
Versatile Mobile Systems (Canada) Inc.
Management Discussion and Analysis
For the three months ended September 30, 2004
(amended)

The following management's discussion and analysis of the consolidated results of operations and financial condition of Versatile Mobile Systems (Canada) Inc. (the "Company") as at and for the three months ended September 30, 2004 is made as of November 29, 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.

Review of operations:

Revenue for the quarter ended September 30, 2004 was \$3,811,909 compared to \$5,225,720 for the same quarter last year. The Loss for the quarter was \$642,097 compared to Net Earnings of \$143,964 in the same quarter last year.

Revenue decreased by 27.1% over the same quarter last year. Sales in the period were partially impacted by a decline of 5.3% in the exchange rate for the U.S. dollar with a proportionate impact on cost of sales and expenses.

Cost of sales for the quarter were \$2,936,290 resulting in a gross profit of 23.0% as compared to \$3,404,280 resulting in a gross profit of 33.7% in the same quarter last year. The decrease in the gross profit percentage compared to last year can be attributed to the postponement of higher margin software and professional service deals.

General and administrative costs were \$684,834 for the quarter as compared to \$711,995 for the same quarter last year. Costs were lower due to a reduction in communication costs, professional fees and director consulting, salaries and expenses, which were offset by an increase in investor relation costs.

Research and development costs were \$167,160 for the quarter as compared to \$243,790 for the same quarter last year. The level of in house activity in research and development has decreased as the Company had substantially completed its research and development initiatives by the end of the previous fiscal year. Staffing levels were reduced over the course of the prior year and the Company will continue to evaluate the costs in this area. During the quarter the company continued to invest heavily in its Mobiquity RFID (radio frequency identification) strategy within its target market verticals. The company completed RFID authorization with Zebra (NASDAQ: ZBRA) in addition to Versatile's previously announced partnership with Matrics (now Symbol Technologies, Inc. NYSE: SBL). With the recently announced acquisition of Infologix, the company is well positioned to be at the forefront of this emerging market in both the consumer product goods and healthcare sectors.

Selling and marketing costs for the quarter were \$592,409 compared to \$635,663 for the same quarter last year. The decrease is attributable to lower salary and travel costs offset by an increase in advertising and promotion.

Financial position:

Working capital at September 30, 2004 was \$2,954,350 compared to \$1,317,861 at September 30, 2003. Cash and cash equivalents at September 30, 2004 amounted to \$1,557,176. The ability of the Company to continue operations on an ongoing basis will be dependent on its ability to maintain profitable operations, continue 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.

Cash used in operating activities, including the non-cash working capital items, amounted to \$456,372 for the quarter compared to \$304,877 for the same quarter last year.

Cash required for capital expenditures in the quarter amounted to \$12,962 versus \$51,033 for the same quarter last year. In addition, capital lease obligations were reduced by \$3,738 versus \$2,390 for the same quarter last year.

Share Capital:

During the quarter, the Company issued 78,428 common shares at a price of \$0.35 per common share pursuant to a Financial Services Agreement.

Warrants:

During the quarter no warrants were issued or exercised. The details of the outstanding warrants at September 30, 2004 are as follows:

Expiry Date	Exercise Price	Number	Amount
December 4, 2004	0.40	2,485,713 \$	124,286
March 17, 2005	0.37	822,222	164,444
September 17, 2005	0.40	4,111,110	32,889
Outstanding - September 30, 2004		7,419,045 \$	321,619

Stock Options:

During the quarter 950,000 options expired, 40,000 options were forfeited, no stock options were granted and none were exercised. The details of the outstanding options at September 30, 2004 are as follows:

Option holder	Number of Shares	Exercise Price	Expiry Date
Employees	60,000 \$	1.00	December 18, 2004
Directors & Employees	400,000	1.05	February 3, 2005
Directors & Employees	75,000	1.50	March 1, 2005
Directors & Employees	250,000	2.50	March 9, 2005
Directors & Employees	1,385,000	0.50	April 11, 2005
Directors & Employees	3,408,334	0.10	April 17, 2007
Employees	275,000	0.18	August 18, 2007
Directors & Employees	135,000	0.32	December 6, 2007
	<u>5,988,334</u>		

Foreign Exchange

Foreign exchange rates for the U.S. dollar fell during the quarter as the Canadian dollar strengthened. The closing rate was 1.2639 at September 30, 2004 compared to 1.3404 at June 30, 2004 and 1.3499 at September 30, 2003. The average rate for the three months ended September 30, 2004 was 1.3071 compared to 1.3801 for the three months ended September 30, 2003. The significant change in the rates had an impact on the current year's financial statements as most of the company's operations are in the U.S., which operates its business in U.S. dollars, which are translated into Canadian dollars at the prevailing rate. The substantial change in the foreign exchange rate occurred in the

fourth quarter and had a negative impact on the net monetary position and the results for the fourth quarter.

Related Party Transactions

Related party transactions, which include expenses, in the quarter amounted to \$201,859 compared to \$232,700 for the same quarter last year. Related party expenses, which are allocated to administration expense and selling and marketing expense, are for management services provided to the company by directors acting as officers of the company pursuant to employment or consulting service contracts. In addition the company reimburses expenses paid by the directors for reasonable travel and other costs incurred whilst undertaking company business.

Investor relations

During the period Equicom was engaged at a total cost of \$19,500 (2003 – Nil).

Pursuant to the requirements of National Instrument Policy 51-102F1 the Company is providing selected annual information as set forth in Section 1.3 and a summary of quarterly results as set forth in Section 1.5 of that Policy.

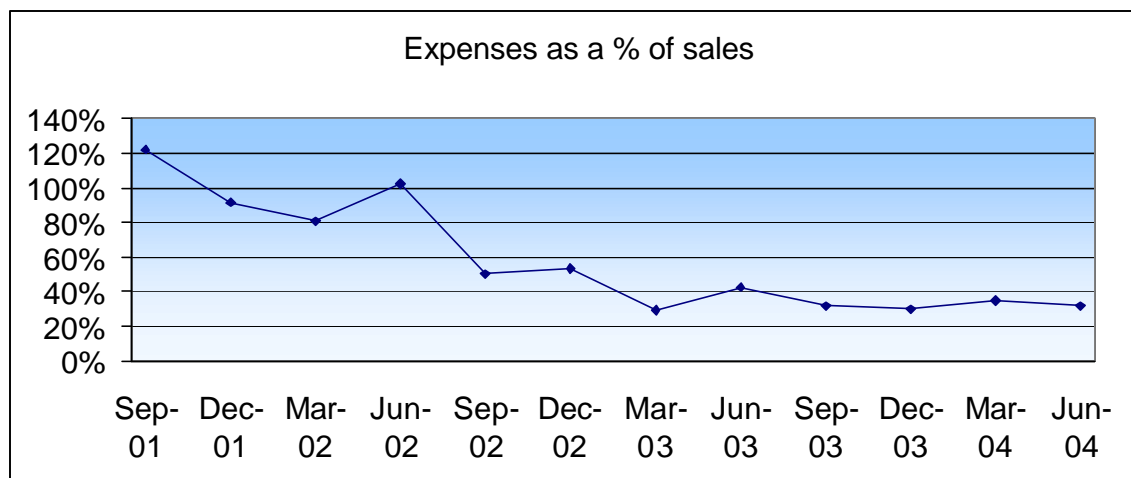
Section 1.3 Selected Financial Information

Below is a summary of certain selected financial information from the audited financial statements for the years ending June 30, 2004, 2003 and 2002:

	For the years ending June 30		
	2002	2003	2004
(a) Net Sales	\$ 16,033,453	\$ 20,596,215	\$ 19,445,105
(b) Income (loss) before discontinued operations and extraordinary items	(8,797,545)	(2,739,753)	(652,692)
and per share, basic and diluted	(0.11)	(0.03)	(0.01)
(c) Net income (loss)	(20,022,397)	(2,739,753)	(652,692)
and per share, basic and diluted	(0.12)	(0.03)	(0.01)
(d) Total assets	16,373,003	7,877,312	11,012,020
(e) Total long-term financial liabilities	242,640	30,016	22,563
(f) Cash Dividends declared per share	N/A	N/A	N/A

Revenue decreased by \$1,151,110 or 5.6% in 2004 over the 2003 fiscal year. In 2003 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.

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. During this period the loss from operations has dropped from 55% of revenue in the 2002 fiscal year to 3% of revenue in the 2004 fiscal year.



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)

Section 1.5 Summary of Quarterly Results

Below is a summary of certain selected unaudited financial information for the most recent eight fiscal quarters comprising the Company's preceding two fiscal years:

	Q2 Dec 02	Q3 Mar 03	Q4 Jun 03	Q1 Sept 03	Q2 Dec 03	Q3 Mar 04	Q4 Jun 04	Q1 Sept 04
Revenue	3,861,544	7,710,548	4,295,177	5,225,720	5,039,522	4,467,967	4,711,896	3,811,909
Cost of Sales	2,870,363	5,587,276	3,246,014	3,404,280	3,515,070	2,983,965	3,935,788	2,936,290
Gross Profit	991,181	2,123,272	1,049,163	1,821,440	1,524,452	1,484,002	776,108	875,619
Expenses:								
General and administrative	1,005,330	996,369	864,660	718,010	575,201	613,644	663,376	684,834
Research & Development	372,130	228,196	253,302	243,790	303,995	274,509	219,871	167,160
Selling & Marketing	587,199	951,570	481,479	635,663	643,046	674,112	591,687	592,409
Amortization	95,126	78,280	127,386	86,028	81,905	79,716	82,111	69,069
Other		(14,526)	95,276	(6,015)	(85,594)	(81,345)	(56,135)	3,198
Income taxes					1119			1,046
	2,059,785	2,239,889	1,822,103	1,677,476	1,519,672	1,560,636	1,500,910	1,517,716
Net Income (loss)	(1,068,604)	(116,617)	(772,940)	143,964	4,780	(76,634)	(724,802)	(642,097)
Net Income (loss) per share	(0.01)	-	(0.01)	-	-	-	(0.01)	(0.01)

The Company's revenues and earnings may fluctuate from quarter to quarter. A number of factors could cause such fluctuations, including the timing of substantial orders, the timing of releases of new products, timing of the shipment of products and delays by customers. Because the Company's operating expenses are determined based on anticipated sales, are generally fixed and are incurred throughout each fiscal quarter, any of the factors listed above could cause significant variations in the Company's revenues and earnings in any given quarter. Thus, the Company's quarterly results are not necessarily indicative of the Company's overall business, results of operations and financial condition.

Foreign exchange rates for the U.S. dollar had a significant impact on operations as the Canadian dollar strengthened. While the closing rate at June 30, 2004 of 1.3404 did not

change significantly from the rate at June 30, 2003 of 1.3475 this was significantly down from the rate of 1.5162 at June 30, 2002. The average rate for fiscal 2004 was 1.3433 compared to 1.5129 for fiscal 2003. 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.

During the 2004 fiscal 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 the 2003 fiscal year 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.

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.