
Versatile Systems Inc.
Management Discussion and Analysis
Year ended June 30, 2007

The following management's discussion and analysis of the consolidated results of operations and financial condition of Versatile Systems Inc. (the "Company" or "Versatile") is made as of August 31, 2007 on the consolidated financial statements and notes for the year ended June 30, 2007.

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and are stated in United States dollars unless otherwise specified. 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.

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.

Forward-Looking Statements

This document may contain forward-looking statements relating to Versatile's operations or to the environment in which it operates, which are based on Versatile's 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's 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 disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

Change of Functional and Reporting Currency to the U.S. dollar

Effective July 1, 2006, the Company adopted the U.S. dollar as its reporting currency. The change in functional and reporting currency is to better reflect the company's business activities and to improve investors' ability to compare the Company's financial results with other publicly traded businesses in the industry. The Company conducts most of its operations in the United States, derives over 90% of its revenue from customers based in the United States and generates positive cash flow from operations. Furthermore the Company's banking facilities are with a U.S. lender. Prior to July 1, 2006, the Company reported its annual and quarterly consolidated balance sheets and the related consolidated statements of operations and shareholders' equity and

cash flows in Canadian dollars (“CDN”). The financial statements and corresponding notes prior to July 1, 2006 have been restated to U.S. dollars for comparison to the fiscal 2007 financial results.

In making this change in reporting currency, the Company followed the recommendations of the Emerging Issues Committee (“EIC”) of the Canadian Institute of Chartered Accountants (“CICA”), set out in EIC-130, “Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency”.

Non-GAAP Disclosure

EBITDA is defined by the Company as net earnings before interest expense, income taxes, depreciation and amortization. The Company has included information concerning EBITDA because it believes that it may be used by certain investors as one measure of the Company's financial performance. EBITDA is not a measure of financial performance under Canadian GAAP and is not necessarily comparable to similarly titled measures used by other companies. EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with Canadian GAAP) as a measure of liquidity.

In addition, the Company has included information concerning its cash flow from (used in) operations before the net change in non-cash working capital items as it may be used by certain investors as further measures of the Company's financial performance.

Overview

The Company's core business is developing solutions that solve customer's problems in the storage, security, transmission and collection of mission critical data. The Company's proprietary software applications, the *Mobiquity*TM Solution Suite, are a key component of this solution. This enables companies to improve the sales, marketing and distribution of their products. The Company delivers wireless/wired solutions to the consumer packaged goods, retail, financial, pharmaceutical, healthcare, and logistics verticals through an integrated combination of licensed software, professional services, and the re-sale of mobile-computing devices and related hardware. The Company also offers maintenance and support via a 24 hour call centre.

Acquisition of the Perfect Order business

On April 26, 2005, the Company acquired all of the issued and outstanding shares of two privately held companies Perfect Order, Inc. and Versatile Systems, Inc. (formerly Perfect Order Manufacturing, Inc.) (collectively “Perfect Order”), which were under common control (the “Acquisition”). The transaction was conducted through the Company's newly incorporated subsidiary, Versatile Acquisition Corporation (“VAC”) and for accounting purposes have been included in the consolidated financial statements from April 26, 2005.

On closing, the Company paid the vendors cash consideration of \$2,000,000, issued unsecured promissory notes to pay \$1,000,000 (the “VAC Notes”), issued secured promissory notes bearing

interest at 3.1% per annum to pay \$4,200,000 due on April 26, 2006 (the “Promissory Notes”) and agreed to make four quarterly payments of \$68,750 on June 10, 2005, September 10, 2005, December 10, 2005 and March 10, 2006. All of these obligations have been paid.

In addition, the Company issued 750,000 Common Share purchase warrants to the Vendors on the closing. One Warrant entitles the holder thereof to purchase one common share at CDN \$0.345 per share on or before April 25, 2007. All of these warrants were exercised in the fourth quarter of the current fiscal year.

Highlights of the fourth quarter

Highlights of the Company’s operations for the fourth quarter included:

- Revenue for the three months ended June 30, 2007 was \$18,193,167 compared to \$15,288,876 for the same quarter last year, an increase of 19.0%,
- Deferred revenue at June 30, 2007 was \$6,787,279 compared to \$5,331,408 at March 31, 2007, an increase of \$1,455,871 during the quarter,
- Strong repeat business from customers including Comcast, Motorola, Tyco Electronics, Thermo Fisher Scientific, Ohio State University and Cadbury Schweppes,
- Earnings before interest, taxes, amortization and stock based compensation for the quarter was \$1,242,273 compared to \$780,654 for the same quarter last year, an increase of 59.1%,
- Cash flow from operations, before the non-cash working capital items, was \$1,144,881 compared to \$605,459 for the same quarter last year, an increase of 89.1%,
- The Company was admitted for trading on the Alternative Investment Market (AIM) of the London Stock Exchange and completed a brokered private placement consisting of 7,241,380 common shares at CDN \$0.6636 (29 pence) per common share for gross proceeds of CDN \$4,805,380,
- Customization and deployment of the final phase of an order for 6,000 handheld devices that were delivered during the year,
- Sale of Versatile’s proprietary software Mobiquity™ Sales Supervisor solution to Cadbury Schweppes’s field reps and regional managers based across England, Scotland, Wales and Northern Ireland,
- Tyco Electronics Corporation, in conjunction with the Company, launched the website www.syncseer.com,
- For the *Mobiquity Kiosk*™ implementation of BillMeLater kiosk application for I4 Commerce and a direct communication connection to Wells Fargo's credit decision systems to eliminate the requirement for third party middleware solutions,
- For the *Mobiquity Transaction Engine 3.0*™ designed, developed, and implemented automated time and attendance module for SyncSeer using long-range passive RFID, and
- The TSX Venture Exchange ranked the Company as the top technology company in its TSX Venture 50 annual ranking.

Review of the fourth quarter

Revenue for the three months ended June 30, 2007 was \$18,193,167 compared to \$15,288,876 for the same quarter last year, an increase of 19.0%. The Company enjoyed significant repeat business from a broad range of industries and customers including:

- Manufacturing – Tyco Electronics, Motorola and Cadbury;
- Major Universities – Penn State, Harvard and Ohio State;
- Healthcare – Thermo Fisher Scientific, Fisher Scientific and Respirationics;
- Retail – Albertsons, Toys “R” Us and Sheetz; and
- Others – Comcast, Mine Safety Appliances and Iron Mountain.

Cost of sales for the quarter amounted to \$13,770,768 resulting in a gross profit of \$4,422,399 or 24.3% of sales as compared to \$11,395,093 resulting in a gross profit of \$3,893,783 or 25.5% of sales for the same quarter last year. This represents an increase of \$528,616 in the gross profit dollars as a result of the higher sales volumes and sales of the Company’s own proprietary software and services.

The EBITDA for the quarter was \$977,377 compared to an EBITDA of \$749,376 for the same quarter last year, an increase of 30.4%. Net Earnings for the quarter amounted to \$992,566 (\$0.01 per share) compared to Net Earnings of \$2,524,786 (\$0.03 per share) for the same period last year. The comparative figure last year included a future income tax benefit of \$2,407,551 compared to \$408,067 for this year.

Earnings before interest, taxes, amortization and stock-based compensation, which is a non-cash item, amounted to \$1,242,273 compared to \$780,654 for the comparable quarter last year.

The cash flow from operations, before the non-cash working capital items, was \$1,144,881 compared to \$605,459 for the same quarter last year, an increase of 89.1%.

Cost of sales

Cost of sales for the quarter amounted to \$13,770,768 resulting in a gross profit of \$4,422,399 or 24.3% of sales as compared to \$11,395,093 resulting in a gross profit of \$3,893,783 or 25.5% of sales for the same quarter last 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. At June 30, 2007 the Company had an inventory provision of \$199,354 (June 30, 2006 - \$225,427).

General and administrative

General and administrative expenses for the quarter amounted to \$1,252,940 compared to \$1,001,277 for the same quarter last year. As a percentage of sales the general and administrative expenses were 6.9% in the quarter compared to 6.5% in the same quarter last year. The increase in the quarter was primarily related to one time costs for recruiting of \$62,590 and additional professional fees.

Technology Investment

Over the past five years the Company has invested in excess of \$10 million in the form of expense to advance the abilities of its technology and resulting service offering. This investment does not generally contribute directly to revenues during the period that the research and development expenses are incurred.

Research and development expense for the quarter amounted to \$339,369 compared to \$269,015 for the same quarter last year. The significant expense item in this category is salary and benefit costs. As a percentage of sales the research and development expenses are 1.9% in the quarter compared to 1.8% in the same quarter last year.

During the current quarter the Company had many feature improvements to current product lines.

For the *Mobiquity Kiosk*[™], these included the following:

- Implementation of BillMeLater kiosk application for I4 Commerce,
- Implementation of a direct communication connection to Wells Fargo's credit decision systems to eliminate the requirement for third party middleware solutions,
- Implementation of extended credit offering on kiosks that are connected with HSBC,
- Streamlined Kiosk configuration so that it is easier to use and requires less time,
- Finalized kiosk support for the IBM Anywhere hardware platform,
- Research into the Verifone mx870 payment platform as a small-form-factor kiosk alternative, and
- Implementation of a large-touch-screen entertainment mall kiosk.

For the *Mobiquity Transaction Engine 3.0*[™] these included the following:

- Designed, developed, and implemented automated time and attendance module for SyncSeer. This solution uses long-range passive RFID to help automated the time and attendance tracking of clients, and
- Improved the remote configuration support for ThingMagic RFID Readers

For the Versatile Foundation, these included revisions and a resubmission of the Portal Virtualization Patent for Versatile Foundation.

Selling and marketing expenses

Selling and marketing expense for the quarter amounted to \$1,587,817 compared to \$1,842,837 for the same quarter last year. As a percentage of sales the selling and marketing expenses are 8.7% in the quarter compared to 12.1% in the same quarter last year.

Amortization

The amortization of capital assets and intangible assets for the quarter amounted to \$282,705 compared to \$359,607 for the same quarter last year. The decrease is due to the Intellectual Property being fully amortized in the second quarter of the current fiscal year. The amount of amortization, relating to the purchased technology arising from the acquisition of Perfect Order, is expected to decline at the end of the 2008 fiscal year.

Future Income Tax Benefits

Canadian GAAP requires a valuation allowance to be recorded against any future tax asset to the extent that it is *more likely than not* that the future income tax asset will not be realized.

Prior to the 2006 fiscal year, the Company determined that it had not met this test so the Company recorded a full valuation allowance against the potential value of all of its tax losses and deductions available to be taken against future years' taxable income. As a result, future income tax assets were fully provided for.

During the 2006 fiscal year, the Company determined that the U.S. subsidiaries were generating sufficient profits such that they were *more likely than not* to utilize the losses and deductions attributable to these U.S. subsidiaries. Consequently, the Company concluded that the valuation allowance be reduced accordingly. The difference between the total value of these tax benefits less the valuation allowance is the amount of the future income tax asset that is recorded by the Company.

For the three months ended June 30, 2007 the Company recorded a \$408,067 (2006 - \$2,407,551) non-cash income tax benefit related to the adjustment in the future income tax benefits recorded on the Balance Sheet as a result of a reduction in the valuation allowances for Versatile Systems Inc. There were no changes in the valuation allowances for the U.S. and the UK operations.

Summary of Quarterly Results

The table below provides 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:

	Q1 2006 Sept 05 (restated)	Q2 2006 Dec 05 (restated)	Q3 2006 Mar 06 (restated)	Q4 2006 Jun 06 (restated)	Q1 2007 Sept 06	Q2 2007 Dec 06	Q3 2007 Mar 07	Q4 2007 Jun 07
Revenue	13,969,405	15,128,708	15,534,379	15,288,876	14,504,692	17,140,576	12,391,840	18,193,167
Cost of Sales	11,086,778	12,234,114	11,959,654	11,395,093	11,526,009	13,187,863	9,029,838	13,770,768
Gross Profit	2,882,627	2,894,594	3,574,725	3,893,783	2,978,683	3,952,713	3,362,002	4,422,399
Expenses:								
General and administrative	1,093,713	1,012,790	1,135,408	1,001,277	983,869	1,180,790	1,179,582	1,252,940
Research and Development	388,736	419,510	445,581	269,015	212,021	262,261	254,565	339,369
Selling and Marketing	1,357,703	1,246,735	1,471,623	1,842,837	1,528,090	1,807,753	1,578,391	1,587,817
Stock-based compensation	28,640	32,304	30,845	31,278	26,061	134,916	129,571	264,896
	2,868,792	2,711,339	3,083,457	3,144,407	2,750,041	3,385,720	3,142,109	3,445,022
Earnings before interest, taxes and amortization	13,835	183,255	491,268	749,376	228,642	566,993	219,893	977,377
Amortization	(325,915)	(302,293)	(310,208)	(359,607)	(320,749)	(309,825)	(249,562)	(282,705)
Interest	(110,296)	(61,243)	(101,030)	(252,534)	(94,454)	(80,321)	(56,907)	(69,236)
Income taxes	401,499	802,001	789,896	2,387,551	324,141	1,981	157,047	367,130
Net Earnings (loss)	(20,877)	621,720	869,926	2,524,786	137,580	178,828	70,471	992,566
Per share, basic and diluted	(0.00)	0.01	0.01	0.03	0.00	0.00	0.00	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.

Review of the operations for the year ended June 30, 2007

Revenue for the year ended June 30, 2007 was \$62,230,275 compared to \$59,921,368 for the same period last year, an increase of \$2,308,907. The EBITDA for the year was \$1,992,905 compared to an EBITDA of \$1,437,734 for the same period last year, an increase of 38.6%. Net Earnings for the period amounted to \$1,379,445 (\$0.01 per share) compared to \$4,058,555 (\$0.04 per share) for the same period last year.

Earnings before interest, taxes, amortization and stock-based compensation, which is a non-cash item, amounted to \$2,548,349 compared to \$1,560,801 for the same period last year.

The cash flow from operations, before the non-cash working capital items, was \$2,159,289 compared to \$1,099,233 for the same period last year, an increase of 96.4%.

Cost of sales

Cost of sales for the year ended June 30, 2007 amounted to \$47,514,478 resulting in a gross profit of \$14,715,797 or 23.6% of sales as compared to \$46,675,639 resulting in a gross profit of \$13,245,729 or 22.1% of sales for the same period last year.

General and administrative

General and administrative expenses for the year ended June 30, 2007 amounted to \$4,597,181 compared to \$4,243,188 for the same period last year representing an increase of 8.3%.

Technology Investment

Research and development expense for the year ended June 30, 2007 amounted to \$1,068,216 compared to \$1,522,842 for the same period last year. The significant expense item in this category is salary and benefit costs. As a percentage of sales the research and development expenses are 1.7% compared to 2.5% for last year. The reduction in the research and development expense can be attributed to an increase in customer funded development as well as a reduction in the number of research and development projects.

Selling and marketing expenses

Selling and marketing expense for the year ended June 30, 2007 amounted to \$6,502,051 compared to \$5,918,898 for the same period last year, an increase of 9.9%. The increase over the comparable period for last year is attributable to higher salaries, commissions, advertising, and promotion costs due to the increase in sales and associated gross profit as well as to support a number of the new sales initiatives.

Amortization

The amortization of capital assets and intangible assets for the year ended June 30, 2007 amounted to \$1,162,841 compared to \$1,235,023 for the same period last year.

Future Income Tax Benefits

For the year ended June 30, 2007 the Company recorded a \$951,622 (2006 - \$4,414,751) non-cash income tax benefit related to the adjustment in the future income tax benefits recorded on the Balance Sheet as a result of a reduction in the valuation allowances for Versatile Systems Inc. There were no changes in the valuation allowances for the U.S. and the UK operations.

Financial position

The Company had working capital of \$2,687,499 at June 30, 2007. During the current fiscal year the classification of the Term Loans changed from long term to current since the Term Loan of \$175,000 was due on July 17, 2007 and the Bank Term Loan of \$2,749,263 is due on October 6, 2007. At June 30, 2006 the Company had a working capital deficiency of \$21,045, which did not include the Term Loans of \$2,749,263 and \$175,000 respectively as these were classified as long term.

At June 30, 2007 the Company had cash and cash equivalents of \$3,369,087 compared to \$99,010 at the prior year-end. The cash flow from operations, before non-cash working capital

items, improved to \$2,159,289 in the current fiscal year compared to \$1,099,233 for the prior year.

The Company has a credit line facility of \$3,000,000 from a U.S. based financial institution. The line of credit bears interest at the State of New York prime rate of lending and is secured with a first charge on the assets of VAC, VSI and POI. As at June 30, 2007 the Company had utilized \$3,383 of the line of credit (June 30, 2006 - \$370,760) and had a bank overdraft of \$170,422 (June 30, 2006 – \$757,968).

The amount that may be advanced under the credit line is limited to 70% of eligible accounts receivable of VAC, POI and VSI less than 90 days from invoice date and less the outstanding balance of the Term Loan, which the Company satisfied based on the Borrowing Base Certificate prepared as of June 30, 2007.

The financial covenants for these companies include requirements for debt coverage of 1.5 and a minimum Tangible Net worth of \$6,000,000. The Company met these tests.

The Company has a term loan in the amount of \$2,749,263 from the same U.S. based financial institution, bearing interest at the State of New York prime rate plus 1% and secured with a first charge on the assets of VAC, VSI and POI. Monthly repayments consist of interest only with the principal due at the end of the term on October 6, 2007. The Company believes that, if necessary, it would be able to obtain another extension on this term loan.

Included in accounts payable and accrued liabilities is \$7,707,954 owing to a major supplier, which is secured by a second charge on the accounts receivable and other assets of VSI and is subordinated to the bank term loan and line of credit. The supplier provided special terms of net 90 days on all purchases placed between May 1, 2007 and June 15, 2007. At June 30, 2006 the Company had a line of credit of up to \$5,000,000 with this supplier.

On April 10, 2006 the Company issued a convertible debenture for proceeds of \$3,617,700 from a U.S. based institution. As part of the consideration for this transaction, the Company also issued 1,411,808 warrants expiring on March 31, 2009 with an exercise price of CDN \$0.38; 1,411,808 warrants expiring on March 31, 2009 with an exercise price of CDN \$0.414; and 1,411,808 warrants expiring on March 31, 2011 with an exercise price of CDN \$0.569. On June 30, 2006 \$3,000,000 of the debenture was converted into 8,789,633 common shares of the Company leaving a balance of \$107,594 which was repaid during the first quarter of the current fiscal year.

Capital Expenditures

During the year ended June 30, 2007 the Company incurred \$455,233 for capital expenditures. Approximately \$300,000 of these expenditures related to an upgrade of the service and technician stations in Seattle and the new premises at 100 Sterling Way in Mechanicsburg, PA. The upgrade of the facilities in Seattle should allow the Company to pursue a broader range of customers that have ongoing service requirements. The move to the new premises in Mechanicsburg has allowed the Company to implement its *Mobiquity Transaction EngineTM* so

that the office spaces can be used to demonstrate to prospective customers and partners. In addition, the Company deployed a new Voice Over IP telephony production system and lab which will allow for improved quality of service and demonstration capability to our customer base. The core power systems including UPS and power management were upgraded to provide improved business continuity measures.

Share Capital

As of August 31, 2007 the Company had 121,829,343 common shares issued and outstanding.

On April 16, 2007, the Company closed a brokered private placement and issued 7,241,380 at a price of \$0.5759 (CDN \$ 0.6636) per share for gross proceeds of \$4,170,390 (CDN \$4,805,380). The Company also issued the broker 583,770 warrants. Each common share purchase warrant entitles the holder to purchase one common share of the Company for a period of four years after the closing date at a price of CDN \$0.6636 per common share.

During the current fiscal year 4,546,986 warrants were exercised to acquire 4,546,986 common shares for proceeds of \$1,394,118.

During the year ended June 30, 2007 a total of 2,406,250 stock options were exercised for proceeds of \$248,934.

On June 30, 2006 \$3,000,000 of the Laurus debenture was converted into 8,789,633 common shares. These shares were issued during the first quarter of the current fiscal year.

Stock Options

During the current fiscal year the number of options available to be granted pursuant to the Company's stock option plan increased from 9,700,000 to 10,800,000, which was approved by the shareholders at the Company's annual general meeting held on December 21, 2006.

During the first quarter of the current fiscal year the Company granted incentive stock options to acquire a total of 2,325,000 common shares of the Company. These incentive stock options have a vesting period of four months and are exercisable for a period of up to four years with an exercise price of CDN \$0.92 per share. During the second quarter of the current fiscal year the Company granted incentive stock options to acquire a total of 1,735,000 common shares of the Company. These incentive stock options have a vesting period of four months and are exercisable for a period of up to four years with an exercise price of CDN \$0.96 per share.

	Number of shares	Weighted average exercise price CDN\$
Outstanding – June 30, 2006	7,742,900	0.24
Granted	4,060,000	0.94
Exercised	(2,406,250)	0.12
Forfeited	<u>(102,750)</u>	0.27
Outstanding – June 30, 2007	<u>9,293,900</u>	0.57

During the current fiscal year, 102,750 stock options were forfeited, no stock options expired and 2,406,250 stock options were exercised at prices ranging from CDN \$0.10 to CDN \$0.25 per share.

For the year ended June 30, 2007, the Company recognized \$555,444 in stock-based compensation, a non-cash item, for vesting of stock options granted to employees, consultants, directors and officers of the Company.

Warrants:

The details of the outstanding warrants at June 30, 2007 are as follows:

Expiry date	Exercise Price CDN\$	Number of Warrants	Cost
August 10, 2007	\$ 0.30	1,646,000	54,685
March 31, 2009	\$ 0.38	1,411,808	107,627
March 31, 2009	\$ 0.414	1,411,808	75,971
March 31, 2011	\$ 0.569	1,411,808	63,309
April 16, 2011	\$ 0.6636	<u>583,770</u>	81,058
Balance - June 30, 2007		<u>6,465,194</u>	<u>\$ 382,650</u>

During the current fiscal year 4,546,986 warrants were exercised to acquire 4,546,986 common shares for proceeds of \$1,394,118.

On April 16, 2007, the Company issued 583,770 warrants expiring on April 16, 2011 with an exercise price of CDN \$0.6636. Each warrant entitles the holder to purchase one common share of the Company. The Company assigned a value of \$0.1389 (CDN \$0.16) to each warrant.

Related Party Transactions

During the current fiscal year, the Company paid consulting fees and salaries, which are included in the General and administration expense, of \$721,194 (2006 - \$723,873) to Directors and Officers of the Company.

During the second quarter of the current fiscal year, the Company granted various officers and directors of the Company, incentive stock options to acquire a total of 1,735,000 common shares

of the Company vesting in four months from the date of the grant and exercisable for a period of up to four years with an exercise price of CDN \$0.96 per share.

During the first quarter of the current fiscal year, the Company granted various officers and directors of the Company, incentive stock options to acquire a total of 1,280,000 common shares of the Company vesting in four months from the date of the grant and exercisable for a period of up to four years with an exercise price of CDN \$0.92 per share.

Subsequent Events

On July 5, 2007 a director and officer of the Company exercised 1,000,000 warrants to purchase 1,000,000 common shares for gross proceeds of \$282,646 (CDN \$300,000). On July 8, 2007 and July 10, 2007 a total of 446,000 warrants were exercised to purchase 446,000 common shares for gross proceeds of \$127,174 (CDN \$133,800).

On July 18, 2007 the Company repaid the Ben Franklin Technologies Term Loan of \$175,000 and the related interest.

Management Changes

There were no management changes during the current fiscal year.

Risk Factors

The securities of the Company should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in this Management Discussion & Analysis prior to making an investment in the Company. In addition to the other information presented in this Management Discussion & Analysis, the following risk factors should be given special consideration when evaluating an investment in the Company's securities.

Operating History

The Company's predecessor company commenced operations in March 1987 to distribute and sell Maximizer products in European countries, as well as provide consulting services and Customer Relationship Management ("CRM") solutions to companies. In January 1997, the Company changed its focus to research and development of CRM software. The Company purchased Versatile U.S. on June 19, 2000 and Perfect Order on April 26, 2005.

History of Losses

The Company had a history of losses up to June 30, 2005 and has an accumulated deficit of \$35,263,226 to June 30, 2007. Although the Company has decreased its operating expenses in recent periods and increased its revenues, the Company cannot be assured that it can maintain its current level of profitability.

No Certainty of Future Profitability

The Company's product revenues are not predictable with any significant degree of certainty and future product revenues may differ from historical patterns. If customers cancel or delay orders, it can have a material adverse impact on the Company's revenues and results of operations from quarter to quarter. Because the Company's results of operations may fluctuate from quarter to quarter, investors should not assume that results of operations in future periods can be predicted based on results of operations in past periods.

Even though the Company's revenues are difficult to predict, the Company's expense levels are based in part on future revenue projections. Many of the Company's expenses are fixed and, accordingly, the Company cannot quickly reduce spending if revenues are lower than expected.

Competitive Market

The market for the Company's software is intensely competitive, fragmented and rapidly changing. Some of the Company's actual and potential competitors are larger, established companies that have greater technical, financial and marketing resources. In addition, as the Company develops new products, particularly applications focused on electronic commerce or specific industries, it may begin competing with companies with whom it has not previously competed. It is also possible that new competitors will enter the market or that the Company's competitors will form alliances that may enable them to rapidly increase their market share.

Increased competition may result in price reductions, lower gross margins or loss of the Company's market share, any of which could materially adversely affect its business, financial condition and operating results.

Technological Change

The market for the Company's solutions is characterized by rapidly changing technology and evolving industry standards. The market is affected by changes in end user requirements and frequent new product introductions and enhancements. The Company's products embody complex technology and may not always be compatible with current and evolving technical standards and products, developed by others. Failure or delays by the Company to meet or comply with the requisite and evolving industry or user standards could have a material adverse effect on the Company's business, results of operations and financial condition. The Company's ability to anticipate changes in technology, technical standards and product offerings will be a significant factor in the Company's ability to compete. There can be no assurance that the Company will be successful in identifying, developing, manufacturing and marketing products that will respond to technological change, evolving standards or individual wireless communications service provider standards or requirements. The Company's business will be adversely affected if the Company incurs delays in developing new products or enhancements or if such products or enhancements do not gain market acceptance. In addition, there can be no assurance that products or technologies developed by others will not render the Company's products or technologies non-competitive or obsolete.

Limited Sales and Support Infrastructure

The Company's future revenue growth will depend in large part on its ability to successfully expand its direct sales force and its customer support capability. The Company may not be able to successfully manage the expansion of these functions or to recruit and train additional direct sales, consulting and customer support personnel.

If the Company is unable to hire and retain additional highly skilled direct sales personnel, it may not be able to increase its license revenue to the extent necessary to achieve profitability. If the Company is unable to hire highly trained consulting and customer support personnel, it may be unable to meet customer demands. The Company is unlikely to be able to increase its revenues as planned if it fails to expand its direct sales force or its consulting and customer support staff. Even if the Company is successful in expanding its direct sales force and customer support capability, the expansion may not result in revenue growth.

Dependence on Business Alliances

A key element of the Company's business strategy is the formation of corporate alliances with leading companies. The Company is currently investing and plans to continue to invest significant resources to develop these relationships. The Company believes that its success in penetrating new markets for its products will depend in part on its ability to maintain these relationships and to cultivate additional or alternative relationships. There can be no assurance that the Company will be able to develop additional corporate alliances with such companies, that existing relationships will continue or be successful in achieving their purposes or that such companies will not form competing arrangements.

Dependence on Key Personnel

The Company's success depends largely upon the continued service of its executive officers and other key management, sales and marketing and technical personnel. The loss of the services of one or more of the Company's executive officers or other key employees could have a material adverse effect on its business, results of operations or financial condition.

The Company's future success also depends on its ability to attract and retain highly qualified personnel. The competition for qualified personnel in the computer software and Internet markets is intense, and the Company may be unable to attract or retain highly qualified personnel in the future. In addition, due to intense competition for qualified employees, it may be necessary for the Company to increase the level of compensation paid to existing and new employees to the degree that operating expenses could be materially increased.

Management of Growth

The Company expects to experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. The Company's future will depend in part on the ability of its officers and other key employees to implement and improve its financial and management controls, reporting systems and procedures on a timely basis and to

expand, train and manage its employee workforce. There can be no assurance that the Company will be able to effectively manage such growth. The Company's failure to do so could have a material adverse effect upon the Company's business, prospects, results of operation and financial condition.

Integration of Newly Acquired Businesses or Technology

The Company may expand its operations through acquisitions of additional businesses or technology. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses or technology or successfully integrate acquired businesses or technology into the Company without substantial expense, delay or other operational or financial problems. Further, acquisitions may involve a number of additional risks, including diversion of management's attention, failure to retain key acquired personnel, unanticipated events or circumstances, legal liabilities and amortization of acquired intangible assets, some or all of which could have a material adverse effect on the Company's business, financial condition and results of operation. In addition, there can be no assurance that acquired businesses, if any, will achieve anticipated revenues and earnings. The failure of the Company to manage its acquisition strategy successfully could have a material adverse effect on the Company's business, financial condition and results of operation.

Potential Fluctuations in Quarterly Financial Results

The Company's quarterly financial results may be affected by the timing of new releases of its products and/or substantial customer orders. The Company's operating expenses are based on anticipated revenue levels in the short term, are relatively fixed, and are incurred throughout the quarter. As a result, if expected revenues are not realized on a timely basis as anticipated, the Company's financial results could be materially and adversely affected. These or other factors, including possible delays in the shipment of new products, may influence quarterly financial results in the future. Accordingly, there may be significant variation in the Company's quarterly financial results.

International Sales

Sales outside of the United States currently represent less than 10% of the Company's total gross revenues. The Company believes that its continued growth and profitability will require additional expansion of its sales in international markets. To the extent that the Company is unable to expand international sales in a timely and cost effective manner, the Company's business, results of operations and financial condition could be materially and adversely affected. In addition, even with the successful recruitment of additional personnel and international resellers, there can be no assurance that the Company will be successful in maintaining or increasing international market demand for the Company's products.

Currency Exchange Rate Risk

The Company's results have been restated into U.S. dollars as a substantial portion of the Company's revenues and a material portion of its expenses are denominated in US dollars.

Dependence on Proprietary Technology and Limited Patent and Trademark Protection

The Company relies on a combination of copyright and trademark laws, trade secret, confidentiality procedures and contractual provisions to protect its proprietary rights. The Company has yet to file any applications for patent protection and has not registered any trademarks or copyrights. Unauthorized parties may attempt to copy aspects of the Company's products or obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's product is difficult, time-consuming and costly as is the pursuing of patents in each jurisdiction in which the Company carries on business. Although the Company is unable to determine the extent to which piracy of its software product exists, software piracy is a possibility. In addition, the laws of certain countries in which the Company's products may be licensed do not protect its product and intellectual property rights to the same extent as the laws do in Canada or the United States. There is no assurance that the Company's means of protecting its proprietary rights will be adequate or the Company's competitors will not independently develop similar technology, the effect of either of which may be materially adverse to the Company's business, results of operations and financial condition.

Risk of Third Party Claims for Infringement

The Company is not aware that its product infringes the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by the Company or its licensees with respect to current or future products. The Company expects that software product developers will increasingly be subject to such claims as the number of products and competitors in the Company's industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements which, if required, may not be available on terms acceptable to the Company. Any of the foregoing could have a materially adverse effect on the Company's business, results of operations and financial condition.

Lengthy Sales and Implementation Cycle

The adoption of the Company's product generally involves a significant commitment of resources by potential customers. As a result, the Company's sales process is often subject to delays associated with lengthy approval processes by potential customers. For these and other reasons, the sales cycle associated with the license of the Company's product varies substantially from customer to customer and typically lasts between 6 to 12 months during which time the Company may devote significant time and resources to a prospective customer, including costs associated with multiple site visits, product demonstrations and feasibility studies, and experience a number of significant delays over which the Company has no control. Any significant or ongoing failure by the Company to ultimately achieve such sales could have a material adverse effect on the Company's business, results of operations and financial condition. In addition, following license sales, the implementation period is expected to involve a time period for customer training and integration with the customer's existing systems. A successful implementation program requires a close working relationship between the Company, the customer and, generally, third party consultants and system integrators who assist in the process.

There can be no assurance that delays or difficulties in the implementation process for any given customer will not have a material adverse effect on the Company's business, results of operations and financial condition.

Risk of System Defects

System development involves the integration of the Company's proprietary software and software of others into the customer's operating systems. There can be no assurance that defects and errors will not be found in the Company's product when integrated with other products or systems. Any such defects and errors could result in adverse customer reactions, negative publicity regarding the Company and its product or damages. Consequently, there could be a material adverse effect on the Company's business, results of operations and financial condition.

Requirements for New Capital

As a growing business, the Company typically needs more capital than it has available to it or can expect to generate through the sale of its products. In the past, the Company has had to raise, by way of debt and equity financing, considerable funds to meet its capital needs. There is no guarantee that the Company will be able to continue to raise funds needed for its business. Failure to raise the necessary funds in a timely fashion will limit the Company's growth.

Critical Accounting Estimates

General

Unless otherwise specified in the discussion of the specific critical accounting estimates, the Company is not aware of trends, commitments, events, or uncertainties that it reasonably expects to materially affect the methodology or assumptions associated with the critical accounting estimates, subject to the circumstances identified above.

Changes are made to assumptions underlying all critical accounting estimates to reflect current economic conditions and updating of historical information used to develop the assumptions, where applicable. Unless otherwise specified in the discussion of the specific critical accounting estimates, it is expected that no material changes in overall financial performance and financial statement line items would arise either from reasonably likely changes in material assumptions underlying the estimate or within a valid range of estimates, from which the recorded estimate was selected.

All critical accounting estimates are uncertain at the time of making the estimate.

Accounts Receivable

Allowance for doubtful accounts

The Company considers the business area that gives rise to the accounts receivable, maintains procedures for granting credit terms on sales transactions and performs specific account identification when determining its allowance for doubtful accounts. This accounting estimate is in respect of the accounts receivable line item on the Company's consolidated balance sheet comprising approximately 37% of total assets as at June 30, 2007. In the event the future results were to adversely differ from management's best estimate of the allowance for doubtful accounts, the Company could experience a bad debt charge in the future. Such a bad debt charge would not result in a cash outflow.

The estimate of the Company's allowance for doubtful accounts could materially change from period to period due to the allowance being a function of the balance and composition of accounts receivable, which can vary on a month-to-month basis. The variance in the balance of accounts receivable can arise from a variance in the amount and composition of operating revenues and from variances in accounts receivable collection performance.

Inventories

Provision for inventory obsolescence

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 the activity levels over previous fiscal years, 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.

This accounting estimate is in respect of the inventory line item on the Company's consolidated balance sheet comprising approximately 3% of total assets as at June 30, 2007. If the provision for inventory obsolescence was inadequate, the Company could experience a charge to direct cost of sales in the future. Such an inventory obsolescence charge would not result in a cash outflow.

Long-Lived Assets

The accounting estimates for long-lived assets that include capital assets, purchased technology, intellectual property, customer contracts and licenses, in aggregate, represent approximately 4% of the Company's total assets as at June 30, 2007, presented in its consolidated balance sheet. If the Company's estimated useful lives of assets were different as a result of changes in facts and circumstances, the Company could experience increased or decreased charges for amortization and the Company could potentially experience future material impairment charges in respect of its recovery of long-lived assets.

Capital Assets

The estimated useful lives of capital assets are determined by a continuing program of asset life studies. The recoverability of capital assets is significantly impacted by the estimated useful lives. Assumptions underlying the estimated useful lives of capital assets include timing of technological obsolescence, competitive pressures and future infrastructure utilization plans. In the event management's best estimate of the useful lives of capital assets was adversely affected, the Company could potentially experience a charge to amortization expense in the future. Such a charge to amortization would not result in a cash outflow.

Purchased Technology

The recoverability of the Company's investment in purchased technology is determined by an ongoing analysis of the economic benefits attributed to the purchased technology. The Company estimates the future economic benefits attributed to the purchased technology and compares the results with the net book value of the asset. Assumptions underlying the estimated future economic benefits of purchased technology costs include future sales trends, product offerings, timing of technological obsolescence, competitive pressures and consumer acceptance of product offerings. If management's best estimate of the future economic benefits of purchased technology costs was adversely affected, the Company could potentially experience a charge to amortization expense in the future. Such a charge to amortization would not result in a cash outflow.

Customer Contracts

The recoverability of the Company's investment in customer contracts is determined by an ongoing analysis of the economic benefits attributed to the customer contracts in place at the date of the acquisition. The Company estimates the future economic benefits attributed to the customer contracts and compares the results with the net book value of the asset. Assumptions underlying the estimated future economic benefits of customer contracts include future sales trends, product offerings, timing of technological obsolescence, competitive pressures and consumer acceptance of product offerings. If management's best estimate of the future economic benefits of customer contracts was adversely affected, the Company could potentially experience a charge to amortization expense in the future. Such a charge to amortization would not result in a cash outflow.

Future Income Tax Benefits

The amount recorded for Future Income Tax Benefits represents approximately 13% of the Company's assets as at June 30, 2007, presented in its consolidated balance sheet. If the Company determines that the valuation allowances relating to the loss carry forwards and tax deductions should be increased, the Company could experience a reduction in the recorded future income tax benefits.

Goodwill

The accounting estimates for goodwill represents approximately 23% of the Company's total assets as at June 30, 2007, presented in its consolidated balance sheet. If the Company's estimated fair value were incorrect, the Company could experience increased or decreased charges for changes to the estimated fair value in the future. If the future were to adversely differ from management's best estimate to recover the Company's investments in its goodwill, the Company could potentially experience future material impairment losses in respect of its goodwill. The impairment losses would be recognized and presented as a separate line item in the consolidated statements of loss and deficit. Impairment losses to goodwill would not result in a cash outflow.

Evaluation and Effectiveness of Disclosure Controls and Procedures

The Company has established and maintains disclosure controls and procedures over financial reporting. The certifying officers have evaluated the effectiveness of the issuer's disclosure controls and procedures as of June 30, 2007 and have concluded that such procedures are adequate and effective to ensure accurate and complete disclosures in annual filings.

Additional information relating to the Company can be found on the Canadian Securities Administrators System for Electronic Document Analysis and Retrieval (SEDAR), located at www.sedar.com

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

Section 1.3 Selected Financial Information - Annual

Below is a summary of certain selected financial information extracted from the audited consolidated financial statements for the years ending June 30, 2007, 2006 and 2005:

	2005	2006	2007
	(restated)	(restated)	
(a) Sales	\$20,920,258	\$59,921,368	\$62,230,275
(b) Net Earnings (loss)	(1,300,126)	4,058,555	1,379,445
(c) Net Earnings (loss) per share, basic and diluted	(0.01)	0.04	0.01
(d) Total assets	29,784,488	33,026,354	43,088,871
(e) Total long-term financial liabilities	551,679	3,462,744	487,416
(f) Cash Dividends declared per share	N/A	N/A	N/A

Revenue increased by \$2,308,907 or 3.9% in 2007 over the 2006 fiscal year. The Company has focused its sales efforts on higher margin sales including its own proprietary products and solutions. The Company also enjoyed significant repeat business from a broad range of industries and customers including:

- Manufacturing – Tyco Electronics, Motorola and Cadbury;
- Major Universities – Penn State, Harvard and Ohio State;
- Healthcare – Thermo Fisher Scientific, Fisher Scientific and Respironics;
- Retail – Albertsons, Toys “R” Us and Sheetz; and
- Others – Comcast, Mine Safety Appliances and Iron Mountain.

Revenue increased by \$39,001,110 or 186% in 2006 over the 2005 fiscal year. The increase was primarily related to the full year of operations from Perfect Order.

Over the past three years the Company has seen a significant drop in the expenses in relation to revenue and improved cash flow from operations.