lions manages two investment funds which invest in early stage life science and technology companies. Valeo provides corporate finance advice to technology companies on financing, mergers and acquisitions and building and operating boards of directors. Mr. Raffa began his career as a corporate finance lawyer. He sold his practice at Catalyst Corporate Finance Lawyers to Fasken Martineau at the end of 2005, and retired from the practice of law. Mr. Raffa has been a member of the Board of the BC Technology Industries Association, and an advisor to the B.C. Securities Commission and TSX Venture Exchange in respect of issues material to the technology industry. He also served as Chairman of Science World's Equity Committee. He currently serves as a director, officer or advisory board member of a number of public and private technology companies. Mr. Raffa is Chairman of ActiveState Corporation and a co-founder of Amorfix Life Sciences Ltd., a TSX listed company. Mr. Raffa has over 20 years experience in advising technology companies.

*William H. Laird - Director*

Mr. Laird is a venture capitalist and served for the past fifteen years as director to several start-up companies. Mr. Laird is president of W.H. Laird Holdings Ltd., and director and secretary of Tech-Crete Processors Ltd., Piccadilly Place Mall Inc., and Exel Construction Ltd. These companies encompass manufacturing, construction, and property development and leasing.

*William Krebs - Chairman of the Board of Directors and Director*

Mr. Krebs previously served as a director from 1995 to June 2007. Mr. Krebs previously served as the chairman of our board of directors from 1995 to September 2000. From 1995 to September 2000, Mr. Krebs was our Treasurer and Secretary. From January 1995 to August 2000, Mr. Krebs has also served as a director of Acrex Ventures Ltd. He also has served as President and a director of Pacific Western Mortgage Corp. since 1987 and served as President and a Director of Tsalix Investments Inc. (formerly Pacific Western Mortgage Corp.) from 1994 to 1995. These companies provided consulting services and investment capital. From 1997 to 1999, he was a director and officer of WaveRider Communications, Inc., a company which dealt with wireless broadband technology. From 1990 to 1995, Mr. Krebs served as director and President of TelcoPlus Enterprises Ltd. and its wholly-owned subsidiary, Intertec Telecommunications Inc. Mr. Krebs served as a director and President of CT&T Telecommunications Inc. from 1990 to 1995. Mr. Krebs is a Chartered Accountant and practiced as such from 1973 to 1980. Mr. Krebs has been a member of the Canadian Institute of Chartered Accountants since 1973.

*Tanner Philp - Secretary*

Mr. Philp is the Chief Financial Officer and Partner of Lions Capital Corp. (a venture capital fund management company) and Chief Financial Officer and Fund Manager for BC Advantage Funds (VCC) Ltd. (a venture capital company) from September 2004 to present; field manager with KPMG LLP (London, UK) (an accounting firm) from September 2001 to September 2002; accountant with KPMG LLP (Vancouver) (an accounting firm) from September 1999 to September 2001. Mr. Philp currently serves as a director of Vigil Health Solutions and Secretary of Urodynamix Technologies, TSX listed companies, Chairman of Conasys Consumer Assurance Systems, Secretary of RewardStream and an Observer at Zeugma Systems. Mr. Philp's is a member of the Canadian Institute of Chartered Accountants and has a Bachelor of Business Administration concentrated in Finance from Simon Fraser University.

*Family Relationships*

There are no family relationships among our directors or officers.

*Involvement In Certain Legal Proceedings*

Our directors, executive officers and control persons have not been involved in any of the following events during the past five years:

- (1) any bankruptcy petition filed by or against any business of which such person was an executive officer either at the time of the bankruptcy or within two years prior to that time;
- (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
- (3) being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; and
- (4) being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

*Compliance with Section 16(a) of the Securities Exchange Act of 1934*

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of such forms received by our Company, or written representations from certain reporting persons that no Form 5s were required for those persons, we believe that, during the year ended December 31, 2008, all filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with, with the exception of the following:

Name	Number of Late Reports	Number of Transactions Not Reported on a Timely Basis	Failure to File Requested Forms
Gary Donahee	1 <sup>(1)</sup>	2 <sup>(1)</sup>	Nil

(1) The named officer, director or greater than 10% shareholder, as applicable, filed a late Form 4 – Statement of Changes in Beneficial Ownership.

*Code of Ethics*

Effective February 11, 2004, our Company’s board of directors adopted a Code of Ethics and Business Conduct that applies to, among other persons, our Company’s Chief Executive Officer (being our principal executive officer and principal financial officer), our Company’s Controller (being our principal accounting officer), as well as persons performing similar functions. As adopted, our Code of Ethics and Business Conduct sets forth written standards that are designed to deter wrongdoing and to promote:

- (1) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- (2) full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the Securities and Exchange Commission and in other public communications made by us;
- (3) compliance with applicable governmental laws, rules and regulations;

(4) the prompt internal reporting of violations of the Code of Ethics and Business Conduct to an appropriate person or persons identified in the Code of Ethics and Business Conduct; and

(5) accountability for adherence to the Code of Ethics and Business Conduct.

Our Code of Ethics and Business Conduct requires, among other things, that all of our Company's personnel shall be accorded full access to our Chief Executive Officer or Audit Committee with respect to any matter which may arise relating to the Code of Ethics and Business Conduct. Further, all of our Company's personnel are to be accorded full access to our Company's Audit Committee if any such matter involves an alleged breach of the Code of Ethics and Business Conduct by the Chief Executive Officer.

We will provide a copy of the Code of Ethics and Business Conduct to any person without charge, upon request. Requests can be sent to: Voice Mobility International, Inc., 100 - 4190 Lougheed Highway, Burnaby, British Columbia, Canada, V5C 6A8 or via email to investors@voicemobility.com.

#### *Nomination Procedures For Appointment of Directors*

As of March 1, 2009, we did not effect any material changes to the procedures by which our stockholders may recommend nominees to our board of directors that were otherwise disclosed in our proxy statement on Schedule 14A filed with the Securities and Exchange Commission on April 23, 2008.

#### *Audit Committee*

We have a standing Audit Committee which currently consists of David Raffa, William Krebs and William Laird, all of whom are non-employee directors of our Company. All of the members of the Audit Committee are independent as defined by Nasdaq Marketplace Rule 4200(a)(15). The Audit Committee was established in accordance with Section 3(a)(58)(A) of the Securities and Exchange Act of 1934. The Audit Committee is directed to review the scope, cost and results of the independent audit of our books and records, the results of the annual audit with management and the adequacy of our accounting, financial and operating controls; to recommend annually to the board of directors the selection of the independent registered accountants; to consider proposals made by the independent registered chartered accountants for consulting work; and to report to the board of directors, when so requested, on any accounting or financial matters. The board of directors adopted its charter for the Audit Committee on April 26, 2002 and was formed in February, 2000.

#### *Audit Committee Financial Expert*

Our board of directors has determined that our company has one audit committee financial expert serving on the audit committee, which person is William Krebs. William Krebs is a chartered accountant. Our board of directors has also determined that William Krebs is "independent", as that term is defined by Nasdaq Marketplace Rule 4200(a)(15).

### **Item 11. Executive Compensation.**

#### **Summary Compensation Table**

The particulars of compensation paid to the following persons:

- (a) our principal executive officer;
- (b) each of our two most highly compensated executive officers who were serving as executive officers at the end of the year ended December 31, 2008; and
- (c) up to two additional individuals for whom disclosure would have been provided under (b) but for the fact that the individual was not serving as our executive officer at the end of the year ended December 31, 2008,

who we will collectively refer to as our named executive officers, of our company for the years ended December 31, 2008 and 2007, are set out in the following summary compensation table, except that no disclosure is provided for any named executive officer, other than our principal executive officer, whose total compensation does not exceed \$100,000 for the respective fiscal year:

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$) <sup>(1)</sup>	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	Other Annual Compensation (\$) <sup>(2)</sup>	Total (\$)
Randy Buchamer Chief Executive Officer <sup>(3)</sup>	2008 2007	164,204 201,755	N/A N/A	N/A N/A	Nil Nil	Nil Nil	Nil Nil	4,926 6,053	169,130 207,808
Mike Seeley Vice President of Sales <sup>(4)</sup>	2008 2007	129,557 110,095	N/A N/A	N/A N/A	5,168 52,774	Nil Nil	Nil Nil	4,926 4,035	139,651 166,904
Rob Collins Director of Marketing <sup>(5)</sup>	2008 2007	88,670 108,191	N/A N/A	N/A N/A	12,921 18,972	Nil Nil	Nil Nil	4,926 6,053	106,517 133,216
John Gavin <sup>(6)</sup>	2008 2007	150,400 50,133	N/A N/A	N/A N/A	5,168 24,125	Nil Nil	Nil Nil	7,200 2,400	162,768 76,658
Dave Ballins <sup>(7)</sup>	2008 2007	130,400 -	N/A N/A	N/A N/A	5,168 -	Nil Nil	Nil Nil	7,200 -	142,768 -

<sup>(1)</sup> Reflects the grant date fair value calculated in accordance with FAS 123(R). See “Notes to Financial Statement – Summary of Significant Accounting Policies – Stock Based Compensation” for a discussion of the relevant assumptions used in calculating the grant date fair value pursuant to FAS 123(R).

<sup>(2)</sup> Mr. Buchamer, Mr. Seeley, Mr. Collins, Mr. Gavin and Mr. Ballins “All Other Compensation” consists of car allowances.

<sup>(3)</sup> Compensation was paid to Mr. Buchamer by VMI, our operating subsidiary. Mr. Buchamer, Chief Executive Officer of our company and our subsidiary, entered into an indefinite term employment agreement on August 16, 2001. He receives a salary of \$164,204 (Cdn\$200,000) per year plus a car allowance of \$411 (Cdn\$500) per month.

<sup>(4)</sup> Compensation was paid to Mr. Seeley by VMI, our operating subsidiary. Mr. Seeley, Vice President of Sales entered into an indefinite term employment agreement on April 2, 2007. He receives a salary of \$86,207 (Cdn\$105,000) per year plus and office allowance of \$328 (Cdn\$400) per month and a car allowance of \$411 (Cdn\$500) per month. During 2008, Mr. Seeley also received a draw on commission of \$3,284 (Cdn\$4,000) per month.

<sup>(5)</sup> Compensation was paid to Mr. Collins by VMI, our operating subsidiary. Mr. Collins, Director of Marketing entered into an indefinite term employment agreement on January 19, 2000. He receives a salary of \$88,670 (Cdn\$108,000) per year plus a car allowance of \$411 (Cdn\$500) per month.

<sup>(6)</sup> Compensation was paid to Mr. Gavin by VMI (US), our operating subsidiary. Mr. Gavin, US Channel Manager entered into an indefinite term employment agreement on September 1, 2007.

He receives a salary of \$100,000 per year plus and office allowance of \$200 per month and a car allowance of \$600 per month. During 2008, Mr. Gavin also received a draw on commission of \$4,000 per month.

<sup>(7)</sup> Compensation was paid to Mr. Ballins by VMI (US), our operating subsidiary. Mr. Ballins, US Channel Director entered into an indefinite term employment agreement on January 3, 2008. He receives a salary of \$80,000 per year plus and office allowance of \$200 per month and a car allowance of \$600 per month. During 2008, Mr. Ballins also received a draw on commission of \$4,000 per month.

### **Compensation Discussion and Analysis**

The compensation committee of our board of directors determines compensation for our Chief Executive Officer, reviews and makes recommendations regarding compensation of executive officers, and supervises the administration of our equity plans for executives and all employees. During the year ended December 31, 2008, the committee was composed of three independent directors, William Krebs, William Laird and David Raffa. No member is an employee or former employee of our company.

#### *Executive Compensation Objectives*

On behalf of our board of directors, the compensation committee reviews and makes recommendations concerning:

1. the compensation policy with respect to our employees or any of our subsidiaries ensuring that our company is in compliance with all legal compensation reporting requirements;
2. the compensation of our Chief Executive Officer and other officers of our company;
3. management compensation programs including, stock option plans, incentive plans, and perquisites;
4. the annual, or more often if appropriate review of:
  - (a) management succession plans and process;
  - (b) performance appraisal and management and employee development programs;
  - (c) contingency plans in the event of the unexpected disability of key management; and
  - (d) proposed personnel changes involving officers reporting to the Chief Executive Officer.

#### *Components of Compensation*

Executive compensation consists primarily of base salary and stock options.

*Base Salary.* We target executives' base salaries according to salary surveys. In determining each executive officer's base salary, the compensation committee takes into account competitive market data for similar positions at high-technology companies, individual responsibilities and performance, and internal equity within our company.

*Stock Options.* Our equity incentives have been in the form of stock options. Stock options are issued at an exercise price of fair market value on the date of grant. Options granted in fiscal 2008 vest ratably over thirty-six months. Fair-market-value stock options become valuable and exercisable only if the executive officer continues to work at our company and the stock price subsequently increases.

#### *CEO Compensation*

Our Chief Executive Officer's salary and stock option grants follow the policies set forth above. Randy Buchamer succeeded James Hutton as our Chief Executive Officer on August 16, 2001. In deciding on Mr. Buchamer's compensation package, the committee considered compensation practices at companies similar in size and complexity to our company; Mr. Buchamer's base salary is set at \$164,204 (CDN\$200,000) per year. Mr. Buchamer also received stock option stock grant as part of his compensation package.

## Stock Option Grants in 2008 to Named Executive Officers

During 2008, we granted stock option awards to our Chief Executive Officer and Vice President of Sales pursuant to our Second Amended and Restated 1999 Stock Option Plan.

During 2008, the compensation committee voted to issue a total of 1,235,000 options to other employees, consultants and directors. The exercise price was the closing price on the date of grant and ranged from Cdn\$0.20 to Cdn\$0.23 per share. 1,235,000 options will vest over a three-year period from the grant date. The options were granted to eleven employees. The grants ranged in size from 20,000 to 200,000 with the average being 79,091. 365,000 options were granted to our independent directors and secretary.

## Outstanding Equity Awards at Fiscal Year End

The following table summarizes equity awards granted to our named executive officers that were outstanding as of December 31, 2008.

Option Awards						Stock Awards			
Name	Number of Securities Underlying Options (#) Exercisable	Number of Securities Underlying Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares of Units of Stock that have not Vested (#)	Market Value of Shares or Units of Stock that have not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that have not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that have not Vested (\$)
Randy Buchamer <sup>(1)</sup>	1,674,442	93,858	N/A	0.65 <sup>(1)</sup>	5 years from grant	N/A	N/A	N/A	N/A
Mike Seeley <sup>(2)</sup>	227,078	172,922	N/A	0.21 <sup>(2)</sup>	5 years from grant	N/A	N/A	N/A	N/A
Rob Collins <sup>(3)</sup>	335,449	132,751	N/A	0.42 <sup>(3)</sup>	5 years from grant	N/A	N/A	N/A	N/A
John Gavin <sup>(4)</sup>	95,388	154,612	N/A	0.18 <sup>(4)</sup>	5 years from grant	N/A	N/A	N/A	N/A
Dave Ballins <sup>(5)</sup>	40,228	209,772	N/A	0.18 <sup>(5)</sup>	5 years from grant	N/A	N/A	N/A	N/A

<sup>(1)</sup> Includes a grant made on March 18, 2004 for 658,800 options at an exercise price of \$0.70 (Cdn\$0.85) per share; a grant made on February 16, 2005 for 108,800 options at an exercise price of \$0.53 (Cdn\$0.65) per share; a grant made on August 24, 2005 for 491,900 options at an exercise price of \$0.81 (Cdn\$0.99) per share; a grant made on March 30, 2006 for 108,800 options at an exercise price of \$0.65 (Cdn\$0.79) per share and a grant made on August 22, 2006 for 400,000 options at an exercise price of \$0.41 (Cdn\$0.50) per share.

<sup>(2)</sup> Includes a grant made on July 24, 2007 for 350,000 options at an exercise price of \$0.22 (Cdn\$0.27) per share and a grant made on July 31, 2008 for 50,000 options at an exercise price of \$0.16 (Cdn\$0.20) per share.

<sup>(3)</sup> Includes a grant made on March 18, 2004 for 54,400 options at an exercise price of \$0.70 (Cdn\$0.85) per share; a grant made on February 16, 2005 for 54,400 options at an exercise price of \$0.53 (Cdn\$0.65) per share; a grant made on April 6, 2005 for 75,000 options at an exercise

price of \$0.57 (Cdn\$0.70) per share; a grant made on March 30, 2006 for 54,400 options at an exercise price of \$0.65 (Cdn\$0.79) per share; a grant made on February 20, 2007 for 55,000 options at an exercise price of \$0.38 (Cdn\$0.46) per share, a grant made on July 24, 2007 for 50,000 options at an exercise price of \$0.22 (Cdn\$0.27) per share and a grant made on July 31, 2008 for 125,000 options at an exercise price of \$0.16 (Cdn\$0.20) per share.

<sup>(4)</sup> Includes a grant made on September 4, 2007 for 200,000 options at an exercise price of \$0.19 (Cdn\$0.23) per share and a grant made on July 31, 2008 for 50,000 options at an exercise price of \$0.16 (Cdn\$0.20) per share.

<sup>(5)</sup> Includes a grant made on July 2, 2008 for 200,000 options at an exercise price of \$0.19 (Cdn\$0.23) per share and a grant made on July 31, 2008 for 50,000 options at an exercise price of \$0.16 (Cdn\$0.20) per share.

### Aggregate Option Exercises in 2008 by Executive Officers

The following table provides information as to options exercised, if any, by each of the named executive officers in 2008 and the value of options held by those officers at year-end measured in terms of the last reported sale price for the shares of our common stock on December 31, 2008 (\$0.03).

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at December 31, 2008		Value of Unexercised In-the-Money Options at December 31, 2008 <sup>(1)</sup> (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Randy Buchamer	Nil	-	1,674,442	93,858	-	-
Mike Seeley	Nil	-	227,078	172,922	-	-
Rob Collins	Nil	-	335,449	132,751	-	-
John Gavin	Nil	-	95,388	154,612	-	-
Dave Ballins	Nil	-	40,228	209,772	-	-

<sup>(1)</sup> The values for “in-the-money” options are calculated by determining the difference between the fair market value of the securities underlying the options as of December 31, 2008 (\$0.04 per share on OTC Bulletin Board) and the exercise price of the individual’s options.

### Compensation of the Company’s Directors

Our non-employee directors are granted incentive stock options. Employee directors are granted incentive stock options based on their individual employment agreements. All stock option grants are made pursuant to our Second Amended and Restated 1999 Stock Option Plan.

The following table summarizes compensation paid to all of our non-employee directors:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Qualified Deferred Compensation Earnings (\$)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
David Raffa	Nil	Nil	10,336	N/A	N/A	N/A	10,336
William Krebs	Nil	Nil	10,336	N/A	N/A	N/A	10,336
William H. Laird	Nil	Nil	10,336	N/A	N/A	N/A	10,336

We have no formal plan for compensating our directors for their service in their capacity as directors, although such directors are expected to receive stock options to purchase common shares as awarded by our board of directors or through our compensation committee. Directors are entitled to reimbursement for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of our board of directors. Our board of directors may award special remuneration to any director undertaking any special services on our behalf other than services ordinarily required of a director.

### **Employment Agreement with Our Named Executive Officers**

Randy Buchamer, Chief Executive Officer of our Company and our subsidiary, entered into an employment agreement on August 16, 2001. Except for any accrued salary, Mr. Buchamer is not entitled to any payment following, or in connection with, the resignation, retirement or other termination of Mr. Buchamer's employment as Chief Executive Officer, or in connection with Mr. Buchamer's responsibilities following a change in control. During the year ended December 31, 2008, Mr. Buchamer received a salary of \$164,204 (Cdn\$200,000) plus a car allowance of \$411 (Cdn\$500) per month.

Mike Seeley, Vice President of Sales, entered into an employment agreement on April 2, 2007. Except for any accrued salary, Mr. Seeley is not entitled to any payment following, or in connection with, the resignation, retirement or other termination of Mr. Seeley's employment as Vice President of Sales, or in connection with Mr. Seeley's responsibilities following a change in control. During the year ended December 31, 2008, Mr. Seeley received a salary of \$86,207 (Cdn\$105,000), a draw on commission of \$39,409 (Cdn\$48,000), a car allowance of \$4,926 (Cdn\$6,000) and an office allowance of \$ 3,941 (Cdn\$4,800).

Rob Collins, Director of Marketing, entered into an employment agreement on January 19, 2000. Except for any accrued salary, Mr. Collins is not entitled to any payment following, or in connection with, the resignation, retirement or other termination of Mr. Collins's employment as Director of Marketing, or in connection with Mr. Collins's responsibilities following a change in control. During the year ended December 31, 2008, Mr. Collins received a salary of \$88,670 (Cdn\$108,000) plus a car allowance of \$411 (Cdn\$500) per month.

John Gavin, US Channel Manager, entered into an employment agreement on September 1, 2007. Except for any accrued salary, Mr. Gavin is not entitled to any payment following, or in connection with, the resignation, retirement or other termination of Mr. Gavin's employment as US Channel Manager, or in connection with Mr. Gavin's responsibilities following a change in control. During the year ended December 31, 2008, Mr. Gavin received a salary of \$100,000, a draw on commission of \$48,000, a car allowance of \$7,200 and an office allowance of \$ 2,400.

Dave Ballins, US Channel Director, entered into an employment agreement on January 3, 2008. Except for any accrued salary, Mr. Ballins is not entitled to any payment following, or in connection with, the resignation, retirement or other termination of Mr. Ballins's employment as US Channel Director, or in connection with Mr. Ballins's responsibilities following a change in control. During the year ended December 31, 2008, Mr. Ballins received a salary of \$80,000, a draw on commission of \$48,000, a car allowance of \$7,200 and an office allowance of \$ 2,400.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

We have set forth in the following table certain information regarding our common stock beneficially owned on March 1, 2009 for (i) each stockholder we know to be the beneficial owner of 5% or more of our outstanding common stock, (ii) each of our executive officers and directors, and (iii) all executive officers and directors as a group. In general, a person is deemed to be a “beneficial owner” of a security if that person has or shares the power to vote or direct the voting of such security, or the power to dispose or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which the person has the right to acquire beneficial ownership within 60 days. As of March 1, 2009, we had outstanding approximately 56,842,571 shares of common stock issued and outstanding.

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percentage of Class<sup>(1)</sup></b>
<i>William E. Krebs c/o 100 - 4190 Lougheed Highway Burnaby, BC V5C 6A8</i>	4,379,639 <sup>(2)</sup>	7.7%
<i>William H. Laird c/o 100 - 4190 Lougheed Highway Burnaby, BC V5C 6A8</i>	3,832,721 <sup>(3)</sup>	6.7%
<i>Randy Buchamer c/o 100 - 4190 Lougheed Highway Burnaby, BC V5C 6A8</i>	2,064,826 <sup>(4)</sup>	3.5%
<i>David Raffa c/o 100 - 4190 Lougheed Highway Burnaby, BC V5C 6A8</i>	375,008 <sup>(5)</sup>	**%
<i>Tanner Philp c/o 100 - 4190 Lougheed Highway Burnaby, BC V5C 6A8</i>	16,255 <sup>(6)</sup>	**%
<i>Directors and Executive Officers as a Group(5 persons)</i>	10,693,449 <sup>(7)</sup>	18.0%

\*\* Less than 1%

(1) Based on 56,842,571 shares of common stock issued and outstanding as of March 1, 2009. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities, including those securities convertible or exercisable within 60 days. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed above, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable.

(2) Includes 2,593,131 shares owned by Margit Kristiansen, Mr. Krebs’ wife. Includes 910,000 shares owned by a company of which Mr. Krebs’ wife is a shareholder. Also includes stock options to acquire an aggregate of 250,000 shares of our common stock exercisable within the next 60 days.

(3) Includes 339,000 shares owned by Mr. Laird’s wife. Includes 400,000 shares owned by Grey Friars Rentals Ltd. of which Mr. Laird is a shareholder. Includes options to acquire an aggregate of 69,311 shares of our common stock exercisable within the next 60 days.

- (4) Includes options to acquire an aggregate of 1,727,326 shares of our common stock exercisable within the next 60 days.
- (5) Includes options to acquire an aggregate of 375,008 shares of our common stock exercisable within the next 60 days.
- (6) Includes options to acquire an aggregate of 16,255 shares of our common stock exercisable within the next 60 days.
- (7) Includes options to acquire an aggregate of 2,437,908 shares of our common stock exercisable within the next 60 days.

#### *Equity Plan Compensation Information*

This information can be found under Item 5 - Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Repurchases of Equity Securities.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Other than as described under the heading "Executive Compensation", no director, executive officer, principal stockholder holding at least 5% of our common shares, or any family member thereof, had any material interest, direct or indirect, in any transaction, or proposed transactions, during the year ended December 31, 2008, in which the amount involved in the transaction exceeded or exceeds the lesser of \$120,000 or one percent of the average of our total assets at year-end for the last three completed fiscal years.

#### **Corporate Governance**

We currently act with four directors, consisting of Randy Buchamer, David Raffa, William Krebs and William Laird. We have determined that David Raffa, William Krebs and William Laird are independent directors as defined by Nasdaq Marketplace Rule 4200(a)(15).

We currently act with a standing audit and Governance committee. We do not have a standing nominating committee but our entire board of directors acts as our nominating committee. If any shareholders seeks to nominate a director or bring any other business at any meeting of our shareholders, the shareholder must comply with the procedures contained in our bylaws and the shareholder must notify us in writing and such notice must be delivered to or received by the Secretary in accordance with Rule 14a-8 of the Exchange Act. A shareholder may write to the Secretary of our company at our principal executive office, 100 - 4190 Lougheed Hwy, Burnaby, British Columbia, Canada V5C 6A8, to deliver the notices discussed above and for a copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

#### *Audit Committee*

Our Audit Committee consists of David Raffa, William Krebs and William Laird, all of whom are non-employee directors of our Company. All of the members of the Audit Committee are independent as defined by Nasdaq Marketplace Rule 4200(a)(15). The Audit Committee was established in accordance with Section 3(a)(58)(A) of the Securities and Exchange Act of 1934. The Audit Committee is directed to review the scope, cost and results of the independent audit of our books and records, the results of the annual audit with management and the adequacy of our accounting, financial and operating controls; to recommend annually to the board of directors the selection of the independent registered chartered accountants; to consider proposals made by the independent registered chartered accountants for consulting work; and to report to the board of directors, when so requested, on any accounting or financial matters. The Audit Committee of the board of directors was formed in February 2000 and adopted its charter on April 26, 2002.

*Governance Committee*

The Governance Committee currently consists of David Raffa, William Krebs and William Laird, all of whom are non-employee directors of our Company. All of the members of our Governance Committee are independent as defined by Nasdaq Marketplace Rule 4200(a)(15). The Governance Committee monitors the effectiveness of senior management and the Governance Committee of the Board identifies and reports on candidates to be nominated to the Board

*Transactions with Independent Directors*

Other than as set out below or disclosed under the heading “Certain Relationships and Related Transactions, and Director Independence”, none of our independent directors entered into any transaction, relationship or arrangement during the year ended December 31, 2008 that was considered by our board of directors in determining whether the director maintained his or her independence in accordance with Nasdaq Marketplace Rule 4200(a)(15).

On July 31, 2008, we issued 100,000 stock options to each of David Raffa, William Krebs and William Laird in consideration for their respective services as directors of our Company. Options granted to David Raffa, William Krebs and William Laird have an exercise price of Cdn\$0.20 per share and is further disclosed in this annual report under the heading “Compensation of the Company’s Directors”. Other than reimbursement for travel expenses incurred in connection with attending our directors’ meetings, our Company did not pay any other fees to our directors during the year ended December 31, 2008.

**Item 14. Principal Accounting Fees and Services.**

*Audit Fees*

Our independent registered public accounting firm, Ernst & Young LLP, provided audit and other services during the years ended December 31, 2008 and 2007 as follows:

	<u>2008</u>	<u>2007</u>
<b>Audit Fees</b>	\$81,000	\$95,000
<b>Audit Related Fees</b>	-	-
<b>Tax Fees</b>	11,000	11,000
<b>All Other Fees</b>	<u>1,000</u>	<u>1,000</u>
<b>Total Fees</b>	<u>\$93,000</u>	<u>\$107,000</u>

*Audit Fees.* This category includes the fees for the audit of our consolidated financial statements and the quarterly reviews of interim financial statements. This category also includes advice on audit and accounting matters that arose during or as a result of the audit or the review of interim financial statements and services in connection with SEC filings.

*Audit Related Fees.* There were no audit related fees paid to Ernst & Young LLP.

*Tax Fees.* This category includes the fees for professional services rendered for tax compliance, tax advice and tax planning.

*All Other Fees.* There were no other fees paid to Ernst & Young LLP.

The Securities and Exchange Commission requires that, before Ernst & Young LLP is engaged by our Company or its subsidiaries to render any auditing or permitted non-audit related service, the engagement be:

- approved by our Company’s Audit Committee; or

- entered into pursuant to pre-approval policies and procedures established by the Audit Committee, provided the policies and procedures are detailed as to the particular service, the Audit Committee is informed of each service, and such policies and procedures do not include delegation of the Audit Committee's responsibilities to management.

The Audit Committee requires advance approval of all audit, audit-related, tax, and other services performed by the independent auditor. Unless the specific service has been previously pre-approved with respect to that year, the Audit Committee must approve the permitted service before the independent auditor is engaged to perform it. The Audit Committee has delegated to the chair of the Audit Committee authority to approve permitted services provided that the chair reports any decisions to the committee at its next scheduled meeting.

The Audit Committee has considered the nature and amount of the fees billed by Ernst & Young LLP, and believes that the provision of the services for activities unrelated to the audit is compatible with maintaining Ernst & Young LLP's independence.

**Item 15. Exhibits, Financial Statement Schedules.**

*Exhibits Required by Item 601 of Regulation S-B*

Exhibit Number/Description

Exhibit Number	Description
3.1	Articles of Incorporation, dated October 1, 1997 (1)
3.2	Articles of Amendment of Articles of Incorporation, dated June 24, 1999 (1)
3.6	Amended and Restated Bylaws (2)
4.1	Common Stock Certificate (1)
4.2	Form of Warrant (1)
4.3	Certificate of Designation of Series A Preferred Stock (1)
4.4	Certificate of Designation of Series B Preferred Stock, dated December 27, 2000 (3)
4.5	Certificate of Amendment to Certificate of Designation of Series B Preferred Stock (4)
10.1	Amended and Restated 1999 Stock Option Plan (4)
10.2	Employment Agreement between Voice Mobility Inc. and Randy Buchamer, dated August 16, 2001 (4)
10.3	Form of Amendment agreement in connection with the extension of the maturity date of the Series C, D, E, F, G and H promissory notes payable dated September 19, 2005 between Voice Mobility International Inc., Voice Mobility Inc. and each of Bernice Kosiur, Manzanita Investments Ltd., MICAP Holding Inc., Ketty Hughes, Margit Kristiansen, William Laird, William Krebs, L.A. Laird and Bearberry Investments Inc.(5)

- 10.4 Form of Amendment to Class T warrants dated September 19, 2005 between Voice Mobility International Inc., Voice Mobility Inc. and each of Bernice Kosiur, Manzanita Investments Ltd., MICAP Holding Inc., Ketty Hughes, Margit Kristiansen, William Laird, William Krebs, L.A. Laird and Bearberry Investments Inc. (5)
- 10.5 Form of Subscription Agreement dated December 19, 2006, between our company and 52 investors who participated in the Cdn\$3,425,500 private placement.(6)
- 10.6 Form of Subscription Agreement dated December 19, 2006, between our company and BC Advantage Funds (VCC) Ltd. (6)
- 10.7 Finder's Subscription Agreement dated December 19, 2006, between our company and Raymond James Ltd. (6)
- 14.1 Code of Ethics. (5)
- 31\* Section 302 Certification of Randy Buchamer, dated March 31, 2009
- 32\* Section 906 Certification of Randy Buchamer, dated March 31, 2009
- 21.1 **Subsidiaries of our company**
- Voice Mobility Inc. (Canadian Corporation)  
Voice Mobility Canada Limited (Canadian Corporation)  
VM Sub Limited (Canadian Corporation)  
Voice Mobility (US) Inc. (Nevada corporation)
- 23.1\* Consent of Ernst & Young LLP

\* Filed herewith.

- (1) Previously submitted with our Registration Statement on Form 10-SB, as originally filed on September 17, 1999, and all amendments thereto.
- (2) Previously submitted with our Definitive Schedule 14A as filed on May 19, 2000.
- (3) Previously submitted with our Form 10-KSB, as filed on April 11, 2001.
- (4) Previously submitted with our Form 10-K, as filed on April 1, 2002.
- (5) Previously submitted with our Form SB-2, as filed on October 20, 2005.
- (6) Previously submitted with our Form 8-K, as filed on December 27, 2006.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**VOICE MOBILITY INTERNATIONAL, INC.**

By: "Randy G. Buchamer"  
Randy G. Buchamer  
Chief Executive Officer and Director  
(Principal Executive Officer and  
Principal Financial Officer)

Date: March 31, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
By: " <u>Randy G. Buchamer</u> " Randy G. Buchamer	Chief Executive Officer and Director (Principal Executive Officer and Principal Financial Officer)	March 31, 2009
By: " <u>Harry Chan</u> " Harry Chan	Controller (Principal Accounting Officer)	March 31, 2009
By: " <u>William Krebs</u> " William Krebs	Director	March 31, 2009
By: " <u>William Laird</u> " William Laird	Director	March 31, 2009