
Versatile Mobile Systems (Canada) Inc.
SCHEDULE C
Management Discussion and Analysis
Nine Months Ended March 31, 2003

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 nine months ended March 31, 2003 was \$16,301,038 compared to \$12,714,721 for the same period last year. The loss for the nine month period was \$1,966,813 (\$0.02 per share) compared to a loss of \$15,615,969 (\$0.20 per share) in the same period last year which included a loss from discontinued operations of \$10,230,313. Amortization of goodwill and intangible assets for the nine months ended March 31, 2003 was \$191,790 compared to \$3,785,469 for the same period last year, as a result of adopting the new CICA Handbook sections on July 1, 2002, which no longer require the amortization of goodwill or intangible assets with an indefinite life.

Revenue for the quarter ended March 31, 2003 was \$7,710,548 compared to \$5,556,879 for the same quarter last year. The loss for the quarter was \$116,617 (\$0.00 per share) compared to a loss of \$10,997,354 (\$0.15 per share) in the same quarter last year which included a loss from discontinued operations of \$9,735,267. Amortization of goodwill and intangible assets for the quarter ended March 31, 2003 was \$62,229 compared to \$1,212,806 for the quarter last year, as a result of adopting the new CICA Handbook sections on July 1, 2002.

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 having indefinite lives of \$1,214,836 and \$3,644,508 for the three months and nine months ended March 31, 2003.

For the quarter ended March 31, 2003, the EBITDA loss (loss before interest expense, taxes, depreciation, amortization and goodwill write-down) was \$38,337 compared to an EBITDA loss of \$139,389 for the same quarter last year, which included an EBITDA loss

from discontinued operations of \$270,466. For the nine-month period ended March 31, 2003, the EBITDA loss was \$1,653,899 compared to an EBITDA loss of \$2,423,707 for the same period last year, which included an EBITDA loss from discontinued operations of \$733,314. 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 28% over the comparable nine-month period last year as a result of completing a significant amount of projects during the quarter.

Cost of sales for the nine-month period ended March 31, 2003 was \$11,592,338 or 71% of sales as compared to \$6,474,504 or 51% of sales in the same period last year. Cost of sales for the quarter was \$5,587,276 or 72% of sales as compared to \$2,322,035 or 42% 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. Further there has been an increase in competitive pressure in our market resulting in lower than expected gross margins. Also, in the quarter ended March 31, 2003, the Company had substantially completed the implementation of a new inventory management system as well as an extensive review of its inventory and recorded an inventory provision of \$134,600, which is included in cost of sales.

General and administrative costs were \$2,703,177 for the nine-month period ended March 31, 2003 as compared to \$2,611,781 for the same period last year. General and administrative costs were \$996,369 for the quarter as compared to \$930,347 for the same quarter last year. Salary costs were higher in the nine-month period due to the appointment of a new President in October 2002 and non-recurring termination costs relating to staff reductions.

Research and development costs were \$1,422,535 for the nine-month period ended March 31, 2003 as compared to \$2,564,315 for the same period last year. Research and development costs were \$228,196 for the quarter as compared to \$1,105,579 for the same quarter last year. The level of in house activity in research and development continued to decline this quarter as the Company focuses its resources on marketing its completed products and solutions. 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 nine-month period ended March 31, 2003 were \$2,251,413 compared to \$2,681,423 for the same period last year. Selling and marketing costs for the quarter were \$951,570 compared to \$925,902 for the same quarter last year. The decrease in the nine-month 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 nine-month period ended March 31, 2003 amounted to \$621,423 compared to \$586,330 for the same period last year. Related party transactions in the quarter amounted to \$243,027 compared to \$191,674 for the same quarter last year. The increase in the nine-month period ended March 31, 2003 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:

Cash and cash equivalents and marketable securities at March 31, 2003 amounted to \$1,668,937 representing an increase of \$656,293 over the balance of \$ 1,012,644 at the end of the previous quarter on December 31, 2002. Working capital at March 31, 2003 was \$2,079,345 compared to \$2,318,330 at December 31, 2002 and \$3,961,949 at June 30, 2002. The ability of the Company to continue operations on an ongoing basis and obtain profitability will be dependent on its ability to generate sales, maintain its margins and control operating expenses. The company has cash and cash equivalents and accounts receivable sufficient for the company to meet its current obligations as they become due.

During the nine months ended March 31, 2003, there was a significant reduction in accounts receivable (\$3,455,519), inventory (\$2,428,283), accounts payable (\$1,725,274) and deferred revenue (\$3,718,904). These changes can be mainly attributable to focused collection activities, implementation of an inventory management system and the completion of a number of sales milestones, in particular, the Books are Fun project, with the recognition of revenue relating to this project.

Cash required to fund continuing operations for the nine-month period ended March 31, 2003 was \$1,776,827 compared to \$1,707,739 for the same period last year. An additional \$541,581 was received from non-cash working capital items, compared to \$2,563,862 required to fund non-cash working capital for the same period last year. No cash was required to fund discontinued operations this year compared to \$733,314 for the same period last year.

Cash required for capital expenditures in the nine-month period ended March 31, 2003 amounted to \$111,377 versus \$123,634 for the same period last year. Cash required for capital expenditures in the quarter amounted to \$78,317 versus \$42,997 for the same quarter last year.

During the quarter ending March 31, 2003, there were no changes in share capital, options or warrants.

Other Events:

On April 17, 2003, Malcolm F. Clay, B.A., FCA was appointed to the Board of Directors of the company.

On April 17, 2003, the Company granted employee, director and officer incentive stock options to acquire a total of 3,475,000 common shares of the Company exercisable for a period of 4 years at a price of \$ 0.10 per share, subject to approval by the TSX Venture Exchange.

Investor relations:

For the nine-month period ended March 31, 2003, Russ Millward was engaged at a cost of \$8,000 per month plus expenses. The Investor relations functions have since been assumed by John Hardy, CEO and Fraser Atkinson, CFO. At March 31, 2003 Russ Millward owned 262,500 common shares of the company.