

Offshore Systems International Ltd.

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

Nine Months Ended August 31, 2004 and 2003
(expressed in Canadian dollars)

Offshore Systems International Ltd.

Canadian GAAP

Consolidated Balance Sheets (unaudited)
(expressed in Canadian dollars)

	As at	
	August 31, 2004	November 30, 2003
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	1,842,274	3,837,555
Accounts receivable (note 2)	7,828,739	4,621,836
Inventory (note 3)	732,049	665,503
Prepaid expenses and deposits	254,557	430,419
Future tax assets	909,670	822,523
	<hr/>	<hr/>
	11,567,289	10,377,836
Property, plant, and equipment (note 4)	<hr/>	<hr/>
	1,376,406	1,350,421
	<hr/>	<hr/>
	12,943,695	11,728,257
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	2,778,808	2,126,061
Billing in excess of revenues	200,200	45,907
Rent payable	-	133,942
	<hr/>	<hr/>
	2,979,008	2,305,910
Accrued long-term royalties	<hr/>	<hr/>
	46,847	187,384
	<hr/>	<hr/>
	3,025,855	2,493,294
Commitments and contingencies (notes 2, 6(c) and 8)		
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 (2003 – 30,262, note 6(b))	-	-
57,711 Class B preference shares – Series 1 (2003 – 61,244, note 6(c))	1,926,157	2,065,420
27,447,423 common shares (2003 - 26,807,475, note 6(a))	18,997,500	18,508,498
	<hr/>	<hr/>
	20,923,657	20,573,918
Warrants (note 6(c))	661,575	661,575
Additional Paid-in Capital	188,029	43,050
Deficit	<hr/>	<hr/>
	(11,855,421)	(12,043,580)
	<hr/>	<hr/>
	9,917,840	9,234,963
	<hr/>	<hr/>
	12,943,695	11,728,257
	<hr/>	<hr/>

See accompanying notes to unaudited consolidated financial statements

Offshore Systems International Ltd.

Canadian GAAP

Consolidated Statements of Earnings and Deficit (unaudited)

For the nine months ended August 31, 2004 and 2003

(expressed in Canadian dollars)

	Three Months Ended		Nine Months Ended	
	August 31		August 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
Revenue				
Software	279,060	181,022	4,669,839	429,091
Systems and system components	1,987,301	883,811	2,401,539	5,305,824
Geomatics	507,196	991,457	2,224,899	2,598,419
Other	178,014	218,863	458,889	463,020
	2,951,571	2,275,153	9,755,166	8,796,354
Cost of sales	1,482,017	1,098,942	3,941,836	4,065,410
Gross profit	1,469,554	1,176,211	5,813,330	4,730,944
Expenses				
General and administrative	842,149	534,186	2,578,684	1,828,446
Research and development	562,024	396,661	1,608,599	1,280,733
Sales and marketing	761,311	506,014	2,290,129	1,509,579
Amortization	58,613	63,722	166,657	177,073
Interest	862	4	1,233	293
Foreign exchange loss	48,331	320	31,691	183,542
Technology Partnerships Canada royalty (note 8)	25,126	14,101	81,760	66,545
Technology Partnerships Canada contribution (note 8)	(373,997)	-	(1,225,539)	(376,880)
	1,924,419	1,515,008	5,533,214	4,669,331
Earnings (loss) before income taxes	(454,865)	(338,797)	280,116	61,613
Income tax expense (recovery)				
Future income tax expense (recovery)	115,160	-	(381,106)	-
Current income tax expense (recovery)	(86,156)	-	294,630	-
	29,004	-	(86,476)	-
Net earnings (loss) for the period	(483,869)	(338,797)	366,592	61,613
Deficit – Beginning of period	(11,371,552)	(11,889,230)	(12,043,580)	(12,188,284)
Class B preference share dividends	-	-	(178,433)	-
Premium on purchase and cancellation of common shares (note 6(e))	-	(63,496)	-	(164,852)
Deficit – End of period	(11,855,421)	(12,291,523)	(11,855,421)	(12,291,523)
Basic earnings (loss) per share (note 6(d))	(0.02)	(0.01)	0.01	0.00
Diluted earnings (loss) per share (note 6(d))	(0.02)	(0.01)	0.01	0.00
Weighted average number of common shares outstanding – basic (note 6(d))	27,394,151	26,020,698	27,147,246	25,984,877
Weighted average number of common shares outstanding – diluted (note 6(d))	27,506,172	29,741,575	27,660,623	29,679,775

See accompanying notes to unaudited consolidated financial statements

Offshore Systems International Ltd.

Canadian GAAP

Consolidated Statements of Cash Flows (unaudited)

For the nine months ended August 31, 2004 and 2003

(expressed in Canadian dollars)

	Three Months Ended August 31		Nine Months Ended August 31	
	2004 \$	2003 \$	2004 \$	2003 \$
Cash flows from (used in) operating activities				
Net earnings (loss) for the period	(483,869)	(338,797)	366,592	61,613
Items not affecting cash				
Amortization	95,630	93,235	257,479	263,171
Stock based compensation	30,555	-	144,979	43,050
Future tax assets	28,333	-	(87,147)	-
	(329,351)	(245,562)	681,903	367,834
Changes in non-cash working capital items				
Accounts receivable	776,924	347,727	(3,206,903)	839,208
Inventory	(14,902)	(260,076)	(66,546)	361,455
Prepaid expenses and deposits	(125)	81,983	175,862	57,439
Accounts payable and accrued liabilities	398,946	17,094	652,747	(276,335)
Billings in excess of revenues	111,822	(38,700)	154,293	(1,558,073)
Rent payable	-	-	(133,942)	-
Accrued long term royalties	(46,847)	6,295	(140,537)	(139,769)
	1,225,818	154,323	(2,565,026)	(716,075)
	896,467	(91,239)	(1,883,123)	(348,241)
Cash flows used in investing activities				
Additions to property, plant, and equipment	(39,069)	(33,749)	(283,464)	(236,162)
Cash flows from (used in) financing activities				
Issue of common shares	54,438	39,563	369,854	105,123
Issue of Class B preference shares - Series I and warrants, net of issue costs	-	-	(20,115)	2,726,995
Class B preference share dividends declared and paid	(86,567)	-	(178,433)	-
Share repurchases	-	(164,226)	-	(435,401)
	(32,129)	(124,663)	171,306	2,396,717
Increase/(decrease) in cash and cash equivalents	825,269	(249,651)	(1,995,281)	1,812,314
Cash and cash equivalents – Beginning of period	1,017,005	5,306,013	3,837,555	3,244,048
Cash and cash equivalents – End of period	1,842,274	5,056,362	1,842,274	5,056,362

See accompanying notes to unaudited consolidated financial statements

Offshore Systems International Ltd.

Canadian GAAP

Notes to the Consolidated Financial Statements (unaudited)

August 31, 2004

(expressed in Canadian dollars)

1 Basis of preparation

The accompanying unaudited interim 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 Canadian generally accepted accounting principles ("GAAP"), applied on a consistent basis with the audited consolidated annual financial statements for the year ended November 30, 2003, except as described in Note 7 with respect to the accounting for stock-based compensation. These unaudited interim financial statements do not include all the disclosures required by Canadian GAAP for annual financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements included in the Company's Annual Report for the year ended November 30, 2003.

The preparation of these unaudited interim 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

	August 31, 2004	November 30, 2003
	\$	\$
Trade receivables	3,612,466	1,691,685
Unbilled revenue	3,902,833	2,854,942
Technology Partnerships Canada receivable (note 8)	261,268	-
Other	52,172	75,209
	<hr/> 7,828,739	<hr/> 4,621,836

3 Inventory

	August 31, 2004	November 30, 2003
	\$	\$
Materials and components	702,149	620,429
Finished goods	29,900	45,074
	<hr/> 732,049	<hr/> 665,503

Offshore Systems International Ltd.

Canadian GAAP

Notes to the Consolidated Financial Statements (unaudited)

August 31, 2004

(expressed in Canadian dollars)

4 Property, plant, and equipment

	August 31, 2004		
	Cost \$	Accumulated Amortization \$	Net \$
Equipment	3,863,418	2,986,811	876,607
Computer software	908,762	497,730	411,032
Furniture and fixtures	131,095	92,550	38,545
Leasehold improvements	222,737	191,231	31,506
Licenses and patents	57,267	38,551	18,716
	<u>5,183,279</u>	<u>3,806,873</u>	<u>1,376,406</u>

	November 30, 2003		
	Cost \$	Accumulated Amortization \$	Net \$
Equipment	3,772,026	2,838,400	933,626
Computer software	721,250	401,909	319,341
Furniture and fixtures	126,534	86,378	40,156
Leasehold improvements	222,737	185,673	37,064
Licenses and patents	57,267	37,033	20,234
	<u>4,899,814</u>	<u>3,549,393</u>	<u>1,350,421</u>

5 Accounts payable and accrued liabilities

	August 31, 2004 \$	November 30, 2003 \$
Trade payables	1,498,733	1,171,353
Accrued liabilities	372,603	362,681
Accrued employee costs	685,132	408,592
Accrued royalties (note 8)	222,340	183,435
	<u>2,778,808</u>	<u>2,126,061</u>

Offshore Systems International Ltd.

Canadian GAAP

Notes to the Consolidated Financial Statements (unaudited)

August 31, 2004

(expressed in Canadian dollars)

6 Capital stock

(a) Issued and outstanding Common shares

	August 31, 2004		November 30, 2003	
	Number of common shares	Amount \$	Number of Common shares	Amount \$
Balance – Beginning of period	26,807,475	18,508,498	26,043,243	18,220,929
Issued during the period:				
Exercise of stock options	479,196	369,854	1,208,198	606,069
Class A preference shares converted	-	-	11,034	-
Class B preference shares converted	160,752	119,148	-	-
Common stock purchased and cancelled (note 6(e))	-	-	(455,000)	(318,500)
Balance – End of period	27,447,423	18,997,500	26,807,475	18,508,498

(b) Class A preference shares

The Company has 30,262 (November 30, 2003 - 30,262) Class A preference shares outstanding that have a nominal value for financial statement purposes. These Class A preference shares are being held in escrow but are no longer subject to any escrow restrictions and may be converted at any time into common shares of the Company, by notice in writing from the holders.

(c) Class B preference shares

	August 31, 2004		November 30, 2003	
	Number of Class B preference shares	Amount \$	Number of Class B preference shares	Amount \$
Balance – Beginning of period	61,244	2,065,420	-	-
Issued during the period:				
Class B preference shares issued	-	-	61,244	2,342,625
Share issue costs	-	(20,115)	-	(277,205)
Class B preference shares converted	(3,533)	(119,148)	-	-
Balance – End of period	57,711	1,926,157	61,244	2,065,420

Offshore Systems International Ltd.

Canadian GAAP

Notes to the Consolidated Financial Statements (unaudited)

August 31, 2004

(expressed in Canadian dollars)

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 exercisable at \$1.10. The preference shares are voting convertible shares at a ratio of 1:45.5 and have a cumulative dividend of 6% per annum. Non-declared cumulative dividends to August 31, 2004 amount to \$43,283. 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 \$297,320. 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 interest rate of 2.7%, (ii) expected volatility of 66%, (iii) an estimated life of 5 years and (iv) an expected dividend rate of 0%.

(d) Earnings per share

	Three Months Ended		Nine Months Ended	
	August 31		August 31	
Basic earnings per share	2004	2003	2004	2003
Net earnings (loss)	\$ (483,869)	\$ (338,797)	\$ 366,592	\$ 61,613
Less: Class B preference share dividends	43,283	45,933	129,850	99,522
Net earnings (loss) available to common shareholders	<u>\$ (527,152)</u>	<u>\$ (384,730)</u>	<u>\$ 236,742</u>	<u>\$ (37,909)</u>
Weighted average number of common shares outstanding	<u>27,394,151</u>	<u>26,020,698</u>	<u>27,147,246</u>	<u>25,984,877</u>
Basic earnings (loss) per share	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<u>\$ 0.00</u>
Diluted earnings per share				
Net earnings (loss)	\$ (483,869)	\$ (338,797)	\$ 366,592	\$ 61,613
Less: Class B preference share dividends	43,283	45,933	129,850	99,522
Net earnings (loss) available to common shareholders	<u>\$ (527,152)</u>	<u>\$ (384,730)</u>	<u>\$ 236,742</u>	<u>\$ (37,909)</u>
Weighted average number of common shares outstanding	27,394,151	26,020,698	27,147,246	25,984,877
Dilutive effect of Class A preference shares – Series A	30,262	30,262	30,262	30,262
Dilutive effect of Class B preference shares – Series 1 (*1)	-	2,786,602	-	2,786,602
Dilutive effect of warrants	-	36,399	29,904	12,552
Dilutive effect of stock options	81,759	867,614	453,211	865,482
Adjusted weighted average number of common shares outstanding	<u>27,506,172</u>	<u>29,741,575</u>	<u>27,660,623</u>	<u>29,679,775</u>
Diluted earnings (loss) per share	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<u>\$ 0.00</u>

(*1) The Class B preference shares are anti-dilutive for the purposes of calculating diluted earnings per share for both the three and nine months ended August 31, 2004.

Offshore Systems International Ltd.

Canadian GAAP

Notes to the Consolidated Financial Statements (unaudited)

August 31, 2004

(expressed in Canadian dollars)

(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, 2003 to January 15, 2004 the Company purchased 455,000 of its common shares under the normal course issuer bid at an average cost of \$1.11 per share for an aggregate consideration of \$505,681. The premium on the purchase and cancellation of the common shares under the normal course issuer bid was \$187,181 and was charged to the deficit. The premium on the purchase and cancellation of 386,500 common shares for the nine months ended August 31, 2003 was \$164,852.

7 Stock-based compensation

Effective December 1, 2002, the Company adopted CICA Handbook Section 3870 Stock-based Compensation and Other Stock-based Payments ("CICA 3870"). The Company has chosen to recognize compensation when stock options are granted to employees and directors under stock option plans with no cash settlement feature based on the fair value method, starting in the current fiscal year. As permitted by the standard, the Company has applied this change prospectively for new awards granted on or after December 1, 2003. The Company continues to provide pro forma disclosures with respect to options granted in the year ended November 30, 2003. Direct awards of stock to employees, stock options 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 expense for the 2003 grants been determined based on the fair value at the grant date in accordance with the provisions of CICA 3870, the Company's net earnings and earnings per basic and diluted share would have been adjusted to the pro forma amounts indicated below:

	Three Months Ended August 31		Nine Months Ended August 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
Net earnings (loss) for the period	(483,869)	(338,797)	366,592	61,613
Additional compensation expense	<u>6,300</u>	<u>44,539</u>	<u>18,900</u>	<u>444,252</u>
Pro forma net earnings (loss) for the period	<u>(490,169)</u>	<u>(383,336)</u>	<u>347,692</u>	<u>(382,639)</u>
Pro forma basic earnings (loss) per share	<u>(0.02)</u>	<u>(0.01)</u>	<u>0.01</u>	<u>(0.01)</u>
Pro forma diluted earnings (loss) per share	<u>(0.02)</u>	<u>(0.01)</u>	<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%; (ii) expected volatility between 45% and 114%; (iii) an estimated average life of 1 to 5 years; and (iv) an expected dividend yield of 0%.

The weighted average fair value of the options granted during the nine months ended August 31, 2004 and August 31, 2003 was \$0.46 per option.

In addition, the net earnings for the nine months ended August 31, 2004 includes a charge for stock-based compensation of \$144,979 (2003 - \$43,050)

Offshore Systems International Ltd.

Canadian GAAP

Notes to the Consolidated Financial Statements (unaudited)

August 31, 2004

(expressed in Canadian dollars)

8 Technology Partnerships Canada

On April 26, 2004, the Company entered into an agreement with Technology Partnerships Canada (“TPC”) whereby TPC granted financial assistance to the Company for the purpose of funding research and development activities to be completed on or before March 31, 2007. The maximum eligible contribution by TPC is \$3,768,391. As at August 31, 2004, the Company has claimed for \$1,225,539 of assistance under the agreement. In addition, the Company is required to pay a royalty of 1.4% on annual gross Navigation Systems and Applications revenue for the period January 1, 2006 to December 31, 2008 and a royalty of 2.5% on annual gross Navigation Systems and Applications revenue for the period January 1, 2009 to December 31, 2013. Royalty payments will continue until the cumulative royalties paid or payable to December 31, 2013 are at least \$6,079,176 or until December 31, 2017. No amounts for royalty payments in connection with this agreement have been recorded in the financial statements.

On November 15, 1999, the Company entered into an agreement with TPC whereby TPC granted financial assistance to the Company for the purpose of funding research and development activities to be completed on or before March 31, 2003. Under the agreement with TPC, the Company was eligible to receive contributions to a maximum of \$4,000,177 over the period from December 23, 1998 to March 31, 2003. As of March 31, 2003, the Company has received the maximum allowed under the agreement. In addition, the Company is required to pay a royalty of 3% on annual gross Navigation Systems and Applications revenue for the period December 1, 1999 to November 30, 2008. The Company has paid royalties of \$929,303 to date and has accrued royalties of \$269,187 at August 31, 2004 (November 30, 2003 - \$370,819). Royalty payments will continue until the cumulative royalties paid or payable to November 30, 2008 are at least \$7,810,230 or until November 30, 2014.

Although the Company believes that its submissions for TPC funding meet the terms and conditions of the TPC agreements, the final determination is subject to audit by government authorities in the ordinary course of business.

9 Segmented information

The Company’s reportable segments are as outlined below.

	Three Months Ended August 31, 2004			
	Navigation Systems \$	Applications \$	Geomatics \$	Total \$
Revenue	2,429,313	-	522,258	2,951,571
Gross profit	1,399,298	-	70,256	1,469,554
Technology Partnerships Canada - net	(295,154)	(53,717)	-	(348,871)
Interest expense	862	-	-	862
Income tax expense (recovery)	29,004	-	-	29,004
Net earnings (loss)	(73,027)	(286,034)	(124,808)	(483,869)
Property, plant and equipment expenditures	31,977	4,851	2,241	39,069
Amortization	58,497	1,056	36,077	95,630

Offshore Systems International Ltd.

Canadian GAAP

Notes to the Consolidated Financial Statements (unaudited)

August 31, 2004

(expressed in Canadian dollars)

Segmented information (continued)

	Nine Months Ended August 31, 2004			
	Navigation	Applications	Geomatics	Total
	Systems			
	\$	\$	\$	\$
Revenue	7,400,467	68,304	2,286,395	9,755,166
Gross profit	4,970,602	48,667	794,061	5,813,330
Technology Partnerships Canada - net	(1,028,882)	(114,897)	-	(1,143,779)
Interest expense	1,090	-	143	1,233
Income tax expense (recovery)	(86,476)	-	-	(86,476)
Net earnings (loss)	1,262,830	(811,380)	(84,858)	366,592
Property, plant and equipment expenditures	102,995	19,260	161,209	283,464
Amortization	169,112	1,670	86,697	257,479

	Three Months Ended August 31, 2003			
	Navigation	Applications	Geomatics	Total
	Systems			
	\$	\$	\$	\$
Revenue	1,261,285	-	1,013,868	2,275,153
Gross profit	771,181	-	405,030	1,176,211
Technology Partnerships Canada – net	14,101	-	-	14,101
Interest expense	-	-	4	4
Net earnings (loss)	(257,897)	-	(80,900)	(338,797)
Property, plant and equipment expenditures	20,752	-	12,997	33,749
Amortization	66,918	-	26,317	93,235

	Nine Months Ended August 31, 2003			
	Navigation	Applications	Geomatics	Total
	Systems			
	\$	\$	\$	\$
Revenue	6,153,352	-	2,643,002	8,796,354
Gross profit	3,637,476	-	1,093,468	4,730,944
Technology Partnerships Canada – net	(310,335)	-	-	(310,335)
Interest expense	-	-	293	293
Net earnings	34,777	-	26,836	61,613
Property, plant and equipment expenditures	182,225	-	53,937	236,162
Amortization	187,866	-	75,305	263,171

Offshore Systems International Ltd.

Canadian GAAP

Notes to the Consolidated Financial Statements (unaudited)

August 31, 2004

(expressed in Canadian dollars)

Segmented information (continued)

	August 31, 2004			
	Navigation Systems \$	Applications \$	Geomatics \$	Total \$
Total assets employed	11,569,161	17,590	1,356,944	12,943,695

	November 30, 2003			
	Navigation Systems \$	Applications \$	Geomatics \$	Total \$
Total assets employed	10,103,117	-	1,625,140	11,728,257

The Applications business unit began operations effective fiscal year 2004.

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

	Three Months Ended August 31		Nine Months Ended August 31	
	2004 \$	2003 \$	2004 \$	2003 \$
Australia/New Zealand	1,491,368	219,671	3,459,241	261,965
Europe	311,311	92,732	2,792,285	2,046,319
United States	684,938	1,551,285	2,413,049	4,138,775
Canada	463,954	406,464	1,090,591	2,343,709
Other	-	5,001	-	5,586
Total	2,951,571	2,275,153	9,755,166	8,796,354

Geographically, property, plant and equipment are reported based on location. At August 31, 2004 and November 30, 2003, all of the Company's property, plant and equipment was located in Canada.

10 Financial instruments

The Company enters into transactions denominated in United States and Australian dollars and as such its revenue, expenses, monetary assets and liabilities will be affected by fluctuations in the United States and Australian dollar relative to its functional currency, the Canadian dollar.

The Company uses foreign exchange forward contracts to hedge transactions denominated in United States and Australian 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 and Australia. At August 31, 2004, the Company had forward exchange contracts maturing in the current period to sell United States dollars in the amount of US\$448,381. The exchange rates set in the

Offshore Systems International Ltd.

Canadian GAAP

Notes to the Consolidated Financial Statements (unaudited)

August 31, 2004

(expressed in Canadian dollars)

forward exchange contracts ranged between \$1.3071 to \$1.3788 for US\$1.00. The contracts mature between September and November 2004. The Company also entered into forward exchange contracts in the current period to sell Australian dollars in the amount of AUD\$2,750,000. The exchange rates set in the forward exchange contracts ranged between \$0.9473 to \$0.9674 for AUD\$1.00. The contracts mature between November 2004 and May 2005.

The fair value of derivative instruments generally reflects the estimated amounts that the Company would receive or pay to settle the contracts at August 31, 2004. The fair value of the above derivative financial instruments was an unrecorded liability of \$113,470 at August 31, 2004.

11 Reclassifications

Certain balances for the three and nine months ended August 31, 2003 have been reclassified from financial statements previously presented to conform to the presentation adopted for the current period.