
Versatile Mobile Systems (Canada) Inc.
Management Discussion and Analysis
Nine months ended March 31, 2005

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 and nine months ended March 31, 2005 is made as of May 27, 2005 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.

Acquisition activity:

In the Summer of 2004, Versatile hired Martin Wolfe Securities LLC of San Ramon, California to assist the Company with identifying and pursuing acquisition candidates. Versatile's acquisition strategy is focused on broadening its product offerings to complement its core mobility business, expanding into new industry vertical markets, leveraging acquired salesforce capabilities, and increasing the scope of operations through acquired revenue streams and operating earnings. These efforts resulted in advanced negotiations with two parties, InfoLogix and Perfect Order.

On November 17, 2004 the Company announced that it had entered into a Letter of Intent to purchase all of the outstanding shares of InfoLogix, Inc. and Optasia ACQ, LLC (collectively

"InfoLogix"). The Company spent a considerable amount of time on due diligence activities including legal and financial review, multiple site visits, drafting agreements and related regulatory filings. This activity occurred over a 100 day time frame. The Company incurred significant costs in relation to these activities. The Company announced on February 24, 2005 that it was not proceeding with this transaction.

On February 24, 2005 the Company announced that it had entered into a Letter of Intent to purchase all of the outstanding shares of Perfect Order, Inc. and Perfect Order Manufacturing, Inc. (collectively "Perfect Order").

The Company continued its due diligence activities, including legal and financial review, multiple site visits, the result of which led to the completion of the Share Purchase Agreement to purchase all of the outstanding shares of Perfect Order, which was announced by the Company on March 28, 2005.

Subsequent to the quarter, on April 27, 2005 the Company announced that it had completed the acquisition of Perfect Order.

On closing, the Company paid the Vendors U.S. \$2,000,000 and will pay an additional U.S. \$1,000,000 in the current fiscal year. Additional payments will include four quarterly payments of U.S. \$68,750 commencing June 10, 2005 and ending on March 10, 2006. The Company, through its wholly owned subsidiary Perfect Order Acquisition Corporation ("POAC") issued to the Vendors secured Promissory Notes for U.S. \$4,200,000 bearing interest at the rate of 3.1% per annum, payable 12 months after the closing date.

The Vendors may convert up to one-half of their Promissory Notes, within 10 months of the Closing Date, into shares of the Company at the rate of one common share for each U.S. \$0.34 (CDN \$0.425 per share) of the Promissory Note. In addition, the Company issued 750,000 Common Share purchase warrants (a "Warrant") to the Vendors on the Closing Date. One Warrant entitles the holder thereof to purchase one Common Share of the Company at CDN \$0.345 per share, for a period expiring 24 months after the Closing Date.

The Company, along with POAC also arranged banking facilities with a U.S. based financial institution for a secured term loan of U.S. \$2,800,000 as well as a secured demand loan of up to U.S. \$3,000,000 based on a percentage of eligible accounts receivable. The term loan was used to repay U.S. \$2,739,332 for a term loan that Perfect Order had previously had with another financial institution. The demand loan provides additional access to capital for the combined organization.

In summary, during the quarter the Company spent considerable time and incurred significant costs:

- to pursue the Infologix transaction which was terminated this quarter.
- to pursue the acquisition of Perfect Order,
- to complete the share purchase agreement for the acquisition of Perfect Order, and
- to arrange a U.S. \$5,800,000 banking facility.

For the current fiscal year, the accounts of Perfect Order will be included in the Company's consolidated financial statements from the Closing Date of the acquisition to June 30, 2005.

Significant events in the quarter:

In addition to the acquisition activity, during the quarter there were the following significant events:

- the Company was short listed against one other party, IBM Solutions on a contract for U.S. \$10 million in revenue over a one year period. While this contract was awarded to IBM Solutions the Company will now provide professional services and products for U.S. \$1.4 million to the end-user over the next three quarters,
- the Company graduated to Tier 1 status on the TSX Venture Exchange, and
- Microsoft demonstrated Versatile's Sales Supervisor™ software on the Pen Tablet operating system at the National Retail Trade Show held in New York City

Review of operations:

Revenue for the nine-months ended March 31, 2005 was \$9,909,985 compared to \$14,733,209 for the same period last year. The Net Loss for the nine-month period was \$1,601,951 (\$0.01 per share) compared to Net Earnings of \$72,110 (\$0.00 per share) in the same period last year.

Revenue for the quarter ended March 31, 2005 was \$3,232,765 compared to \$4,467,967 for the same quarter last year. Revenue decreased 32.7% over the comparable nine-month period last year. The Net Loss for the quarter was \$464,670 (\$0.01 per share) compared to a Net Loss of \$76,634 (\$0.00 per share) in the same quarter last year.

Cost of sales for the nine-month period ended March 31, 2005 was \$7,341,602 yielding a gross margin of 25.9% as compared to \$9,903,315 or a gross margin of 32.8% in the same period last year. Cost of sales for the quarter was \$2,402,800 yielding a gross margin of 25.7% as compared to \$2,983,965 or a gross margin of 33.2% in the same quarter last year. The decrease in the cost of sales percentage compared to last year can be attributed to the fact that the sales were primarily related to lower margin hardware and systems integration services.

General and administrative costs were \$1,710,918 for the nine-month period ended March 31, 2005 compared to \$1,921,211 for the same period last year. General and administrative costs were \$544,688 for the quarter as compared to \$621,969 for the same quarter last year. Salary costs were lower in the current period due to the staff reductions that have been made over the past year, which along with reductions in professional fees and premise costs have resulted in a significant reduction in the general and administrative expenses.

Research and development costs were \$471,691 for the nine-month period ended March 31, 2005 as compared to \$822,294 for the same period last year. Research and development costs were \$129,403 for the quarter as compared to \$274,509 for the same quarter last year. The level of in house activity in research and development has decreased as the company has the Company has completed several research and development initiatives. Staffing levels were reduced over the

course of the prior year and the Company will continue to monitor these costs for the remainder of the fiscal year.

Selling and marketing costs for the nine-month period ended March 31, 2005 amounted to \$1,818,219 compared to \$1,952,821 for the same period last year. Selling and marketing costs for the quarter were \$586,250 compared to \$674,112 for the same quarter last year. The investment in sales and marketing has not yet yielded a corresponding increase in revenues. It is anticipated that the benefit of these activities will be realized at a future date.

During the quarter in the prior year the Company realized savings of \$97,640 on its premise costs. These have been separately disclosed in the Statement of Operations.

Financial position:

Working capital at March 31, 2005 was \$2,027,329 compared to \$3,620,261 at June 30, 2004. The ability of the Company to continue operations on an ongoing basis will be dependent on its ability to continue to generate sales, attain profitable operations, maintain margins and control operating expenses.

During the nine months ended March 31, 2005, the accounts receivable were reduced by \$1,342,627 and the accounts payable were reduced by \$1,316,985. These changes can be mainly attributed to the decline in activity.

Cash used in operating activities for the three month period ended March 31, 2005 was \$504,277 compared to \$833,171 for the same period last year and for the nine month period ended March 31, 2005 was \$1,691,191 compared to \$1,013,441 for the same period last year.

Cash required for capital expenditures for the nine-month period ended March 31, 2005 amounted to \$25,608 versus \$69,587 for the same period last year. In addition, capital lease obligations were reduced by \$7,993 for the nine-month period ended March 31, 2005.

Share Capital:

During the quarter, no common shares were issued.

Warrants:

During the quarter 822,222 warrants expired and no warrants were issued or exercised. Warrants that were scheduled to expire on December 4, 2004 were extended to June 4, 2005. The details of the outstanding warrants at March 31, 2005 are as follows:

<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Number of Warrants</u>	<u>Amount</u>
\$0.40	4-Jun-05	2,485,713	\$ 124,286
\$0.40	17-Sep-05	4,111,110	164,444
		6,596,823	\$ 288,730

Stock Options:

During the quarter 725,000 options expired, 200,000 options were forfeited, no options were granted and no options were exercised. The details of the outstanding options at March 31, 2005 are as follows:

<u>Distribution of Stock Options</u>	<u>Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Directors & Employees	1,385,000	\$ 0.50	April 11, 2005
Directors & Employees	3,141,668	0.10	April 17, 2007
Employees	125,000	0.11	August 18, 2007
Directors & Employees	<u>85,000</u>	0.32	December 6, 2007
	<u>4,736,668</u>		

Foreign Exchange

Foreign exchange rates for the U.S. dollar fell during the quarter as the Canadian dollar strengthened. The closing rate was 1.2096 at March 31, 2005 compared to 1.3404 at June 30, 2004. The average rate for the three months ended March 31, 2005 was 1.2270 compared to 1.2207 for the three months ending December 31, 2004 and 1.3071 for the three months ended September 30, 2004. 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.

Related Party Transactions

Related party transactions in the quarter amounted to \$174,259 compared to \$181,759 for the same quarter last year.

Investor relations

During the period Equicom was engaged at a total cost of \$19,500 (2004 – 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 - Annual

Below is a summary of certain selected financial information from the audited consolidated 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 from the Consolidated Statements of Operations for the most recent eight fiscal quarters comprising the Company's preceding two years:

	Q4 2003 Jun 03	Q1 2004 Sept 03	Q2 2004 Dec 03	Q3 2004 Mar 04	Q4 2004 Jun 04	Q1 2005 Sept 04	Q2 2005 Dec 04	Q3 2005 Mar 04
Revenue	4,295,177	5,225,720	5,039,522	4,467,967	4,711,896	3,811,909	2,865,311	3,232,765
Cost of Sales	3,246,014	3,404,280	3,515,070	2,983,965	3,935,788	2,936,290	2,002,512	2,402,800
Gross Profit	1,049,163	1,821,440	1,524,452	1,484,002	776,108	875,619	862,799	829,965
Expenses:				-	-			
General and administrative	864,660	718,010	575,201	613,644	663,376	684,834	481,396	544,688
Research and Development	253,302	243,790	303,995	274,509	219,871	167,160	175,128	586,250
Selling and Marketing	481,479	635,663	643,046	674,112	591,687	592,409	639,560	129,403
Amortization	127,386	86,028	81,905	79,716	82,111	69,069	58,736	31,105
Other	95,276	(6,015)	(85,594)	(81,345)	(56,135)	3,198	3,198	3,199
Income taxes			1119			1,046	(35)	(10)
	1,822,103	1,677,476	1,519,672	1,560,636	1,500,910	1,517,716	1,357,983	1,294,635
Net Earnings (loss)	(772,940)	143,964	4,780	(76,634)	(724,802)	(642,097)	(495,184)	(464,670)
Per share, basic and diluted	(0.01)	-	-	-	(0.01)	(0.01)	(0.01)	(0.01)

The Company's revenues and earnings fluctuate from quarter to quarter. A number of factors can cause such fluctuations, including the timing of substantial orders, the timing of releases of new products, timing of the deployment of solutions 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 can 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. The closing rate was 1.2096 at March 31, 2005 compared to 1.3404 at June 30, 2004. 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 the foreign exchange rate for the prior year was significantly higher at 1.5162 as at June 30, 2002. The average rate for the three months ended March 31, 2005 was 1.2270 compared to the average rate for the three months ended December 31, 2004 of 1.2207 and an average rate of 1.3071 for the three months ended September 30, 2004. 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.