

FORM 51-901F

Quarterly Report

Incorporated as part of:

Schedule A
X Schedules B & C

ISSUER DETAILS:

NAME OF ISSUER: Versatile Mobile Systems (Canada) Inc.

ISSUER ADDRESS: #1601 – 750 W. Pender Street, Vancouver, B.C. V6C 2T8

ISSUER PHONE NUMBER: (604) 683-2915

ISSUER FAX NUMBER: (604) 683-2965

ISSUER WEB SITE ADDRESS: www.versatilemobile.com

CONTACT PERSON: Fraser Atkinson

CONTACT EMAIL ADDRESS: fatkinson@versatilemobile.com

CONTACT'S POSITION: Chief Financial Officer

CONTACT TELEPHONE NUMBER: (604) 683-2915

FOR QUARTER ENDED: September 30, 2003

DATE OF REPORT: October 14, 2003

CERTIFICATE

THE SCHEDULE(S) REQUIRED TO COMPLETE THIS QUARTERLY REPORT ARE ATTACHED AND THE DISCLOSURE CONTAINED THEREIN HAS BEEN APPROVED BY THE BOARD OF DIRECTORS. A COPY OF THIS QUARTERLY REPORT WILL BE PROVIDED TO ANY SHAREHOLDER WHO REQUESTS IT. PLEASE NOTE THIS FORM IS INCORPORATED AS PART OF BOTH THE REQUIRED FILING OF SCHEDULE A AND SCHEDULES B & C.

John Hardy

“John Hardy”

2003/10/14

NAME OF DIRECTOR

DATE SIGNED (YY/MM/DD)

Robert Polychron

“Robert Polychron”

2003/10/14

NAME OF DIRECTOR

DATE SIGNED (YY/MM/DD)

Versatile Mobile Systems (Canada) Inc.
SCHEDULE B
Supplementary Information
(Unaudited - Prepared by Management)

	Three months ended September 30	
	<u>2003</u>	<u>2002</u>
1. (a) Year to date cost of sales		
Support costs	\$ 320,832	\$ 592,767
Hardware costs	3,016,807	2,265,295
Integration service	52,926	250,392
Recoverable costs	5,642	3,827
Other costs	8,073	22,418
	\$ 3,404,280	\$ 3,134,699
(b) Year to date general and administrative expenses		
Salaries and benefits	\$ 244,227	\$ 253,212
Communications	40,047	43,180
Investor relations	500	35,280
Office costs and rent	215,177	240,634
Professional expenses	58,140	95,271
Regulatory fees and capital tax	7,061	3,563
Interest income and expense	338	(3,559)
Directors' & Officers' consulting and salaries	152,519	123,352
	\$ 718,010	\$ 790,933
(c) Year to date research and development expense		
Salaries and benefits	\$ 231,811	\$ 547,889
Consulting fees	1,092	263,454
Travel	5,426	518
Other	5,461	10,348
	\$ 243,790	\$ 822,209
(d) Year to date selling and marketing expense		
Salaries, benefits and commissions	\$ 517,828	\$ 614,423
Travel	18,598	44,686
Advertising and promotion	11,900	14,768
Directors' & Officers' consulting and salaries	80,181	29,384
Other	7,157	9,383
	\$ 635,663	\$ 712,644
(e) Year to date related party transactions (Amounts paid to directors & included in above expense categories)		
Officers' consulting and salaries	\$ 181,759	\$ 133,450
Directors' other (expenses paid by directors)	50,941	19,286
	\$ 232,700	\$ 152,736

Versatile Mobile Systems (Canada) Inc.
SCHEDULE B (Continued)
Supplementary Information
(Unaudited - Prepared by Management)

Three months ended September 30, 2003

2. (a) Securities issued:

No securities were issued in the quarter.

(b) Options granted:

On August 20, 2003, the Company granted employee incentive stock options to acquire a total of 275,000 common shares of the Company exercisable for a period of 4 years at a price of \$0.11 per share.

3. (a) As at September 30, 2003 - Share capital

Authorized

100,000,000 shares without par value

	Number	Amount
Issued and outstanding - June 30, 2003	79,897,533	\$ 55,824,954
Issue of shares	-	-
Exercise of options	-	-
Issued and outstanding - September 30, 2003	79,897,533	\$ 55,824,954

(b) As at September 30, 2003 - Stock options outstanding

Options	Number of Shares	Exercise Price	Expiry Date
Employees	100,000	1.00	December 18, 2003
Employees	40,000	1.00	May 29, 2004
Directors & Employees	700,000	0.70	July 26, 2004
Directors & Employees	250,000	1.50	September 27, 2004
Employees	60,000	1.00	December 18, 2004
Directors & Employees	400,000	1.05	February 3, 2005
Directors & Employees	75,000	1.50	March 1, 2005
Directors & Employees	250,000	2.50	March 9, 2005
Directors & Employees	1,445,000	0.50	April 11, 2005
Directors & Employees	3,475,000	0.10	April 17, 2007
Employees	275,000	0.11	August 20, 2007
	7,070,000		

(c) As at September 30, 2003 - Shares in Escrow

Of the issued and outstanding shares, 690,000 are being held in trust for employees of VMS-Europe pursuant to a trust agreement which provides, in part, that these shares cannot be traded or otherwise dealt without the approval of the Board of Directors of VMS, nor can these shares be released from the trust until a prescribed amount of earnings has been generated and then only after the payment to the company by the beneficial holders of \$1 per share. None of these escrowed shares have been allocated to any employees.

4. Directors and Officers

J.Hardy, Director, Chairman and CEO; R.Polychron, Director and President; J. Montanana, Director; Malcolm F. Clay, Director; F. Atkinson, Chief Financial Officer; D. Raffa, Secretary

Versatile Mobile Systems (Canada) Inc.
SCHEDULE C
Management Discussion and Analysis
For the three months ended September 30, 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 quarter ended September 30, 2003 was \$5,225,720 compared to \$4,728,946 for the same quarter last year. The Net Earnings for the quarter were \$143,964 (\$0.00 per share) compared to a loss of \$781,592 (\$0.01 per share) in the same quarter last year. The Net Earnings is after non-cash charges for depreciation and amortization of intangible assets of \$86,028 for the quarter compared to \$139,508 last year.

Revenue increased by \$496,774 over the same quarter last year as a result of a general increase in activity in our market and increased orders from existing customers. Sales in the period were impacted by a decline of over 10% in the foreign exchange rate with a proportionate impact on cost of sales and expenses.

Cost of sales for the quarter were \$3,404,280 resulting in a gross profit of 34.9% as compared to \$3,134,699 resulting in a gross profit of 33.7% in the same quarter last year. The increase in the gross profit percentage compared to last year can be attributed to a slight decrease in competitive pressure in our market.

General and administrative costs were \$718,010 for the quarter as compared to \$790,933 for the same quarter last year. Costs were lower due to a reduction in professional fees and investor relation costs. 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 \$243,790 for the quarter as compared to \$822,209 for the same quarter last year, which included one time termination costs. The level of in house activity in research and development has decreased as the company had substantially completed its research and development initiatives by the end of the previous fiscal year. Staffing levels were reduced over the course of the prior year and the company expects these costs to continue at these levels for the remainder of this fiscal year.

During the quarter the Company:

- Upgraded VM Pre-Sales TM for Pocket PC TM,
- Launched VM Route Sales Lite TM for Pocket PC TM, and
- Expanded Mobile Ranger's TM capabilities by adding GPRS and GSM to meet customer requirements.

Selling and marketing costs for the quarter were \$635,663 compared to \$712,644 for the same quarter last year. The decrease is attributable to lower salary and travel costs. These lower costs were a result of the company refocusing its sales activities on existing customers and recurring orders. Management expects selling and marketing costs, excluding commissions that vary with sales, to increase from this quarter over the

balance of the year. As a result of improving market conditions the Company hired three (two in the U.S. and one in the UK) additional senior sales people during the quarter. The Company will continue to add sales and marketing resources to expand our market share.

Related party transactions, which include expenses, in the quarter amounted to \$232,700 compared to \$152,736 for the same quarter last year. Since Robert Polychron started in October 2002 there is no comparable amount for the prior year. 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.

Financial position:

Working capital at September 30, 2003 was \$1,317,861 compared to \$1,157,591 at June 30, 2003 an increase of \$160,270. Cash and cash equivalents at September 30, 2003 amounted to \$831,909. The ability of the Company to continue operations on an ongoing basis will be dependent on its ability to maintain profitable operations, continue 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 all of its current obligations as they become due.

Cash generated from continuing operations for the quarter was \$213,693 compared to a deficiency of \$507,164 for the same quarter last year. An additional \$480,648 was required to fund non-cash working capital, compared to \$491,762 for the same quarter last year.

Cash required for capital expenditures in the quarter amounted to \$51,033 versus \$14,928 for the same quarter last year. In addition, capital lease obligations were reduced by \$2,390.

Share Capital:

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

Stock Options:

On August 20, 2003, the Company granted employee incentive stock options to acquire a total of 275,000 common shares of the Company exercisable for a period of 4 years at a price of \$0.11 per share, which has been filed with the TSX Venture exchange.

Foreign Exchange

Foreign exchange rates for the U.S. dollar fell during the year as the Canadian dollar strengthened. The closing rate was 1.3499 at September 30, 2003 compared to 1.3475 at June 30, 2003 and 1.5872 at September 30, 2002. The average rate for the three months ended September 30, 2003 was 1.3801 compared to 1.5738 for the three months ended September 30, 2002. 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.

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.