
Versatile Mobile Systems (Canada) Inc.
SCHEDULE C
Management Discussion and Analysis
Year Ended June 30, 2004

The following management's discussion and analysis of the consolidated results of operations and financial condition of Versatile Mobile Systems (Canada) Inc. (the "Company") is made as of September 2, 2004 and should be read in conjunction with the audited consolidated financial statements and notes for the year ended June 30, 2004. The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The consolidated financial statements and management's discussion and analysis have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors and are presented in Canadian dollars unless otherwise specified.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions, which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Overview

The Company's core business is developing mobile business solutions that enable companies to improve the sales, marketing and distribution of their products by extending the supply chain beyond the traditional enterprise. The Company delivers wireless mobile solutions to the consumer packaged goods (CPG) and logistics industries through an integrated combination of licensed software, professional services, and the re-sale of mobile-computing devices and related hardware.

The Company offers software applications as a key area of the mobile business solution. These software applications are in the Supply Chain Management and mobile Customer Relationship Management areas operating in a wired or wireless environment.

Highlights for the year

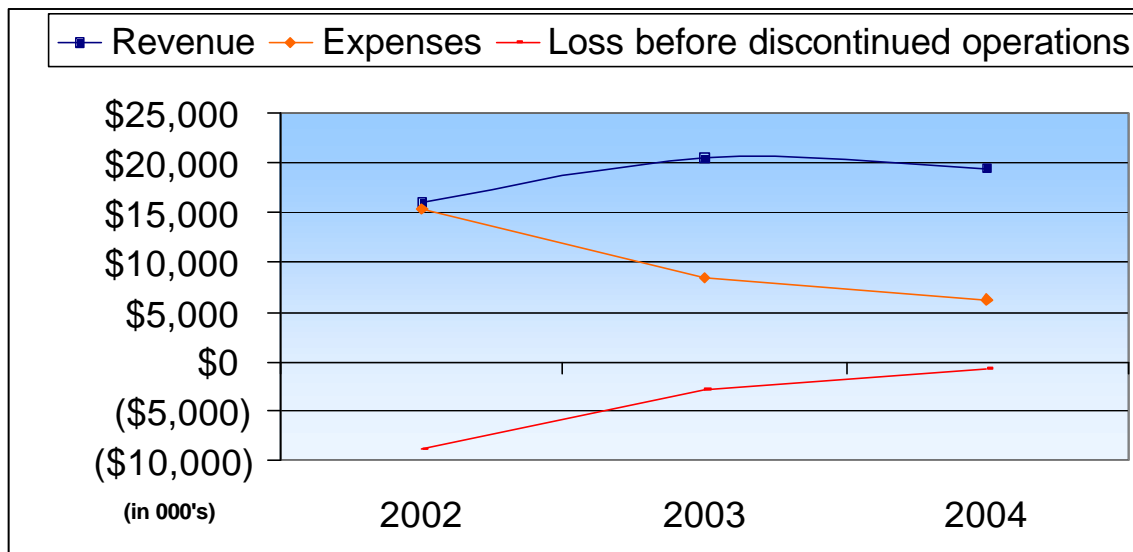
Highlights of the Company's operations for the year included:

- Versatile's VM DEX Server product was chosen by Kellogg Company for implementation in over 50 distribution centers throughout the U.S.A. and VM DEX 3.1 mobile client software was selected for deployment to 1000 Kellogg Direct Store Delivery route drivers.
- Cadbury, Ireland was upgraded to the current version of Versatile's Sales Supervisor product, which upgrade included integration with Cadbury's SAP system.

- Guinness, Ireland licensed Versatile's Shelf Space Planner, which enables their salespeople to create a unique Planogram for each pub or retailer they visit, resulting in the optimum product display.
- Strengthening of the balance sheet with a brokered private placement of \$2,220,000 at a price of \$0.27 per unit and a non-brokered private placement of \$870,000, of which the Directors put in \$370,000, at a price of \$0.35 per unit.
- Versatile named to Deloitte and Touche Fast 500 List, a ranking of the fastest growing 500 technology companies in North America.

Review of operations

Revenue for the year ended June 30, 2004 was \$19,445,105 compared to \$20,596,215 in 2003, a decrease of 5.6%. The loss for the year was \$652,692 (\$0.01 per share) compared to a loss of \$2,739,753 (\$0.03 per share) for 2003. Amortization of capital assets and intangible assets for the year was \$329,760 compared to \$440,300 for the previous year.

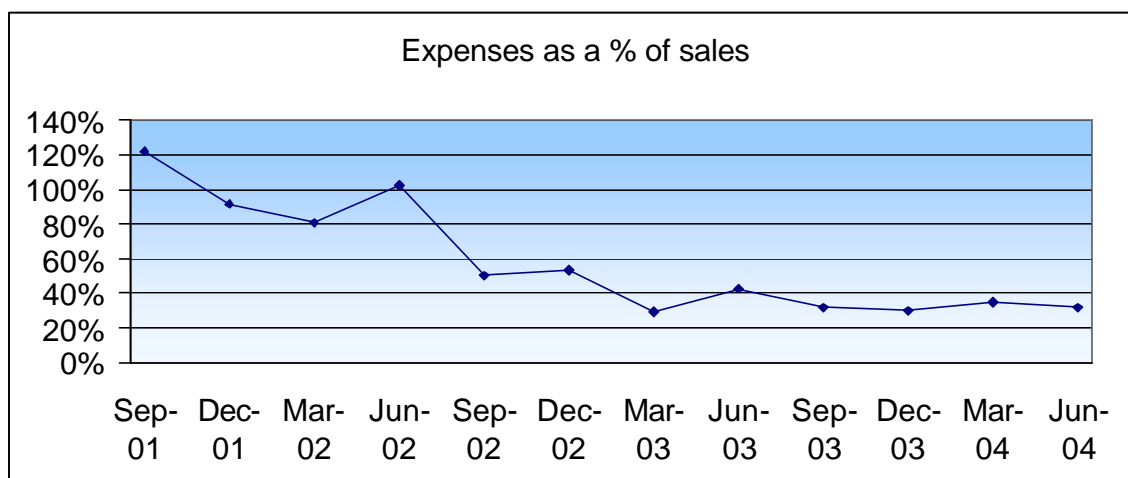


Revenue decreased by \$1,151,110 or 5.6% in the year over the previous year. In the prior year the company recognized as revenue invoiced amounts related to the Books are Fun project that were deferred in 2002. The invoiced amounts were recognized as revenue in the 2003 fiscal year as the company completed all of its contractual obligations.

Cost of sales for the year amounted to \$13,839,103 resulting in a gross profit of \$5,606,002 or 28.8% of sales as compared to \$14,838,352 and a gross profit of \$5,757,863 or 28.0% of sales in the previous year.

The Company determines its provision for inventory obsolescence based upon historical experience, expected inventory turnover, inventory aging and current condition, and current and future expectations with respect to product offerings. Assumptions underlying the provision for inventory obsolescence include future sales trends and

product offerings, and the expected inventory requirements and inventory composition necessary to support these future sales and offerings. The estimate of the Company's provision for inventory obsolescence could materially change from period to period due to changes in product offerings and consumer acceptance of those products. During the year the Company recorded an inventory provision and adjustments of \$189,807 (2003 - \$414,126), which are recorded in the cost of sales.



General and administrative expenses for the year amounted to \$2,570,231 compared to \$3,567,837 last year. Salaries, professional fees, investor relations, communications, office costs and rent were all lower in the year.

Research and development expense for the year amounted to \$1,042,165 compared to \$1,675,837 for last year. Costs decreased as research and development work for several major initiatives were completed last year, which resulted in significant staff reductions. During the year the Company had many new product initiatives, along with feature improvements to current product lines. During the year the Company:

- Upgraded VM Pre-Sales TM for Pocket PC TM,
- Launched VM Route Sales Lite TM for Pocket PC TM,
- Expanded Mobile Ranger's TM capabilities by adding GPRS and GSM to meet customer requirements, and
- Obtained Microsoft certification.

The significant expense item in this category is salary and benefit costs, which amounted to \$923,966 compared to \$1,190,367 last year. In addition, the consulting fees decreased from \$453,153 last year to \$73,169 for the current year.

Selling and marketing expense for the year amounted to \$2,544,508 compared to \$2,732,892 last year. The decrease from last year is attributable to lower salaries and commissions which are partially offset by higher advertising and promotion costs. Selling and marketing expenses in the upcoming year have been budgeted to increase to support new sales initiatives. The selling and marketing expense has decreased from 47.5% of gross profit from the prior year to 45.4% in the current year.

During the year the Company recorded a recovery of premise costs amounting to \$260,373, which have been separately disclosed in the Statement of Operations.

In summary from the 2002 fiscal year to the 2004 fiscal year the Company has seen a significant drop in the expenses in relation to revenue and improved cash flow from operations. The loss from operations has dropped from 55% of revenue in 2002 to 3% of revenue in 2004. Finally, the cash required to fund operations has declined significantly as illustrated in the following table.

	2002	2003	2004
Cash flow from operations before non cash working capital items	(4,283,834)	(2,658,769)	(554,468)
Loss before discontinued operations	(8,797,545)	(2,739,753)	(652,692)
Amortization	5,357,730	440,300	329,760
Loss, net of amortization	(3,439,815)	(2,299,453)	(322,932)

Fourth Quarter

Revenue for the three months ended June 30, 2004 was \$4,711,896 compared to \$4,295,177 for the same period last year an increase of 9.7%. The loss for the quarter was \$724,802 (\$0.01 per share) compared to a loss of \$772,940 (\$0.01 per share) last year. Amortization of capital assets and intangible assets for the quarter was \$82,111 compared to \$127,386 for the same quarter last year. At June 30, 2004 the Company had inventory on consignment with a customer that when sold will generate a gross profit of \$132,700.

Cost of sales for the quarter amounted to \$3,935,788 resulting in a gross profit of \$776,108 or 16.5% of sales as compared to \$3,246,014 or a gross profit of \$1,049,163 or 24.4% of sales for the same quarter last year. During the quarter the Company recorded an inventory provision and adjustments of \$189,807 (2003 - \$147,821), which are recorded in the cost of sales.

General and administrative expenses for the quarter amounted to \$663,376 compared to \$818,063 for the same quarter last year.

Research and development expense for the quarter amounted to \$219,871 compared to \$253,302 for the same quarter last year.

Selling and marketing expense for the quarter amounted to \$591,687 compared to \$481,479 for the same quarter last year.

Financial position

Working capital at June 30, 2004 was \$3,620,261, an increase of \$2,462,670 over the working capital of \$1,157,591 at June 30, 2003. Cash and cash equivalents at June 30,

2004 amounted to \$2,030,248. The ability of the Company to continue operations on an ongoing basis will be dependent on its ability to generate sales, maintain its margins and control operating expenses. The company has cash on hand and accounts receivable sufficient for the company to meet all of its current obligations as they become due.

	2004	2003
Cash and cash equivalents	2,303,248	1,152,287
Accounts receivable	3,155,283	1,440,340
Inventory	1,894,592	1,094,694
Other	25,263	64,876
Current Assets	7,105,386	3,752,197
Less current liabilities	(3,485,125)	(2,594,606)
Working Capital	3,620,261	1,157,591

Cash required for continuing operations before non-cash working capital for the year was \$554,468 compared to \$2,658,769 in the previous year. Cash required for capital expenditures in the year amounted to \$111,279 and capital lease obligations were reduced by \$16,527. The two private placements completed during the year provided cash of \$2,868,830, net of the share issue costs.

Share Capital

On December 4, 2003 the Company closed a non-brokered private placement for gross proceeds of \$870,000. The Company issued 2,485,713 Units at a price of \$0.35 per Unit. All of the officers and directors of the Company participated in this placement subscribing for 1,071,428 Units. Each Unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant will entitle the subscriber to purchase one common share of the Company on or before December 4, 2004 at a price of \$0.40 per common share. For accounting purposes the price of \$0.35 per Unit was allocated as to \$0.30 for each common share and \$0.05 for each share purchase warrant. The issued securities were subject to a hold period, which expired on April 5, 2004.

On March 17, 2004 the Company closed a brokered private placement for gross proceeds of \$2,220,000. The Company issued 8,222,222 Units at a price of \$0.27 per Unit. Each Unit consisted of one common share and one-half of a common share purchase warrant. Each whole common share purchase warrant entitles the subscriber to purchase one common share of the Company on or before September 17, 2005 at a price of \$0.40 per common share. For accounting purposes the price of \$0.27 per Unit was allocated as to \$0.25 per common share and \$0.02 to the one-half share purchase warrant. The Company paid the agent a cash commission of \$166,500 and issued 822,000 Brokers Warrants, which entitle the holder to purchase one common share of the Company on or before March 17, 2005 at a price of \$0.37 per common share. The Brokers Warrants were assigned a value of \$32,889, which was recorded as a share issue cost. The issued securities were subject to a hold period, which expired on July 18, 2004.

Stock Options

During the year the Company granted employees and a director, incentive stock options to acquire a total of 420,000 common shares of the Company. These incentive stock options have a vesting period from 4 months to 28 months, and are exercisable for a period of up to 4 years with exercise prices ranging from \$ 0.11 to \$0.32 per share.

During the year, 170,000 stock options were forfeited or expired (2003 – 1,859,000) and 66,666 stock options were exercised at \$0.10 per share (2003 - no stock options were exercised).

New Accounting Policies:

During the year the company elected to prospectively adopt the Canadian Institute of Chartered Accountants Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments recommendation relating to stock options granted to employees subsequent to June 30, 2003. The recommendations relating to stock-based payments to non-employees were adopted effective July 1, 2003. The standard requires the recognition of stock-based compensation expense for all employee and non-employee stock-based compensation transactions using a fair value based method. The adoption of this accounting policy resulted in the recognition of \$31,284 in compensation expense and additional contributed surplus for the year ended June 30, 2004 for stock options granted to employees.

In 2003 the Company adopted CICA Handbook Section 3062, Goodwill and Other Intangible Assets issued in August, 2001. The company was required to assess whether the intangible assets previously identified as part of the acquisition of the U.S. operations met the new definition of intangible assets. In performing this assessment, the company determined that the acquired workforce and developed technology no longer met the criteria of an intangible asset. As such, the company reclassified a net balance of \$2,222,498 from intangible assets to goodwill.

Also in adopting CICA Handbook Section 3062, the company is required to evaluate the carrying value of goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. During the year, the company performed an assessment of the carrying value of goodwill and found that no impairment charge was required for the year.

Foreign Exchange

Foreign exchange rates for the U.S. dollar did not fluctuate in the year to the extent of the change in the prior year when the Canadian dollar strengthened. The closing rate at June 30, 2004 was 1.3404 (1.3475 at June 30, 2003 and 1.5162 at June 30, 2002). The average rate for fiscal 2004 was 1.3433 (2003 was 1.5129). A significant change in the rates has an impact on the Company's financial statements as most of the company's operations

are in the U.S., which operates its business in U.S. dollars and are translated into Canadian dollars at the prevailing rate.

Related Party Transactions

During the year, the Company paid consulting fees and salaries, which are included in the General and administration expense and Selling and marketing expense, of \$712,598 (2003 - \$681,129). In addition, company-related expense reimbursements paid to directors and officers in the year totalled \$126,502 (2003 - \$169,939).

On December 4, 2003 the Company closed a non-brokered private placement for gross proceeds of \$870,000. All of the officers and directors of the Company participated in this placement subscribing for 1,071,428 Units at a price of \$0.35 per Unit. Each Unit consisted of one common share and one common share purchase warrant.

During the year the Company granted a director, incentive stock options to acquire a total of 75,000 common shares of the Company vesting in 4 months and exercisable for a period of up to 4 years with an exercise price of \$0.32 per share.

Management Changes

On November 27, 2003, Fraser Atkinson, was appointed to the Board of Directors of the company.

Investor relations

During the year Equicom was engaged at a total cost of \$6,500 (2003 – an individual was engaged at a total cost of \$71,928).

Forward-Looking Statements

This document may contain forward-looking statements relating to Versatile Mobile Systems' operations or to the environment in which it operates, which are based on Versatile Mobile Systems' operations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or are beyond Versatile Mobile Systems' control. A number of important factors including those set forth in other public filings could cause actual outcomes and results to differ materially from those expressed in these forward looking statements. Consequently readers should not place any undue reliance on such forward-looking statements. In addition, these forward looking statements relate to the date on which they are made. Versatile Mobile Systems disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.