



offshore
systems international Ltd.

2003

1st Quarter Financial Statements



Offshore Systems International Ltd.

Consolidated Financial Statements (unaudited)
(Prepared in accordance with Canadian Generally
Accepted Accounting Principles)

February 28, 2003 and 2002
(expressed in Canadian dollars)

Offshore Systems International Ltd.

Consolidated Balance Sheets (unaudited)

(expressed in Canadian dollars)

	February 28 2003 \$	November 30, 2002 \$
Assets		
Current assets		
Cash and cash equivalents	6,154,779	3,244,048
Accounts receivable (note 2)	2,733,059	3,968,639
Inventory (note 3)	760,133	1,266,806
Prepaid expenses and deposits	280,282	232,215
Future tax asset	98,860	98,860
	<u>10,027,113</u>	<u>8,810,568</u>
Future tax asset	554,856	554,856
Property, plant, and equipment (note 4)	<u>1,348,203</u>	<u>1,401,014</u>
	<u>11,930,172</u>	<u>10,766,438</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	2,475,459	2,584,409
Billing in excess of revenues	185,761	1,642,725
Rent payable	133,942	133,942
	<u>2,795,162</u>	<u>4,361,076</u>
Accrued long term royalties	<u>129,568</u>	<u>372,717</u>
	<u>2,924,730</u>	<u>4,733,793</u>
Capital stock		
Authorized		
100,000,000 Class A preference shares with no par value, issuable in series, of which 10,000,000 shares are designated series A voting non-cumulative retractable convertible at a ratio of 1:1, 1% preference shares		
100,000,000 Class B preference shares with a par value of \$50 each, issuable in series of which 10,000,000 are designated series 1 voting cumulative convertible shares at a ratio of 1:45.5, 6% preference shares.		
100,000,000 common shares without par value		
Issued and outstanding		
30,262 Class A preference shares – Series A (2002 – 41,296, Note 6(b))	30,262	41,296
61,244 Class B preference shares – Series 1 (2002 – nil, Note 6(c))	2,079,960	-
26,026,029 Common shares (2002 - 26,043,243, Note 6(a))	<u>18,168,225</u>	<u>18,179,633</u>
	20,278,447	18,220,929
Warrants	661,575	-
Additional Paid in Capital	22,050	-
Deficit	<u>(11,956,630)</u>	<u>(12,188,284)</u>
	<u>9,005,442</u>	<u>6,032,645</u>
	<u>11,930,172</u>	<u>10,766,438</u>

See accompanying notes to consolidated financial statements

Offshore Systems International Ltd.
Consolidated Statement of Earnings and Deficit (unaudited)
For the periods ended February 28, 2003 and 2002
(expresses in Canadian dollars)

	Three Months ended February 28	
	2003 \$	2002 \$
Revenue		
Systems and system components	2,584,517	2,553,956
Software	205,377	250,040
Geomatics	692,194	379,272
Other	81,087	102,250
	<u>3,563,175</u>	<u>3,285,518</u>
Cost of sales	<u>1,674,737</u>	<u>1,602,137</u>
Gross profit	<u>1,888,438</u>	<u>1,683,381</u>
Expenses		
General and administrative	694,444	577,148
Research and development	483,095	338,559
Sales and marketing	501,651	434,006
Amortization	82,565	96,444
Interest	250	1,745
Foreign exchange loss	136,968	17,520
Technology Partnerships Canada royalty	39,223	237,042
Technology Partnerships Canada contribution	(298,006)	(188,945)
	<u>1,640,190</u>	<u>1,513,519</u>
Earnings from operations	248,248	169,862
Future income tax recovery	-	(97,990)
Earnings for the period	248,248	267,852
Deficit – Beginning of period	(12,188,285)	(13,823,315)
Premium on purchase and cancellation of common shares	(16,593)	-
Deficit – End of period	<u>(11,956,630)</u>	<u>(13,555,463)</u>
Basic earnings per share	0.01	0.01
Diluted earnings per share	0.01	0.01
Weighted average number of common shares outstanding – basic	26,055,212	24,742,393
Weighted average number of common shares outstanding – diluted	29,792,653	27,020,592

See accompanying notes to consolidated financial statements

Offshore Systems International Ltd.
Consolidated Statements of Cash Flows (unaudited)
For the periods ended February 28, 2003 and 2002
(expresses in Canadian dollars)

	2003	2002
	\$	\$
Cash flows from operating activities		
Net earnings for the period	248,248	267,852
Items not affecting cash		
Amortization	82,565	96,444
Stock based compensation	22,050	-
Future tax asset	-	(97,990)
	<u>352,863</u>	<u>266,306</u>
 Changes in non-cash working capital items		
Accounts receivable	1,235,580	(729,470)
Inventory	506,673	(411,829)
Prepaid expenses and deposits	(48,067)	(133,960)
Accounts payable and accrued liabilities	(108,951)	818,714
Billings in excess of revenues	(1,456,964)	(536,402)
Long term royalties	(243,149)	(114,183)
	<u>(114,878)</u>	<u>(1,107,130)</u>
	<u>237,985</u>	<u>(840,824)</u>
 Cash flows from financing activities		
Issue of Common stock	9,128	150,422
Issue of Class B preference shares – Series 1, net of issue costs	2,741,535	-
Share repurchases	(48,163)	-
	<u>2,702,500</u>	<u>150,422</u>
 Cash flows from investing activities		
Additions to property, plant, and equipment	<u>(29,754)</u>	<u>(97,828)</u>
 Increase (decrease) in cash and cash equivalents	2,910,731	(788,230)
 Cash and cash equivalents – Beginning of period	<u>3,244,048</u>	<u>2,037,625</u>
 Cash and cash equivalents – End of period	<u>6,154,779</u>	<u>1,249,395</u>

See accompanying notes to consolidated financial statements

Offshore Systems International Ltd.

Notes to the Consolidated Financial Statements (unaudited)

February 28, 2003

(expressed in Canadian Dollars)

1 Basis of preparation

The accompanying interim unaudited consolidated financial statements include the accounts of Offshore Systems International Ltd. and its subsidiaries, collectively referred to as the company. These financial statements have been prepared by the company in Canadian dollars and in accordance with generally accepted accounting principles ("GAAP") in Canada with respect to interim financial statements, applied on a consistent basis, except as described in Note 7 with respect to the accounting for stock-based compensation. Accordingly, they do not include all the information and footnotes required for compliance with GAAP in Canada for annual financial statements. These interim unaudited consolidated financial statements and notes thereon should be read in conjunction with the audited financial statements and notes included in the company's Annual Report for the year ended November 30, 2002.

The preparation of these interim unaudited consolidated financial statements and the accompanying notes requires management to make estimates and assumptions that affect the amounts reported. In the opinion of management, these interim unaudited consolidated financial statements reflect all adjustments (which include only normal, recurring adjustments) necessary to state fairly the results for the periods presented. Actual results could vary from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

2 Accounts receivable

	February 28, 2003	November 30, 2002
	\$	\$
Trade	1,696,137	2,785,531
Unbilled revenue	780,939	872,128
Technology Partnerships Canada contribution	235,131	157,708
Other	20,852	153,272
	<hr/> 2,733,059	<hr/> 3,968,639

3 Inventory

	February 28, 2003	November 30, 2002
	\$	\$
Materials and components	760,133	1,198,719
Finished goods	-	68,087
	<hr/> 760,133	<hr/> 1,266,806

Offshore Systems International Ltd.

Notes to the Consolidated Financial Statements (unaudited)

February 28, 2003

(expressed in Canadian Dollars)

4 Property, plant, and equipment

	February 28, 2003		
	Cost	Accumulated Amortization	Net
	\$	\$	\$
Equipment	3,581,457	2,676,602	904,855
Computer software	635,785	302,178	333,607
Furniture and fixtures	123,501	79,105	44,396
Leasehold improvements	222,196	178,771	43,425
Licenses and patents	57,267	35,347	21,920
	4,620,206	3,272,003	1,348,203

	November 30, 2002		
	Cost	Accumulated Amortization	Net
	\$	\$	\$
Equipment	3,557,622	2,629,162	928,460
Computer software	630,036	272,235	357,801
Furniture and fixtures	123,331	76,771	46,560
Leasehold improvements	222,196	176,485	45,711
Licenses and patents	57,267	34,785	22,482
	4,590,452	3,189,438	1,401,014

5 Accounts payable and accrued liabilities

	February 28, 2003	November 30, 2002
	\$	\$
Trade	1,351,436	1,323,991
Accrued employee costs	499,728	489,475
Accrued liabilities	394,295	431,563
Accrued royalties	230,000	339,380
	2,475,459	2,584,409

Offshore Systems International Ltd.

Notes to the Consolidated Financial Statements (unaudited)

February 28, 2003

(expressed in Canadian Dollars)

6 Capital Stock

(a) Issued and outstanding Common shares

	February 28, 2003		November 30, 2002	
	Number of common shares	Amount \$	Number of Common shares	Amount \$
Balance – Beginning of year	26,043,243	18,179,633	24,694,549	17,567,101
Issued during the year				
Exercise of stock options	16,852	9,128	1,206,664	495,752
Exercise of share purchase warrants	-	-	125,000	99,750
Class A preference shares converted	11,034	11,034	17,030	17,030
Common stock purchased and cancelled	(45,100)	(31,570)	-	-
Balance – End of year	26,026,029	18,168,225	26,043,243	18,179,633

(b) Class A preference shares

The company has 30,262 (November 30, 2002 - 41,296) Class A preference shares outstanding which have a nominal value for financial statement purposes. These Class A preference shares are being held in escrow and can be released subject to certain release provisions and obtaining approval from the appropriate regulatory authorities.

(c) Class B preference shares

The company completed a private placement on February 13, 2003 consisting of 61,244 units for total gross proceeds of \$3,004,200. Each unit consists of one Class B Series 1 preference share and 22.75 common share purchase warrants. The preference shares are voting convertible shares at a ratio of 1:45.5 and have a cumulative dividend of 6% per annum. The company has the right to redeem the preference shares after five years. The private placement incurred share issue costs of \$262,665. The gross proceeds were allocated between the preference shares and warrants based on their relative fair value at the date of issuance, with the value allocated to the warrants presented as additional paid in capital. The fair value of the preference share has been estimated based on the fair value of the underlying common stock. The fair value of the warrants has been estimated using the Black-Scholes option pricing model. Assumptions used in the pricing model included: (i) risk free rate of 2.7%, (ii) expected volatility of 66%, (iii) an estimated life of 5 years and (iv) an expected dividend rate of 0%.

Offshore Systems International Ltd.

Notes to the Consolidated Financial Statements (unaudited)

February 28, 2003

(expressed in Canadian Dollars)

(d) Earnings per share

	2003	2002
	\$	\$
Basic earnings per share		
Net earnings available to common shareholders	248,248	267,852
Weighted average number of common shares outstanding	26,055,212	24,742,393
Basic earnings per share	0.01	0.01
Diluted earnings per share		
Net earnings	248,248	267,852
Weighted average number of common shares outstanding	26,055,212	24,742,393
Dilutive effect of Class A preference shares – Series A	30,262	58,326
Dilutive effect of Class B preference shares – Series 1	2,786,602	-
Dilutive effect of stock options	920,577	2,157,186
Dilutive effect of warrants	-	62,687
Adjusted weighted average number of common shares outstanding	29,792,653	27,020,592
Diluted earnings per share	0.01	0.01

(e) Normal course issuer bid

In January 2003, the Company received approval for a normal course issuer bid which entitles the Company to repurchase up to 1,300,000 common shares for cancellation between January 16, 2003 and January 15, 2004. The purchases are made on the open market.

During the period January 16 to February 28, 2003, the Company purchased 45,100 of its common shares under the normal course issuer bid at an average cost of \$1.07 per share for an aggregate consideration of \$48,163. The amount by which the cost of reacquiring the shares exceeded the average carrying value has been charged to the deficit.

7 Stock based compensation

Effective December 1, 2002 the Company adopted CICA 3870 Stock-based Compensation and Other Stock-based payments. As permitted by CICA 3870 the Company has applied this change prospectively for new awards granted on or after January 1, 2002. The Company has chosen to recognize no compensation when stock options are granted to employees and directors under stock option plans with no cash settlement features. However, direct awards of stock to employees, and stock and stock option and stock awards granted to non-employees have been accounted for in accordance with the fair value method of accounting for stock-based compensation. Had compensation cost for these grants been determined based on the fair value at the grant date consistent with the provisions of CICA 3870, the Company's net earnings and net earnings per share would have been adjusted to the pro forma amounts indicated below:

Offshore Systems International Ltd.

Notes to the Consolidated Financial Statements (unaudited)

February 28, 2003

(expressed in Canadian Dollars)

	February 28, 2003 \$	February 28, 2002 \$
Net earnings	248,248	267,852
Additional compensation expense	359,224	398,607
Pro forma net loss	(110,976)	(130,755)
Pro forma basic loss per share	0.00	(0.01)
Pro forma diluted loss per share	0.00	0.00

8 Segmented information

The company's reportable segments are as outlined below. Accounting policies used by these segments are the same as those described in the significant accounting policies as those disclosed in note 2 of the company's audited financial statements for the year ended November 30, 2002.

	February 28, 2003		
	Systems \$	Geomatics \$	Total \$
Revenue	2,868,956	694,219	3,563,175
Technology Partnerships Canada - net	(258,783)	-	(258,783)
Interest expense	-	250	250
Net earnings	230,489	17,759	248,248
Property, plant and equipment expenditures	19,067	10,687	29,754
Amortization	58,699	23,866	82,565
	February 28, 2002		
	Systems \$	Geomatics \$	Total \$
Revenue	2,906,246	379,272	3,285,518
Technology Partnerships Canada - net	48,097	-	48,097
Interest expense	1,480	265	1,745
Net earnings	219,193	48,659	267,852
Property, plant and equipment expenditures	36,549	61,279	97,828
Amortization	47,812	48,632	96,444

Offshore Systems International Ltd.

Notes to the Consolidated Financial Statements (unaudited)

February 28, 2003

(expressed in Canadian Dollars)

	February 28, 2003		
	Systems \$	Geomatics \$	Total \$
Total assets employed	10,814,343	1,115,829	11,930,172

	November 30, 2002		
	Systems \$	Geomatics \$	Total \$
Total assets employed	9,633,345	1,133,093	10,766,438

Geographically, revenues reported are based on the location of the company's customers.

	Three months ended February 28	
	2003 \$	2002 \$
Canada	846,961	1,875,444
United States	1,604,794	789,010
Denmark	1,111,420	621,064
Total	<u>3,563,175</u>	<u>3,285,518</u>

Geographically, property, plant and equipment are reported based on location. At February 28, 2003 and 2002, all of the company's property, plant and equipment was located in Canada.

9 Reclassifications

Certain balances for the three months ended February 28, 2002 have been reclassified to conform to the presentation adopted for the current period.