
Versatile Mobile Systems (Canada) Inc.
SCHEDULE C
Management Discussion and Analysis
Six Months Ended December 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.

Financial Highlights:

The following are the highlights for the period ending December 31, 2003:

- Revenue for the six months ended December 31, 2003 increased 19.5% to \$10,265,242 compared to \$8,590,490 for the same period last year.
- Net earnings for the six-month period were \$148,744 (\$0.00 per share) compared to a loss of \$1,850,196 (\$0.02 per share) in the same period last year.
- The Company completed a private placement for gross proceeds of \$870,000.
- Over the past six months working capital has increased by \$1,029,265. Excluding the net proceeds of \$869,210 from the share issuances in the quarter the balance of the increase of \$160,055 is attributable to operations.
- The decline in the translation rate of the U.S. dollar of 16.4% in this quarter compared to the same quarter last year has a significant impact on the current year's financial statements compared to the comparable quarter last year as most of the company's operations are in the U.S.

Review of operations:

Revenue for the six months ended December 31, 2003 was \$10,265,242 compared to \$8,590,490 for the same period last year. The Net earnings for the six-month period were \$148,744 (\$0.00 per share) compared to a loss of \$1,850,196 (\$0.02 per share) in the same period last year. The Net Earnings is after non-cash charges for amortization of capital assets and intangible assets of \$167,933 compared to \$234,634 for the same period last year.

Revenue for the quarter ended December 31, 2003 was \$5,039,522 compared to \$3,861,544 for the same quarter last year. The Net earnings for the quarter were \$4,780 compared to a loss of \$1,068,604 (\$0.01 per share) in the same quarter last year. The Net

Earnings is after non-cash charges for amortization of capital assets and intangible assets of \$81,905 for the quarter compared to \$95,126 for the same quarter last year.

Revenue increased 19.5% over the comparable six-month period last year as a result of a general increase in activity in our market. Also, in the quarter ended December 31, 2003 revenue increased 30.5% over the comparable quarter last year as a result of the completion of several projects.

Cost of sales for the six month period ended December 31, 2003 was \$6,919,350 resulting in a gross profit of 32.6% as compared to \$6,005,062 or a gross profit of 30.1% in the same period last year. Cost of sales for the quarter was \$3,515,070 resulting in a gross profit of 30.2% as compared to \$2,870,363 or a gross profit of 25.7% in the same quarter last year. The decrease in the cost of sales percentage compared to last year can be attributed to the fact that sales in the prior 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.

General and administrative costs were \$1,293,211 for the six-month period ended December 31, 2003 compared to \$1,786,746 for the same period last year. General and administrative costs were \$575,201 for the quarter as compared to \$995,813 for the same quarter last year. Salary costs were lower in the current period due to the staff reductions that have been made over the past year, which along with significant reductions in investor relation costs, professional fees and premise costs have resulted in a significant reduction in the general and administrative expenses.

Research and development costs were \$547,785 for the six-month period ended December 31, 2003 as compared to \$1,194,339 for the same period last year. Research and development costs were \$303,995 for the quarter as compared to \$372,130 for the same quarter last year. The level of in house activity in research and development has decreased as the company has 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 the year.

Selling and marketing costs for the six-month period ended December 31, 2003 amounted to \$1,278,709 compared to \$1,299,843 for the same period last year. Selling and marketing costs for the quarter were \$643,046 compared to \$587,199 for the same quarter last year. The increase in the quarter is primarily due to the increase in revenue and gross profit, which resulted in higher bonuses and commissions.

During the quarter the Company realized savings of \$97,640 on its premise costs. These have been separately disclosed in the Statement of Operations.

Financial position:

Working capital at December 31, 2003 was \$2,186,856 compared to \$1,157,591 at June 30, 2003, an increase of \$1,029,265. Excluding the net proceeds of \$869,210 from the share issuances in the quarter the balance of the increase amounts to \$160,055 and is attributable to operations. Cash and cash equivalents at December 31, 2003 amounted to \$919,842. The ability of the Company to continue operations on an ongoing basis will be dependent on its ability to continue to generate sales, maintain profitable operations, maintain 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.

During the six months ended December 31, 2003, there was a significant increase in both accounts receivable of \$1,824,493 and accounts payable of \$1,015,432. These changes can be mainly attributed to the activity towards the end of the quarter.

Cash generated from continuing operations for the six month period ended December 31, 2003 was \$237,217 compared to cash flow required to fund operations of \$1,610,559 for the same period last year and \$1,261,710 was required to fund non-cash working capital, compared to \$473,870 for the same period last year.

Cash required for capital expenditures for the six-month period ended December 31, 2003 amounted to \$69,587 versus \$33,060 for the same period last year. Cash required for capital expenditures in the quarter amounted to \$18,554 versus \$18,132 for the same quarter last year. In addition, capital lease obligations were reduced by \$7,575 for the six-month period ended December 31, 2003.

Share Capital:

On December 4, 2003 the Company closed a non-brokered private placement for gross proceeds of \$870,000. The Company issued 2,485,713 Units at a price of \$0.35 per Unit. All of the officers and directors of the Company participated in this placement subscribing for 1,071,428 Units. Each Unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant will entitle the subscriber to purchase one common share of the Company for a period of 12 months after the Closing Date at a price of \$0.40 per common share. The issued securities are subject to a hold period, with the hold period expiring on April 5, 2004. For accounting purposes the price of \$0.35 per Unit has been allocated as to \$0.30 per common share and \$0.05 per share purchase warrant.

During the quarter 66,666 stock options were exercised at \$0.10 per share.

Stock Options:

On August 20, 2003, the Company announced that it had granted employee 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.

On December 8, 2003, the Company announced that it had granted incentive stock options to existing employees and a director to acquire a total of 145,000 common shares of the Company exercisable for a period of 4 years at a price of \$0.32 per share.

All of the stock options granted during the quarter have been filed with the TSX Venture Exchange.

During the quarter 66,666 stock options were exercised at \$0.10 per share.

On December 18, 2003 100,000 stock options expired.

Foreign Exchange

Foreign exchange rates for the U.S. dollar fell during the year as the Canadian dollar strengthened. The closing rate was 1.2965 at December 31, 2003 compared to 1.3475 at June 30, 2003 and 1.5776 at December 31, 2002. The average rate used for the three months ended December 31, 2003 was 1.3157 compared to 1.5738 for the three months ended December 31, 2002. The decline in the foreign exchange rate of 16.4% in this quarter compared to the same quarter last year has a significant impact on the current year's financial statements compared to the comparable quarter last year 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. Whereas a significant amount of the Company's expenses are in Canadian dollars so the decline of the U.S. dollar has had a negative impact on the net monetary position and the results for the quarter.

Other Events:

On October 23, 2003 Fraser Atkinson was appointed the Secretary of the Company and on November 26, 2003 Mr. Atkinson was elected to the Board of Directors.

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.