
Versatile Mobile Systems (Canada) Inc.
SCHEDULE C
Management Discussion and Analysis
Three Months Ended September 30, 2002

The company is primarily engaged in software development and sales of computer software, hardware and systems integration services related to wired and wireless mobile business solutions.

Review of operations:

Revenue for the quarter ended September 30, 2002 was \$4,728,946 compared to \$3,089,108 for the same quarter last year. The loss for the quarter was \$1,966,428 (\$0.02 per share) compared to a loss of \$2,164,445 (\$0.03 per share) in the same quarter last year. The loss in the same quarter last year included a loss from discontinued operations of \$133,581. The loss amounts are after non-cash charges for depreciation, taxes and amortization of goodwill and intangible assets of \$1,354,344 for the quarter compared to \$949,025 last year.

For the quarter, the EBITDA loss (loss before interest expense, taxes, depreciation and amortization of goodwill and intangible assets) was \$642,084 compared to a loss \$1,215,420 for the same quarter last year. These EBITDA amounts are provided by management as a complement to the financial results reported in accordance with GAAP in order to provide investors additional information concerning the company's use of cash in its operations.

Revenue increased 53% over the same quarter last year as a result of a general increase in activity in our market. During the quarter there was no material change in the deferred revenue recognized on the balance sheet of the company.

Cost of sales for the quarter was \$3,134,699 or 66% of sales as compared to \$1,715,732 or 55% of sales in the same quarter last year. The increase in the cost of sales percentage compared to last year can be attributed to an increase in competitive pressure in our market resulting in lower than expected gross margins.

General and administrative costs were \$701,478 for the quarter as compared to \$843,533 for the same quarter last year. Costs were lower in this quarter due to higher costs in the same quarter last year for both staff termination and salaries in the US operations. Also in last year's quarter the company incurred some finance consulting fees. Management expects general and administrative costs to continue to run at the same level as this quarter for the balance of the year as there are no material changes in staff levels or other costs expected.

Research and development costs were \$822,209 for the quarter as compared to \$711,825 for the same quarter last year. Microsoft recently announced that it would not support JAVA on its window's operating systems. As a result the company incurred consulting fees of \$263,454 to optimize its VM RouteSales product for Pocket PC. This initiative has now been completed. The level of in house activity in research and development has decreased in this quarter as the company had substantially completed its R&D initiatives by the end of the previous fiscal year. Staffing levels were reduced during the quarter; however, due to staff termination costs in the quarter, together with the consulting fees, the cost savings in this area will only be realized in the balance of the fiscal year. The company expects these costs to continue to reduce during the year.

Selling and marketing costs for the quarter were \$712,644 compared to \$899,857 for the same quarter last year. The decrease is attributable to lower salary, commission and benefit costs and lower travel, advertising and promotion costs. These lower costs were a result of the company refocusing its sales activities on fewer but larger customers during the latter part of fiscal 2002. Management expects selling and marketing costs, excluding commissions that vary with sales, to continue at the same level as this quarter for the balance of the year as there are no material changes in staff levels or costs expected

Related party transactions in the quarter amounted to \$152,736 compared to \$225,727 for the same quarter last year. The decrease is due to lower sales consulting fees and lower costs for international travel. 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.

During the quarter, the company completed the closure of the business of evolutionB Corporation. Costs of the business of \$258,556 incurred in the quarter were accrued for and included in discontinued operations for the fiscal year ended June 30, 2002. Revenue and expense figures for the previous year have been restated to appropriately disclose the discontinued operations during the year.

Financial position:

Working capital at September 30, 2002 was \$3,439,857 compared to \$3,961,949 at June 30, 2002. Cash and marketable securities at September 30, 2002 amounted to \$2,116,279. Management believes, given the potential sales outlook, that the cash on hand is sufficient for the company to meet its anticipated ongoing obligations as they become due.

During the quarter, there was a significant reduction in both account receivable (\$1,126,654) and accounts payable (\$1,299,875). These changes can be mainly

attributable to the collection of monies owing and the payment of amounts due in relation to the Books are Fun project which were outstanding at June 30, 2002.

Cash required to fund continuing operations for the quarter was \$507,164 (net of \$170,039 for an unrealized foreign exchange gain) compared to \$1,077,772 for the same quarter last year. An additional \$491,762 was required to fund non-cash working capital, compared to \$124,354 for the same quarter last year. Included in the funding required for non-cash working capital is \$258,556 for the reduction during the quarter in the accrued costs of discontinued operations that had been recognized in the balance sheet at June 30, 2002. Cash required to fund discontinued operations in last year's quarter amounted to \$125,531 (nil, this year).

Cash required for capital expenditures in the quarter amounted to \$14,928 versus \$15,714 for the same quarter last year.

During the quarter, there were no changes in share capital, options or warrants.

Other:

On October 29, 2002, John Hardy, Chairman, Chief Executive Officer and President of the company resigned his position of President and Robert P. Polychron was appointed President in addition to his role as a director of the company.

In October the company launched "DEX in a Box" product at the Interbev show in Atlanta. This was well received at this bi-annual industry show. During the quarter the company completed the optimization of its VM RouteSales product for the PocketPC operating system.

On October 17, 2002, Larry Oliver resigned as a director of the company. Martin Hope, a director in the company will not seek reelection as a director of the company at the next Annual General Meeting of the company to be held on December 12, 2002.

Investor relations:

For the three-month period Russ Millward was engaged at a cost of \$8,000 per month plus expenses. At September 30, 2002, Russ Millward owned 262,500 common shares of the company.