



**offshore**

**systems international Ltd.**

**2003**

**3<sup>rd</sup> Quarter Financial Statements**



# **Offshore Systems International Ltd.**

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

**August 31, 2003 and 2002**  
(expressed in Canadian dollars)

# Offshore Systems International Ltd.

Consolidated Balance Sheets (unaudited)

(expressed in Canadian dollars)

|   | August 31,<br>2003<br>\$ | November 30,<br>2002<br>\$ |
|---|--------------------------|----------------------------|
| <b>Assets</b>   |                          |                            |
| <b>Current assets</b>   |                          |                            |
| Cash and cash equivalents   | 5,056,362                | 3,244,048                  |
| Accounts receivable (note 2)  | 3,129,431                | 3,968,639                  |
| Inventory (note 3)  | 905,351                  | 1,266,806                  |
| Prepaid expenses and deposits   | 174,776                  | 232,215                    |
| Future tax asset  | 98,860                   | 98,860                     |
|   | <u>9,364,780</u>         | <u>8,810,568</u>           |
| <b>Future tax asset</b>   | 554,856                  | 554,856                    |
| <b>Property, plant, and equipment</b> (note 4)  | <u>1,374,002</u>         | <u>1,401,014</u>           |
|   | <u>11,293,638</u>        | <u>10,766,438</u>          |
| <b>Liabilities and Shareholders' Equity</b>   |                          |                            |
| <b>Current liabilities</b>  |                          |                            |
| Accounts payable and accrued liabilities (note 5)   | 2,308,074                | 2,584,409                  |
| Billing in excess of revenues   | 84,652                   | 1,642,725                  |
| Rent payable  | 133,942                  | 133,942                    |
|   | <u>2,526,668</u>         | <u>4,361,076</u>           |
| <b>Accrued long term royalties</b>  | <u>232,948</u>           | <u>372,717</u>             |
|   | <u>2,759,616</u>         | <u>4,733,793</u>           |
| <b>Capital stock</b>  |                          |                            |
| 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))  | -                        | -                          |
| 61,244 Class B preference shares – Series 1 (2002 – nil, Note 6(c))   | 2,065,420                | -                          |
| 25,894,157 Common shares (2002 - 26,043,243, Note 6(a))   | 18,055,502               | 18,220,929                 |
|   | <u>20,120,922</u>        | <u>18,220,929</u>          |
| <b>Warrants</b>   | 661,575                  | -                          |
| <b>Additional Paid in Capital</b>   | 43,050                   | -                          |
| <b>Deficit</b>  | <u>(12,291,523)</u>      | <u>(12,188,284)</u>        |
|   | <u>8,534,022</u>         | <u>6,032,645</u>           |
|   | <u>11,293,638</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 August 31, 2003 and 2002

(expressed in Canadian dollars)

|   | Three Months Ended<br>August 31 |              | Nine Months Ended<br>August 31 |              |
|---|---------------------------------|--------------|--------------------------------|--------------|
|   | 2003<br>\$                      | 2002<br>\$   | 2003<br>\$                     | 2002<br>\$   |
| <b>Revenue</b>  |                                 |              |                                |              |
| Systems and system components   | 883,811                         | 2,022,155    | 5,305,824                      | 7,692,720    |
| Geomatics   | 991,457                         | 454,818      | 2,598,419                      | 1,299,708    |
| Software  | 181,022                         | 17,162       | 429,091                        | 394,036      |
| Other   | 218,863                         | 203,646      | 463,020                        | 424,287      |
|   | 2,275,153                       | 2,697,781    | 8,796,354                      | 9,810,751    |
| <b>Cost of sales</b>  | 1,069,429                       | 1,125,971    | 3,979,312                      | 4,822,872    |
| <b>Gross profit</b>   | 1,205,724                       | 1,571,810    | 4,817,042                      | 4,987,879    |
| <b>Expenses</b>   |                                 |              |                                |              |
| General and administrative  | 534,186                         | 756,497      | 1,828,446                      | 1,982,892    |
| Research and development  | 396,661                         | 340,999      | 1,280,733                      | 1,098,683    |
| Sales and marketing   | 506,014                         | 446,830      | 1,509,579                      | 1,316,205    |
| Amortization  | 93,235                          | 80,525       | 263,171                        | 278,476      |
| Interest  | 4                               | 425          | 293                            | 3,469        |
| Foreign exchange loss   | 320                             | (116,941)    | 183,542                        | (98,072)     |
| Technology Partnerships Canada royalty                                | 14,101                          | 60,368       | 66,545                         | 405,305      |
| Technology Partnerships Canada contribution                           | -                               | (220,716)    | (376,880)                      | (647,229)    |
|   | 1,544,521                       | 1,347,987    | 4,755,429                      | 4,339,729    |
| <b>Earnings (loss) from operations</b>                                | (338,797)                       | 223,823      | 61,613                         | 648,150      |
| <b>Proceed on settlement of claim</b>                                 | -                               | 221,978      | -                              | 221,978      |
| <b>Earnings (loss) before income taxes</b>                            | (338,797)                       | 445,801      | 61,613                         | 870,128      |
| <b>Future income tax recovery</b>                                     | -                               | 90,734       | -                              | 245,724      |
| <b>Earnings (loss) for the period</b>                                 | (338,797)                       | 536,535      | 61,613                         | 1,115,852    |
| <b>Deficit – Beginning of period</b>                                  | (11,889,230)                    | (13,243,998) | (12,188,284)                   | (13,823,315) |
| <b>Premium on purchase and cancellation of common shares</b>          | (63,496)                        | -            | (164,852)                      | -            |
| <b>Deficit – End of period</b>  | (12,291,523)                    | (12,707,463) | (12,291,523)                   | (12,707,463) |
| <b>Basic earnings (loss) per share</b>                                | (0.01)                          | 0.02         | 0.00                           | 0.04         |
| <b>Diluted earnings (loss) per share</b>                              | (0.01)                          | 0.02         | 0.00                           | 0.04         |
| <b>Weighted average number of common shares outstanding – basic</b>   | 25,984,877                      | 25,050,960   | 25,984,877                     | 25,050,960   |
| <b>Weighted average number of common shares outstanding – diluted</b> | 29,679,775                      | 27,217,815   | 29,679,775                     | 27,217,815   |

See accompanying notes to consolidated financial statements

# Offshore Systems International Ltd.

## Consolidated Statements of Cash Flows (unaudited)

For the periods ended August 31, 2003 and 2002

(expressed in Canadian dollars)

|   | Three Months Ended<br>August 31 |             | Nine Months Ended<br>August 31 |             |
|---|---------------------------------|-------------|--------------------------------|-------------|
|   | 2003<br>\$                      | 2002<br>\$  | 2003<br>\$                     | 2002<br>\$  |
| <b>Cash flows from operating activities</b>                                       |                                 |             |                                |             |
| Net earnings (loss) for the period  | (338,797)                       | 536,535     | 61,613                         | 1,115,852   |
| Items not affecting cash  |                                 |             |                                |             |
| Amortization  | 93,235                          | 80,525      | 263,171                        | 278,476     |
| Stock based compensation  | -                               | -           | 43,050                         | -           |
| Gain on disposal of equipment   | -                               | (15,447)    | -                              | (15,447)    |
| Future tax asset  | -                               | (90,734)    | -                              | (245,724)   |
|   | (245,562)                       | 510,879     | 367,834                        | 1,133,157   |
| Changes in non-cash working capital items   |                                 |             |                                |             |
| Accounts receivable   | 347,727                         | (1,494,454) | 839,208                        | (1,612,983) |
| Inventory   | (260,076)                       | (145,379)   | 361,455                        | (420,153)   |
| Prepaid expenses and deposits   | 81,983                          | 42,663      | 57,439                         | (309,045)   |
| Accounts payable and accrued liabilities  | 17,094                          | 452,218     | (276,335)                      | 682,025     |
| Billings in excess of revenues  | (38,700)                        | 1,194,411   | (1,558,073)                    | 866,840     |
| Rent payable  | -                               | (37,725)    | -                              | (37,725)    |
| Long term royalties   | 6,295                           | 21,599      | (139,769)                      | (39,933)    |
|   | 154,323                         | 33,333      | (716,075)                      | (870,974)   |
|   | (91,239)                        | 544,212     | (348,241)                      | 262,183     |
| <b>Cash flows from financing activities</b>                                       |                                 |             |                                |             |
| Issue of Common stock   | 39,563                          | 113,104     | 105,123                        | 351,732     |
| Issue of Class B preference shares - Series 1 and warrants, net of<br>issue costs | -                               | -           | 2,726,995                      | -           |
| Share repurchases   | (164,226)                       | -           | (435,401)                      | -           |
|   | (124,663)                       | 113,104     | 2,396,717                      | 351,732     |
| <b>Cash flows from investing activities</b>                                       |                                 |             |                                |             |
| Additions to property, plant, and equipment                                       | (33,749)                        | (275,451)   | (236,162)                      | (567,743)   |
| Proceed from disposal of equipment  | -                               | 80,000      | -                              | 80,000      |
|   | (33,749)                        | (195,451)   | (236,162)                      | (487,743)   |
| <b>Increase (decrease) in cash and cash equivalents</b>                           | (249,651)                       | 461,865     | 1,812,314                      | 126,172     |
| <b>Cash and cash equivalents – Beginning of period</b>                            | 5,306,013                       | 1,701,932   | 3,244,048                      | 2,037,625   |
| <b>Cash and cash equivalents – End of period</b>                                  | 5,056,362                       | 2,163,797   | 5,056,362                      | 2,163,797   |

See accompanying notes to consolidated financial statements

# Offshore Systems International Ltd.

Notes to the Consolidated Financial Statements (unaudited)

August 31, 2003

(expressed in Canadian dollars)

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## 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

|   | <b>August 31,<br/>2003</b> | <b>November 30,<br/>2002</b> |
|---|----------------------------|------------------------------|
|   | \$                         | \$                           |
| Trade                                       | 899,096                    | 2,785,531                    |
| Unbilled revenue                            | 2,059,622                  | 872,128                      |
| Technology Partnerships Canada contribution | 77,275                     | 157,708                      |
| Other                                       | 93,438                     | 153,272                      |
|   | <hr/>                      | <hr/>                        |
|   | 3,129,431                  | 3,968,639                    |
|   | <hr/>                      | <hr/>                        |

## 3 Inventory

|                          | <b>August 31,<br/>2003</b> | <b>November 30,<br/>2002</b> |
|--------------------------|----------------------------|------------------------------|
|                          | \$                         | \$                           |
| Materials and components | 622,434                    | 1,198,719                    |
| Finished goods           | 282,917                    | 68,087                       |
|                          | <hr/>                      | <hr/>                        |
|                          | 905,351                    | 1,266,806                    |
|                          | <hr/>                      | <hr/>                        |

# Offshore Systems International Ltd.

Notes to the Consolidated Financial Statements (unaudited)

August 31, 2003

(expressed in Canadian dollars)

## 4 Property, plant, and equipment

|                        | August 31, 2003  |                  |                  |
|------------------------|------------------|------------------|------------------|
|                        | Cost             | Accumulated      | Net              |
|                        | \$               | Amortization     | \$               |
|                        |                  | \$               | \$               |
| Equipment              | 3,740,459        | 2,781,892        | 958,567          |
| Computer software      | 680,253          | 366,953          | 313,300          |
| Furniture and fixtures | 125,873          | 83,910           | 41,963           |
| Leasehold improvements | 222,737          | 183,361          | 39,376           |
| Licenses and patents   | 57,267           | 36,471           | 20,796           |
|                        | <u>4,826,589</u> | <u>3,452,587</u> | <u>1,374,002</u> |

|                        | November 30, 2002 |                  |                  |
|------------------------|-------------------|------------------|------------------|
|                        | Cost              | Accumulated      | Net              |
|                        | \$                | Amortization     | \$               |
|                        |                   | \$               | \$               |
| 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           |
|                        | <u>4,590,452</u>  | <u>3,189,438</u> | <u>1,401,014</u> |

## 5 Accounts payable and accrued liabilities

|                        | August 31,       | November 30,     |
|------------------------|------------------|------------------|
|                        | 2003             | 2002             |
|                        | \$               | \$               |
| Trade                  | 717,562          | 1,323,991        |
| Accrued liabilities    | 1,008,632        | 431,563          |
| Accrued employee costs | 427,937          | 489,475          |
| Accrued royalties      | 153,943          | 339,380          |
|                        | <u>2,308,074</u> | <u>2,584,409</u> |

# Offshore Systems International Ltd.

Notes to the Consolidated Financial Statements (unaudited)

August 31, 2003

(expressed in Canadian dollars)

## 6 Capital Stock

### (a) Issued and outstanding Common shares

|                                      | August 31, 2003         |                   | November 30, 2002       |                   |
|--------------------------------------|-------------------------|-------------------|-------------------------|-------------------|
|                                      | Number of common shares | Amount \$         | Number of Common shares | Amount \$         |
| <b>Balance – Beginning of period</b> | 26,043,243              | 18,220,929        | 24,694,549              | 17,625,427        |
| Issued during the period             |                         |                   |                         |                   |
| Exercise of stock options            | 226,380                 | 105,123           | 1,206,664               | 495,752           |
| Exercise of share purchase warrants  | -                       | -                 | 125,000                 | 99,750            |
| Class A preference shares converted  | 11,034                  | -                 | 17,030                  | -                 |
| Common stock purchased and cancelled | (386,500)               | (270,550)         | -                       | -                 |
| <b>Balance – End of period</b>       | <b>25,894,157</b>       | <b>18,055,502</b> | <b>26,043,243</b>       | <b>18,220,929</b> |

### (b) Class A preference shares

The company has 30,262 (November 30, 2002 - 41,296) Class A preference shares outstanding that 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 share purchase warrants are convertible to common shares at a ratio of 1:1 and expire five years after issue. The private placement incurred share issue costs of \$277,205. 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)

August 31, 2003

(expressed in Canadian dollars)

## (d) Earnings per share

|   | Three months ended |            | Nine Months Ended |            |
|---|--------------------|------------|-------------------|------------|
|   | August 31          |            | August 31         |            |
|   | 2003               | 2002       | 2003              | 2002       |
|   | \$                 | \$         | \$                | \$         |
| <b>Basic earnings per share</b>                               |                    |            |                   |            |
| Net earnings (loss)   | (338,797)          | 536,535    | 61,613            | 1,115,852  |
| Less: Class B preferred share dividends                       | 45,933             | -          | 99,522            | -          |
| Net earnings (loss) available to common shareholders          | (384,730)          | 536,535    | (37,909)          | 1,115,852  |
| Weighted average number of common shares outstanding          | 25,984,877         | 25,050,960 | 25,984,877        | 25,050,960 |
| Basic earnings (loss) per share                               | (0.01)             | 0.02       | 0.00              | 0.04       |
| <b>Diluted earnings per share</b>                             |                    |            |                   |            |
| Net earnings (loss)   | (338,797)          | 536,535    | 61,613            | 1,115,852  |
| Weighted average number of common shares outstanding          | 25,984,877         | 25,050,960 | 25,984,877        | 25,050,960 |
| Dilutive effect of Class A preference shares – Series A       | 30,262             | 58,326     | 30,262            | 58,326     |
| Dilutive effect of Class B preference shares – Series 1       | 2,786,602          | -          | 2,786,602         | -          |
| Dilutive effect of stock options                              | 865,482            | 2,087,478  | 865,482           | 2,087,478  |
| Dilutive effect of warrants                                   | 12,552             | 21,051     | 12,552            | 21,051     |
| Adjusted weighted average number of common shares outstanding | 29,679,775         | 27,217,815 | 29,679,775        | 27,217,815 |
| Diluted earnings (loss) per share                             | (0.01)             | 0.02       | 0.00              | 0.04       |

## (e) Normal course issuer bid

In January 2003, the Company received approval for a normal course issuer bid that 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 August 31, 2003, the Company purchased 386,500 of its common shares under the normal course issuer bid at an average cost of \$1.13 per share for an aggregate consideration of \$435,401. 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 December 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, 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

# Offshore Systems International Ltd.

Notes to the Consolidated Financial Statements (unaudited)

August 31, 2003

(expressed in Canadian dollars)

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:

|   | August 31,<br>2003<br>\$ | August 31,<br>2002<br>\$ |
|---|--------------------------|--------------------------|
| Net earnings                                | 61,613                   | 1,115,852                |
| Additional compensation expense             | 444,252                  | 416,757                  |
| Pro forma net earnings (loss)               | <u>(382,639)</u>         | <u>316,456</u>           |
| Pro forma basic earnings (loss) per share   | <u>(0.01)</u>            | <u>0.01</u>              |
| Pro forma diluted earnings (loss) per share | <u>(0.01)</u>            | <u>0.01</u>              |

The pro forma compensation expense reflected above has been estimated using the Black-Scholes option pricing model. Assumptions used in the pricing model included: (i) risk free interest rate between 2.6% and 2.9% (2002 - 2.1% and 2.6%); (ii) expected volatility between 45% and 114% (2002 - 50% and 73%); (iii) an estimated average life of 1 to 5 years (2002 - 3 to 5 years); and (iv) an expected dividend yield of 0% (2002 - 0%).

The weighted average fair value of the options granted during the nine month period ended August 31, 2003 was \$0.46 per option (August 31, 2002 - \$0.55).

## 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 disclosed in note 2 of the company's audited financial statements for the year ended November 30, 2002.

|  | Three Months Ended<br>August 31, 2003 |                 |             | Nine Months Ended<br>August 31, 2003 |                 |             |
|--|---------------------------------------|-----------------|-------------|--------------------------------------|-----------------|-------------|
|  | Systems<br>\$                         | Geomatics<br>\$ | Total<br>\$ | Systems<br>\$                        | Geomatics<br>\$ | Total<br>\$ |
| Revenue                                    | 1,261,285                             | 1,013,868       | 2,275,153   | 6,153,352                            | 2,643,002       | 8,796,354   |
| Technology Partnerships Canada - net       | 14,101                                | -               | 14,101      | (310,334)                            | -               | (310,334)   |
| Interest expense                           | -                                     | 4               | 4           | -                                    | 293             | 293         |
| Net earnings (loss)                        | (257,897)                             | (80,900)        | (338,797)   | 34,777                               | 26,836          | 61,613      |
| Property, plant and equipment expenditures | 20,752                                | 12,997          | 33,749      | 182,225                              | 53,937          | 236,162     |
| Amortization                               | 66,918                                | 26,317          | 93,235      | 187,866                              | 75,305          | 263,171     |

# Offshore Systems International Ltd.

Notes to the Consolidated Financial Statements (unaudited)

August 31, 2003

(expressed in Canadian dollars)

|   | Three Months Ended<br>August 31, 2002 |                 |             | Nine Months Ended<br>August 31, 2002 |                 |             |
|---|---------------------------------------|-----------------|-------------|--------------------------------------|-----------------|-------------|
|   | Systems<br>\$                         | Geomatics<br>\$ | Total<br>\$ | Systems<br>\$                        | Geomatics<br>\$ | Total<br>\$ |
| Revenue                                       | 2,237,503                             | 460,278         | 2,697,781   | 8,504,237                            | 1,306,514       | 9,810,751   |
| Technology Partnerships Canada - net          | (160,348)                             | -               | (160,348)   | (241,924)                            | -               | (241,924)   |
| Interest expense                              | 276                                   | 149             | 425         | 2,868                                | 601             | 3,469       |
| Income Tax Recovery                           | 90,743                                | -               | 90,734      | 245,724                              | -               | 245,724     |
| Net earnings                                  | 519,894                               | 16,641          | 536,535     | 1,074,480                            | 41,372          | 1,115,852   |
| Property, plant and equipment<br>expenditures | 100,566                               | 174,885         | 275,451     | 327,688                              | 240,055         | 567,743     |
| Amortization                                  | 66,917                                | 13,608          | 80,525      | 172,075                              | 92,793          | 278,476     |

|                       | August 31, 2003 |                 |             |
|-----------------------|-----------------|-----------------|-------------|
|                       | Systems<br>\$   | Geomatics<br>\$ | Total<br>\$ |
| Total assets employed | 10,094,405      | 1,199,233       | 11,293,638  |

|                       | November 30, 2002 |                 |             |
|-----------------------|-------------------|-----------------|-------------|
|                       | Systems<br>\$     | Geomatics<br>\$ | Total<br>\$ |
| 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<br>August 31 |            | Nine months ended<br>August 31 |            |
|---------------|---------------------------------|------------|--------------------------------|------------|
|               | 2003<br>\$                      | 2002<br>\$ | 2003<br>\$                     | 2002<br>\$ |
| Canada        | 406,464                         | 225,090    | 2,343,709                      | 3,098,904  |
| United States | 1,538,333                       | 2,044,662  | 4,138,775                      | 4,583,053  |
| Denmark       | 317,620                         | 428,029    | 2,301,134                      | 2,128,794  |
| Other         | 12,736                          | -          | 12,736                         | -          |
| Total         | 2,275,153                       | 2,697,781  | 8,796,354                      | 9,810,751  |

Geographically, property, plant and equipment are reported based on location. At August 31, 2003 and 2002, all of the company's property, plant and equipment was located in Canada.

# **Offshore Systems International Ltd.**

Notes to the Consolidated Financial Statements (unaudited)

**August 31, 2003**

(expressed in Canadian dollars)

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## **9 Financial instruments**

### **Fluctuations in foreign currency exchange rates**

The company enters transactions denominated in U.S. dollars and as such its revenue, expenses, monetary assets and liabilities will be affected by fluctuations in the U.S. dollar relative to the Canadian dollar.

The company uses foreign exchange forward contracts to hedge transactions denominated in United States dollars. The purpose of the Company's hedging activities is to reduce the level of exposure to exchange rate movements, most significantly in the United States. At August 31, 2003, the Company had forward exchange contracts maturing in the following year to sell United States dollars in the amount of US\$1,335,000. The exchange rates set in the forward exchange contracts ranged between \$1.4003 to \$1.4029 for US\$1.00. The contracts mature between October 2003 and May 2004.