
Versatile Mobile Systems (Canada) Inc.
SCHEDULE C
Management Discussion and Analysis
Six Months Ended December 31, 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 six months ended December 31, 2002 was \$8,590,490 compared to \$7,157,842 for the same period last year. The loss for the six month period was \$1,850,196 (\$0.02 per share) compared to a loss of \$4,618,615 (\$0.05 per share) in the same period last year. Amortization of goodwill and intangible assets for the six months ended December 31, 2002 was \$129,561 compared to \$2,572,663 for the same period last year, as a result of adopting the new CICA Handbook sections, which no longer require the amortization of goodwill or intangible assets with an indefinite life. The loss in the same period last year also included a loss from discontinued operations of \$495,046.

Revenue for the quarter ended December 31, 2002 was \$3,861,544 compared to \$4,068,734 for the same quarter last year. The loss for the quarter was \$1,068,604 (\$0.01 per share) compared to a loss of \$2,454,170 (\$0.03 per share) in the same quarter last year. Amortization of goodwill and intangible assets for the quarter ended December 31, 2002 was \$64,692 compared to \$1,283,228 for the quarter last year, as a result of adopting the new CICA Handbook sections, which no longer require the amortization of goodwill or intangible assets with an indefinite life. The loss in the same quarter last year also included a loss from discontinued operations of \$361,465.

In August 2001, the CICA issued Handbook Section 1581, Business Combinations, and Section 3062, Goodwill and Other Intangible Assets. Under Section 1581, intangible assets acquired in a business combination should be identified and recognized apart from goodwill. Under Section 3062, goodwill and intangible assets having indefinite lives are not amortized and are tested for impairment at least annually. The company adopted Section 1581 and Section 3062 effective with start of the current fiscal year, July 1, 2002. As a result, the unamortized goodwill and the unamortized intangible assets with an indefinite life are no longer being amortized. The change in the accounting policy resulted in a reduction in amortization expense for goodwill and intangible assets of \$1,214,836 and \$2,429,672 for the three months and six months ended December 31, 2002.

The company amended and refiled the financial statements for the quarter ended September 30, 2002 to exclude the amortization of goodwill and intangible assets with

indefinite lives, previously recorded, in order to comply with Handbook Section 1581 and 3062. As a result, amortization of goodwill and intangible assets for the quarter ended September 30, 2002 was reduced by \$1,214,836 from \$1,279,705 to \$64,869. The previously reported loss for the quarter of \$1,996,428 was amended to a loss for the quarter of \$781,592.

For the six-month period ended December 31, 2002, the EBITDA loss (loss before interest expense, taxes, depreciation and amortization) was \$1,615,562 compared to an EBITDA loss of \$2,316,516 for the same period last year. For the quarter ended December 31, 2002, the EBITDA loss was \$973,478 compared to an EBITDA loss of \$1,101,096 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 20% over the comparable six-month period last year as a result of a general increase in activity in our market in the first quarter of the year. Also, in the quarter ended December 31, 2002 revenue decreased 5% over the comparable quarter last year, as no professional services revenue with respect to the Books are Fun project was recognized. During the six month period, there was no material change in the deferred revenue recognized on the balance sheet of the company.

Cost of sales for the six month period ended December 31, 2002 was \$6,005,062 or 70% of sales as compared to \$4,152,469 or 58% of sales in the same period last year. Cost of sales for the quarter was \$2,870,363 or 74% of sales as compared to \$2,436,737 or 60% of sales in the same quarter last year. The increase in the cost of sales percentage compared to last year can be attributed to the fact that sales in the current year were primarily related to lower margin hardware and systems integration services. Also, in the quarter ended December 31, 2002, no professional services revenue with respect to the Books are Fun project was recognized while the costs of delivering the same were incurred. Further there has been an increase in competitive pressure in our market resulting in lower than expected gross margins.

General and administrative costs were \$1,706,808 for the six-month period ended December 31, 2002 as compared to \$1,681,434 for the same period last year. General and administrative costs were \$1,005,330 for the quarter as compared to \$837,900 for the same quarter last year. Salary costs were higher in the current period due to the appointment of a new President in October 2002 and non-recurring termination costs relating to staff reductions in the quarter.

Research and development costs were \$1,194,339 for the six month period ended December 31, 2002 as compared to \$1,458,736 for the same period last year. Research and development costs were \$372,130 for the quarter as compared to \$746,911 for the same quarter last year. The level of in house activity in research and development has decreased in this period as the company had substantially completed its research and development initiatives by the end of the previous fiscal year. Staffing levels and

consultants were reduced in the first quarter of the fiscal year. The company will monitor these costs and will continue to ensure that the cost structure is aligned with revenues and gross margins.

Selling and marketing costs for the six month period ended December 31, 2002 were \$1,299,843 compared to \$1,755,521 for the same period last year. Selling and marketing costs for the quarter were \$587,199 compared to \$855,664 for the same quarter last year. The decrease in the period is attributable to staff reductions, in addition to lower travel, advertising and promotion costs. The company will monitor these costs and will continue to ensure that the cost structure is aligned with revenues and gross margins.

Related party transactions in the six month period ended December 31, 2002 amounted to \$378,396 compared to \$394,656 for the same period last year. Related party transactions in the quarter amounted to \$225,660 compared to \$168,928 for the same quarter last year. The increase in the quarter is due to the appointment of a Robert Polychron as President of the Company, in addition to his position as a Director of the company. 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.

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 December 31, 2002 was \$2,318,330 compared to \$3,961,949 at June 30, 2002. Cash and cash equivalents and marketable securities at December 31, 2002 amounted to \$1,012,644. The ability of the Company to continue operations on an ongoing basis will be dependent on its ability to generate sales, maintain its margins and control operating expenses. The company has cash on hand and accounts receivable sufficient for the company to meet its current obligations as they become due.

During the six months ended December 31, 2002, there was a significant reduction in both accounts receivable (\$2,328,969) and accounts payable (\$1,829,764). 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. A significant amount of the inventory is related to the Books are Fun project. The majority of the deferred revenue also relates to this customer. Inventory in the period increased by \$1,211,720 and was the result of increased purchases of hardware items. The company expects the inventory levels to decrease during the remainder of the year as the hardware items are sold through to our customers.

Cash required to fund continuing operations for the six month period was \$1,610,559 (net of \$136,835 for an unrealized foreign exchange gain) compared to \$1,899,637 for the same period last year. An additional \$473,870 was required to fund non-cash working capital, compared to \$1,232,943 for the same period last year. No cash was required to fund discontinued operations this year compared to \$462,848 for the same period last year.

Cash required for capital expenditures in the six month period ended amounted to \$33,060 versus \$80,637 for the same period last year. Cash required for capital expenditures in the quarter amounted to \$18,132 versus \$64,923 for the same quarter last year.

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

Other Events:

On February 5, 2003, Mark Sampson was appointed as President and Chief Executive Officer and David Roberts was appointed Chief Financial Officer of the Company. Robert Polychron continued his position as President of the U.S. subsidiary and was appointed Executive Vice President, Sales & Marketing of the Company. John Hardy remained Chairman of the Board.

On February 13, 2003, Mark Sampson resigned as the President and Chief Executive Officer of the Company and David Roberts resigned as Chief Financial Officer of the Company. In addition, Mr. Sampson and Mr. William Rand resigned from the Board. The resignations occurred as a result of a fundamental disagreement with the Board of Directors as to the manner in which the business should move forward.

On February 21, John Hardy was reappointed Chief Executive Officer, Bob Polychron was appointed President and Fraser Atkinson was appointed Chief Financial Officer of the Company.

Investor relations:

For the six month period Russ Millward was engaged at a cost of \$8,000 per month plus expenses. At December 31, 2002, Russ Millward owned 262,500 common shares of the company.