



Offshore Systems International Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended February 28, 2005

April 8, 2005

Forward-Looking Statements

Statements in this Management's Discussion and Analysis, or any document filed by Offshore Systems International Ltd. (the "Company") with the different governing authorities, or in any other written or oral communication by or on behalf of the Company, to the extent not directly and exclusively based on historical events, constitute forward-looking statements. These statements represent the Company's intentions, plans, expectations, and beliefs, and no assurance can be given that the results described in such statements will be achieved.

Forward-looking statements include, without limitation, statements evaluating market and general economic conditions in the following sections, and statements regarding future-oriented costs and expenditures. Investors are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date thereof. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially. Such risks and uncertainties with respect to the Company include the effects of general economic conditions, changing foreign exchange rates and actions by government authorities, uncertainties associated with legal proceedings and negotiations, industry supply levels, competitive pricing pressures and misjudgements in the course of preparing forward-looking statements.

The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

Effective December 1, 2004, the Company elected to report its consolidated financial statements in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") as now allowed by Canadian regulators. The Company's functional currency is Canadian dollars and therefore the Company's financial statements are presented in Canadian dollars unless otherwise noted. All references in this report to financial information concerning the Company refer to such information in accordance with U.S. GAAP and all dollar amounts in this Management's Discussion and Analysis are in Canadian dollars unless otherwise indicated.

The following discussion and analysis provides a review of activities, results of operations and financial condition of the Company for the three months ended February 28, 2005 in comparison with those for the three months ended February 29, 2004. This discussion should be read in conjunction with the Company's 2004 Audited Consolidated Financial Statements prepared in accordance with Canadian generally accepted accounting principles and the Company's Management's Discussion and Analysis for the year ended November 30, 2004.

Founded in 1977, the Company designs, develops and markets the proprietary ECPINS® line of electronic chart navigation systems for commercial and military customers. ECPINS® helps to reduce the risk of navigation-related incidents by giving bridge crews a precise, real-time display of their position, course and speed, against a background of fixed obstacles and other navigational hazards. The Company has developed a strong market position in military navigation, and has ECPINS® systems deployed with the Canadian and United States Coast Guards, the Canadian Navy, the Royal New Zealand Navy, the Royal Danish Navy, the Royal Australian Navy, the Royal Navy of the United Kingdom and the United States Navy. For the three months ended February 28, 2005, the Company has also delivered software and system products to the Portuguese Navy, commercial shipping fleets serving the Great Lakes region of North America, and Teekay Shipping Corporation, the leading provider of international commercial tanker transportation services.

In 2002, the Company expanded the business scope of its wholly-owned subsidiary Offshore Charts Ltd. beyond production of electronic navigation charts to include production of land-based mapping products. The Offshore Charts Ltd. subsidiary was also renamed OSI Geomatics Ltd. to better reflect its business expansion. The Company's U.S. subsidiary – Offshore Systems International Inc. was renamed OSI Geomatics Inc. and reactivated to enter the U.S. mapping market. Collectively, the two subsidiaries form the Company's business unit – OSI Geomatics.

In February 2003, the Company announced the launch of a new product, Common Operational Picture - Image Display Server ("COP-IDS™"), a client server application that allows customers to integrate the Company's mapping and imagery display technology into existing Command and Control ("C2") systems rapidly and cost effectively. COP-IDS™ facilitates the integration of information from multiple geo-spatial sources – such as land maps, nautical charts, aerial and space photo imagery and special military information – into a single fused display. COP-IDS™ is designed to meet the emerging requirements of international fleets to be able to operate from and share common tactical data in the field. COP-IDS™ allows the Company's customers to share data across C2 systems, regardless of which C2 applications systems are in use. COP-IDS™ is a C2 product that addresses the needs of not only Navy applications but also Army, Air Force, Special Forces and coalition forces operations.

To capitalize on the potential of the new COP-IDS™ product, the Company added a new line of business – OSI Applications starting in fiscal 2004. OSI Applications develops software applications and tools for situational awareness. OSI Applications is a division of the Company's subsidiary Offshore Systems Ltd. and provides products and services to military forces, government agencies and systems integrators to enable improved situational awareness.

The Company plans to grow through internal growth, focused on new and existing customers in the military agencies of Canada, U.S., European NATO and other allies of Canada. In addition, the Company may pursue strategic alliances, investments and acquisitions that are complementary to its existing lines of business.

Subsequent to February 28, 2005, the Company announced its intention to proceed with a private placement of up to CDN\$19.5 million. The proceeds of the financing will be used to pursue acquisitions in the United States, to increase available cash for operations, and to redeem 57,711 issued and outstanding Class B preference shares Series 1. Toronto Stock Exchange policies require that the Company obtain shareholder approval for the financing. This approval was obtained by the Company at its Annual General Meeting held on April 8, 2005. Also, subsequent to February 28, 2005, the Company announced its intent to purchase Mapcon Mapping Consultants Inc. ("Mapcon") of Salt Lake City, Utah. Mapcon is a land mapping company in the U.S. geomatics market. The purchase of Mapcon closed April 8, 2005. For further information on these events, please refer the sections "**Proposed Transactions**" and "**Transactions with Related Parties**".

Overall Performance

Earnings/Loss

For the three months ended February 28, 2005, the Company had a loss of \$219,591 or \$0.01 per share on a basic and diluted basis compared to earnings of \$551,791 or \$0.02 per share for the three months ended February 29, 2004.

The Company's results for the three months ended February 28, 2005 were largely driven by lower revenues that resulted from timing of new contracts awarded to the Company and the delivery schedules of existing contracts and increased regulatory compliance costs offset by the financial assistance received from Technology Partnerships Canada ("TPC").

Backlog

Total backlog as at February 28, 2005 was \$19.8 million compared to \$18.0 million at February 29, 2004. Total backlog is the total of the firm and option backlogs. Firm backlog consists of firm, fixed, signed orders issued to the Company and executable by the Company subsequent to the balance sheet date. Firm backlog as at February 28, 2005 was at \$7.0 million compared to \$7.0 million at February 29, 2004. Option backlog consists of unexercised contract options at the balance sheet date and indefinite-quantity contracts executable by the Company subsequent to the balance sheet date. Option backlog as at February 28, 2005 was at \$12.7 million compared to \$11.0 million at February 29, 2004. There is no guarantee or certainty that the Company's customers will elect to exercise their contract option backlog. Should the Company's customers elect to exercise contract options or place orders against indefinite-quantity contracts, the option backlog converts to firm backlog, which then may convert to revenue as contract execution occurs. Total backlog, firm backlog and option backlog are non-GAAP measures that do not have a standardized meaning and are likely not comparable to similar measures presented by other issuers. These measures also do not have a comparable GAAP measure.

The timing of the awarding of major contracts to the Company can significantly impact the Company's total backlog position and revenue for the period. Historically, major contracts that have been awarded to the Company have taken up to three years to finalize with the contracting process involving lengthy discussions and negotiations with several groups of people within the prospective customer's organization. The Company has continually pursued, and will continue to pursue, major contracts with a lengthy sales cycle and, as a result, there could be large variations in its total backlog position and revenue from one fiscal quarter to another.

Because governments approve budget expenditures on an annual basis, multi-year contracts with government agencies have a termination-for-convenience clause that allows contracts to be terminated by the contracting government agency should future budget funding not be approved. Historically, the termination-for-convenience clause has not been exercised by any Company customer. The Company has included the full value of these government contracts in total backlog.

Risks and Uncertainties

Certain statements made in this report by the Company constitute forward-looking statements, and are subject to risks and uncertainties that may cause future results to differ materially from those expected. Factors that may cause such differences include, but are not limited to, the factors discussed below. If any of these events actually occur, they could have a materially adverse effect on the Company, its financial condition or results of operations.

The Company depends heavily on its government contracts, which are only partially funded, subject to termination, heavily regulated and audited. The termination of one or more of these contracts could have a negative impact on the Company's operations. The contract termination clauses are generally in favour of the government agencies. Typically the termination clause for convenience is 30 days or less with the condition that all costs to that date are paid by the government agencies.

The termination of funding for a government program would result in a loss of anticipated future revenues attributable to that program. That could have a negative impact on the Company's operations. Also, the Company cannot give assurance that it would be able to procure new government contracts to offset the revenues lost as a result of any termination of its contracts. As the Company's revenues are dependent on its procurement, performance and payment under its

contracts, the loss of one or more critical contracts could have a negative impact on the Company's financial condition.

In addition, sales to the governments the Company works with may be affected by:

- changes in procurement policies;
- changes in the structure and management of government departments;
- budget considerations;
- changing concepts of national defence;
- political developments domestically and abroad; and
- increased protectionism.

The influence of any of these factors, which are largely beyond the Company's control, could also negatively impact its financial condition.

The Company derives a significant amount of revenue from only a few international government customers. The Company depends on government customers for a significant portion of its sales, and the loss of any of these relationships or a shift in any of these governments' funding could have severe consequences on the Company's financial condition.

Approximately 77% of the Company's revenue for the three months ended February 28, 2005 was from the Royal Navy of the United Kingdom and the Royal Australian Navy. For the three months ended February 29, 2004 approximately 83% of the Company's revenue was from the U.S. Coast Guard, the Royal Navy of the United Kingdom and the Royal Australian Navy. Approximately 89% of the Company's revenue for the three months ended February 28, 2005 was from national and international governments compared to 95% for the three months ended February 29, 2004. Therefore, any significant disruption or deterioration of any of the Company's relationships with these entities' governments would significantly reduce its revenues. These governments may choose to use other competing corporations for their navigational equipment. In addition, a shift in government spending to other programs in which the Company is not involved could have severe consequences for its results of operations.

The Company's product lines are not broadly diversified.

The Company derives and expects to derive a substantial majority of its revenue from navigational software, systems and equipment sales. If customers do not purchase the Company's products as a result of competition, technological change, budget constraints or other factors, the Company does not have other product categories that it could rely on to make up any shortfall in sales. As a result, the Company's revenue could decrease and its business and operating results would be adversely affected.

The Company derives a significant portion of its revenues from international sales and is subject to the risks of doing business in foreign countries.

In the three months ended February 28, 2005, approximately 95% of the Company's revenues were from international customers, including governmental customers: 9% from the U.S. and 86% from other international countries. For the three months ended February 29, 2004, approximately 97% of the Company's revenues were from international customers, including governmental customers: 22% from the U.S. and 75% from other international countries. The Company has focussed its expansion efforts for the future on the American, European and Australasian markets. As a result, the Company expects that international sales will continue to account for a significant portion of its revenues for the foreseeable future. As a result, the Company is subject to the risks of doing business internationally, including those risks related to:

- changes in regulatory requirements;

- domestic and foreign government policies, including requirements to expend a portion of program funds locally and governmental industrial co-operation requirements;
- fluctuations in foreign currency exchange rates;
- the complexity and necessity of dealing with foreign representatives and consultants;
- imposition of tariffs or embargoes, export controls and other trade restrictions; and
- compliance with a variety of foreign laws.

While the presence of these factors and the impact of these factors are difficult to predict, any one or more of them could adversely affect the Company's operations in the future.

The Company's revenues and costs are affected by fluctuations in the rate of exchange between the Canadian dollar, which is its reporting currency, the U.S. dollar, the Australian dollar and the Euro.

Exposure to exchange rate fluctuations exists because a significant portion of the Company's trade receivable and revenue transactions are in U.S. dollars, Australian dollars and Euros. In addition, certain of the Company's subcontract payable and direct cost transactions are in U.S. dollars. For the three months ended February 28, 2005, approximately 11% of the Company's revenue and 4% of its expenses were transacted in U.S. dollars. During the same period, approximately 8% and 0% of the Company's revenue was transacted in Australian dollars and Euros respectively. For the three months ended February 29, 2004, approximately 21% of the Company's revenues and 16% of its expenses were transacted in U.S. dollars. During the same period, the Company did not have material transactions in Australian dollars or Euros. The Company expects that U.S. dollar, Australian dollar and Euro sales will continue to account for a material portion of its revenues for the foreseeable future. As a result, exchange rate fluctuations may affect the Company's revenue and earnings growth materially in the future. In order to reduce the impact of U.S. to Canadian dollar, Australian to Canadian dollar and Euro to Canadian dollar exchange rate fluctuations, the Company utilizes its foreign exchange forward contract facility. As at February 28, 2005, the Company had entered into foreign exchange forward contracts in the amount of U.S. \$0, Australian \$2,750,000 and €. As at November 30, 2004, the Company had entered into foreign exchange forward contracts in the amount of U.S. \$851,196, Australian \$3,678,061 and €383,310.

The Company has established teaming relationships and strategic partnerships with international corporations to pursue major international government procurements, and the Company's reputation and results of operations could be adversely affected by the Company's inability to control their operations.

The Company relies on agreements with international corporations to assist it in pursuing contracts for major government procurements. These international corporations often assist the Company with systems integration, complementary products and services, and local domain knowledge necessary to successfully pursue major government procurements. The Company does not have assurance that these third parties will:

- remain in business;
- maintain the financial stability required to fulfill the requirements of these international procurements; and
- continue to consider the Company's products in their business priorities.

There can be no assurance that the Company would be able to pursue and secure major international government procurements without these third parties.

The Company may lose sales, or sales may be delayed, because of the long sales and implementation cycles for its products and services.

The Company's customers have typically invested substantial time, money and other resources and have many people involved in the decision to license the Company's software products and purchase its hardware products and services. As a result, the Company may wait up to two or three years after the first contact with a customer for that customer to enter into a purchase agreement while the customer seeks internal approvals for the purchase of the Company's products and/or services. During this long sales cycle, events may occur that affect the size or timing of the purchase or even cause the order to be cancelled.

Even if a purchase agreement is signed, the time period required to deploy the Company's products varies significantly from one customer to the next. Implementing the Company's products can sometimes take several months or even a few years depending on the customer's needs. It may be difficult to deploy the Company's products if the customer has complicated deployment requirements. If a customer utilizes a third party to deploy the Company's products, we cannot guarantee that the Company's products will be deployed successfully.

As a result, the Company's revenue could decrease and its business and operating results would be adversely affected.

Competition within the Company's markets may reduce its ability to procure future contracts and sales.

The defence industry in which the Company operates is highly competitive. The Company's competitors range from companies, which are primarily targeting the pleasure boat market, to diversified corporations in the radar/marine equipment segment of the industry. Some of the Company's competitors may have more extensive or more specialized engineering, manufacturing and marketing capabilities. There can be no assurance that the Company can continue to compete effectively with these companies.

The Company's ability to procure contracts and gain sales in foreign markets may be negatively impacted by increasing protectionism of foreign governments.

Some foreign governments have come under increased pressure to protect their domestic economy and national security. Economic and security concerns have resulted in increasing protectionism that excludes foreign market participants from successfully procuring contracts and gaining sales in foreign markets. As a result, the Company's revenue could decrease and its business and operating results would be adversely affected.

The Company's future success will depend on its ability to develop new technologies that achieve market acceptance.

The defence market is characterized by rapidly changing technologies and evolving industry standards. Accordingly, the Company's future performance depends on a number of factors, including its ability to:

- identify emerging technological trends in the Company's market;
- develop and maintain competitive products;
- enhance the Company's products by adding innovative features that differentiate its products from those of its competitors; and
- manufacture and bring products to market quickly at cost-effective prices.

The Company believes that, in order to remain competitive in the future, it will need to continue to develop new products, which will require the investment of significant financial resources in new product development. In addition, there can be no assurance that the market for the Company's products will develop or continue to expand as the Company currently anticipates. The failure of

the Company's technology to gain market acceptance could significantly reduce its revenues and harm its business. Furthermore, the Company cannot be sure that its competitors will not develop competing technology, which gains market acceptance in advance of the Company's products. The possibility that the Company's competitors might develop new technology or products might cause the Company's existing technology and products to become obsolete. If the Company fails in its new product development efforts or its products fail to achieve market acceptance more rapidly than the Company's competitors, its revenues will decline and its business, financial condition and results of operations will be negatively affected.

The Company depends on the recruitment and retention of qualified personnel, and its failure to attract and retain such personnel could seriously harm its business.

Due to the specialized nature of the Company's business, its future performance is significantly dependent upon the continued services of its key engineering personnel and executive officers. The Company's prospects depend upon its ability to attract and retain qualified engineering, manufacturing, marketing, sales and management personnel for its operations. Competition for personnel is intense, and the Company may not be successful in attracting or retaining qualified personnel. The Company's failure to compete for these personnel could seriously harm its business, results of operations and financial condition.

The Company does not have fixed-term employment agreements with its officers and key employees and the loss of any officer or key employee could seriously harm the Company's business.

The Company has not entered into fixed-term employment agreements with its officers and key employees. The Company's success depends upon the abilities and experience of its officers and key employees. Competition for highly skilled management, engineering, technical and other key employees is intense. The loss of officers and key employees could seriously disrupt the Company's operations and impair its ability to compete.

The Company depends on offshore sub-contract labour in its geomatics operations to maintain a competitive position in the geomatics marketplace.

The Company's geomatics operations are dependent upon labour resources located outside North America. While the Company enters into sub-contract agreements with these suppliers, it cannot be sure that the labour resources will be available when required and at the levels required. Accordingly, maintaining the Company's competitiveness will depend upon a number of factors, including:

- the geopolitical uncertainties specific to the home country of each sub-contractor;
- the cultural compatibility between Canada and the home country of each sub-contractor;
- the English language proficiency of the labour resources made available to the Company;
- labour pool characteristics such as work ethic, education, skill level and attrition; and
- the infrastructure of both the sub-contractor's home country and the sub-contractor.

While the presence of these factors and the impact of these factors are difficult to predict, any one or more of them could adversely affect the Company's geomatics operations in the future.

The Company may be unable to adequately protect its intellectual property rights, which could affect its ability to compete.

Protecting the Company's intellectual property rights is critical to its ability to compete and succeed as a company. The Company has trademark and copyright registrations, which are necessary and contribute significantly to the preservation of its competitive position in the market. There can be no assurance that any of the trademarks, copyrights and other intellectual property will not be challenged, invalidated or circumvented by third parties. In the future, the Company may not be able to obtain necessary licenses for commercially reasonable terms. The Company

enters into confidentiality and invention assignment agreements with its employees, and enters into nondisclosure agreements with its suppliers and customers, as appropriate, so as to limit access to and disclosure of the Company's proprietary information. These measures may not suffice to deter misappropriation or independent third party development of similar technologies.

The Company's operations depend on component availability and its key suppliers to manufacture and deliver its products and services.

The Company's operations are highly dependent on the timely delivery of materials by outside suppliers. While the Company enters into purchase agreements with a few of its suppliers, the Company cannot be sure that materials, components, and subsystems will be available in the quantities required, if at all. If any of the suppliers fail to meet the Company's needs, it may not have readily available alternatives. The Company's inability to fill its supply needs would jeopardize its ability to satisfactorily complete the Company's obligations under its contracts on a timely basis. This might result in reduced sales, contractually imposed penalties for delay in delivery, termination of one or more of these contracts or damage to the Company's reputation and relationships with its customers. All of these events could have a negative effect on the Company's financial condition.

The unpredictability of the Company's results may harm or contribute to the volatility of the trading price of its common stock.

The Company's operating results may vary significantly over time for a variety of reasons, many of which are outside its control and any of which may harm its business. The value of the Company's common stock may fluctuate as a result of considerations that are difficult to forecast, such as:

- the volume and timing of product orders received and delivered;
- levels of product demand;
- government and corporate spending patterns;
- the timing of contract receipt and funding and resulting impact on the Company's working capital position;
- the Company's ability and the ability of its key suppliers to respond to changes in customer orders;
- the timing of the Company's new product introductions and its competitors' new product introductions;
- the cost and availability of components and subsystems;
- price erosion;
- the adoption of new technologies and industry standards;
- competitive factors, including pricing, availability and demand for competing products;
- fluctuations in foreign currency exchange rates; and
- regulatory developments.

The Company may pursue strategic relationships, investments and acquisitions. The Company may not be able to successfully manage its operations if it fails to successfully integrate the acquired technologies and/or businesses.

As part of the Company's business strategy, it may expand its product offerings to include application software products that are complementary to the Company's existing products. This strategy may involve technology licensing agreements, joint development agreements, investments or acquisitions of other businesses that offer complementary products. The risks that the Company may encounter in acquiring or licensing technology from third parties include the following:

- difficulty in integrating the third party product with its products;
- undiscovered software errors in the third party product;
- difficulties in selling the third party product;

- difficulties in providing satisfactory support for the third party product;
- potential infringement claims from the use of the third party product; and
- discontinuation of third party product lines.

The risks commonly encountered in the investment in or acquisition of businesses would accompany any future investments or acquisitions by the Company. Such risks may include the following:

- issues related to product transition (such as development, distribution and customer support);
- the substantial management time devoted to such activities;
- the potential disruption of the Company's ongoing business;
- undisclosed liabilities;
- failure to realize anticipated benefits (such as synergies and cost savings);
- the difficulty of integrating previously distinct businesses into one business unit; and
- technological uncertainty regarding the current and future functionality of the product.

The Company may require additional capital, in which case it may need to raise additional funds from lenders and equity markets in the future.

If the Company's expenditures exceed its incoming cash flows, the Company may be required to raise additional capital. In addition, the Company may choose to pursue additional financing in order to capitalize on potential opportunities in the marketplace that may accelerate its growth objectives. The Company's ability to arrange such financing in the future will depend in part on the prevailing capital market conditions as well as on its business performance. There can be no assurance that the Company will be successful in its efforts to raise additional funds, if needed, on terms satisfactory to it. If additional capital is raised by the issuance of shares, shareholders may experience dilution to their equity interest in the Company.

The Company's business could be adversely affected if it fails to manage its growth effectively.

If the Company fails to manage its growth effectively, the Company's business and operating results could be adversely affected. The Company expects to continue to grow its operations domestically and internationally, and to hire additional employees. The growth in the Company's operations and staff has placed, and will continue to place, a significant strain on its management systems and resources. If the Company fails to manage its future anticipated growth, the Company may experience higher operating expenses, and it may be unable to meet the expectations of investors with respect to future operating results. To manage this growth the Company must, among other things, continue to:

- improve its financial and management controls, reporting systems and procedures;
- add and integrate new senior management personnel;
- improve its licensing models and procedures;
- hire, train and retain qualified employees;
- maintain sufficient working capital;
- control expenses;
- diversify channel sales strategies; and
- invest in its internal networking infrastructure and facilities.

The Company has committed funds to obtaining additional systems and facilities to accommodate its current and future anticipated growth. To the extent that this anticipated growth does not occur or occurs more slowly than the Company anticipates, it may not be able to reduce expenses to the same degree. If the Company incurs operating expenses out of proportion to revenue in any given quarter, its operating results may be adversely impacted.

Third parties may claim that the Company infringes their proprietary rights.

The Company potentially may receive claims that it has infringed the intellectual property rights of others. As the number of products in the software industry increases and the functionality of these products further overlap, the Company may become increasingly subject to infringement claims, including patent, trademark and copyright infringement claims. In addition, former employers of the Company's former, current or future employees may assert claims that such employees have improperly disclosed to the Company the confidential or proprietary information of these former employers. Any such claim, with or without merit, could be time-consuming to defend, result in costly litigation, divert management's attention from the Company's core business, require it to stop selling or delay shipping, or cause the redesign of its product or products. In addition, the Company may be required to pay monetary amounts as damages, for royalty or licensing arrangements, or to satisfy indemnification obligations that it has with some of its customers.

The Company licenses and uses software from third parties in its business. These third party software licenses may not continue to be available to the Company on acceptable terms. Also, these third parties may from time to time receive claims that they have infringed the intellectual property rights of others, including patent and copyright infringement claims, which may affect the Company's ability to continue licensing this software. The Company's inability to use any of this third party software could result in shipment delays or other disruptions in its business, which could materially and adversely affect the Company's operating results.

The Company may not be able to protect its proprietary information.

The Company relies on a combination of copyright, trademark and trade secret laws, confidentiality procedures, contractual provisions and other measures to protect its proprietary information. All of these measures afford only limited protection. These measures may be invalidated, circumvented or challenged, and others may develop technologies or processes that are similar or superior to the Company's technology. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy the Company's products or to obtain or use information that the Company regards as proprietary.

The Company's products may contain significant defects, which may result in liability and/or decreased sales.

Software products frequently contain bugs, errors or failures, especially when first introduced or when new versions are released. Despite the Company's efforts to test its products, the Company might experience significant errors or failures in its products, or they might not work with other hardware or software as expected. This could delay the development or release of new products or new versions of products, or could adversely affect market acceptance of the Company's products. Customers use the Company's products for applications that are critical to their businesses, and they have a greater sensitivity to product defects than the market for other software products generally. The Company's customers may claim that the Company is responsible for damages to the extent they are harmed by the failure of any of the Company's products. If the Company were to experience significant delays in the release of new products or new versions of products, or if customers were dissatisfied with product functionality or performance, the Company could lose revenue or be subject to liability for service or warranty costs. Should this occur, the Company's business and operating results could be adversely affected.

The Company's products depend on third party software products and its reputation and results of operations could be adversely affected by the Company's inability to control their operations.

The Company's products incorporate and use software products developed by other entities. The Company does not have assurance that such third parties will:

- remain in business;
- support the Company's product lines;
- maintain viable and functional product lines; and
- make their product lines available to the Company on commercially acceptable terms.

Any significant interruption in the supply of such third-party technology could have a materially adverse effect on the Company's business, results of operation, cash flows and financial condition.

The Company's products may not be compatible with various operating systems and therefore the Company may not be able to sell its products to potential customers.

The Company's products are used in combination with various operating systems. The Company's future success depends on its ability to continue to support widely-used operating systems. The Company's applications run on Microsoft operating systems. Therefore, the Company's ability to increase sales depends on the continued acceptance of Microsoft operating system products. If the Company is unable to develop and market products that support Microsoft's operating platforms or develop and market products that support other operating systems on a timely and cost effective basis, its business and operating results could be adversely affected.

Selected Information (Unaudited)

Statement of

Earnings Information

	For the three months ended		For the years ended November 30		
	February 28, 2005	February 29, 2004	2004	2003	2002
	\$	\$	\$	\$	\$
Revenue	2,259,863	4,029,760	13,451,303	11,520,793	13,814,133
Gross profit	1,232,108	2,568,773	7,781,979	6,361,725	6,713,382
Gross profit %	54.5%	63.7%	57.9%	55.2%	48.6%
Net earnings (loss) for the period	(219,591)	551,791	248,017	352,016	1,694,126
Basic earnings (loss) per share	(0.01)	0.02	0.00	(0.02)	0.07
Diluted earnings (loss) per share	(0.01)	0.02	0.00	(0.02)	0.06

Balance Sheet Information

	As at		As at November 30		
	February 28, 2005	February 29, 2004	2004	2003	2002
	\$	\$	\$	\$	\$
Cash	-	1,716,195	251,037	3,837,555	3,244,048
Working capital *	7,994,833	8,292,690	8,287,798	8,071,926	4,464,623
Current assets	10,361,954	10,538,062	10,964,025	10,377,836	8,821,485
Total assets	11,784,565	12,131,976	12,310,738	11,728,257	10,795,577
Current liabilities	2,367,121	2,245,372	2,676,227	2,305,910	4,356,862
Long term liabilities	-	140,539	-	187,384	372,717
Total liabilities	2,367,121	2,385,911	2,676,227	2,493,294	4,729,579
Shareholders' equity	9,417,444	9,746,065	9,634,511	9,234,963	6,065,998

**Balance Sheet
Information**

	As at		As at November 30		
	February 28, 2005	February 29, 2004	2004	2003	2002
	\$	\$	\$	\$	\$
Dividends declared per share	-	-	-	-	-
Common shares	-	-	-	-	-
Class A preference shares	-	-	-	-	-
Class B preference shares	-	1.50	3.00	2.37	-

* Working Capital is a non-GAAP measure that does not have a standardized meaning and may not be comparable to similar measures presented by other issuers. This measure does not have a comparable GAAP measure. Working Capital is defined as current assets less current liabilities.

The Company's annual and quarterly results are primarily affected by the level, timing and duration of customer orders and customer product delivery requirements. The Company depends heavily on government contracts and derives a significant amount of revenue from a few customers, which may result in varying revenue, gross profit and earnings.

The lower revenue for the three months ended February 28, 2005 as compared to the three months ended February 29, 2004 is attributable to the timing of new contracts that are awarded to Company, the delivery schedules of existing contracts and the Company experiencing continuing difficulties in penetrating the U.S. markets for its products and services. The Company is addressing these issues by acquiring Mapcon Mapping Consultants Inc. of Salt Lake City, Utah and proceeding with a private placement of preference shares and warrants of up to CDN\$19.5 million in the U.S. - part of the proceeds of which will be used to pursue additional acquisitions in the United States. Mapcon's acquisition will increase the Company's geomatics revenue in the U.S. market and the private placement will allow the Company to pursue U.S. acquisitions which will provide the Company with U.S. sales channels for its Navigation Systems and Applications products and services. For further information on these events, please refer to the section "**Proposed Transactions**".

The lower revenue in fiscal 2003 as compared to fiscal 2002 was largely attributable to the substantial completion in fiscal 2002 of the Canadian Department of National Defence contract awarded to the Company in fiscal 2001, the Marinette Marine Corp. contracts to provide ECDIS systems for the U.S. Coast Guard Juniper class buoy tenders, and the substantial completion of the Danish Navy contract in early fiscal 2003. The increase in revenue in fiscal 2004 over fiscal 2003 was the result of contracts from the Royal Navy of the United Kingdom and the Royal Australian Navy that were awarded to the Company in late fiscal 2003 and early fiscal 2004. The Company was not awarded contracts of this magnitude in the first quarter of fiscal 2005.

The fluctuations in gross profit year over year are impacted negatively by projects that include a large proportion of third-party systems or labour resulting in higher cost of sales. Certain contracts awarded to the Company may require the Company to include third-party systems or labour. In order to maintain competitiveness on these contracts, the Company may elect to reduce its usual margins on the third party components. In addition, the product mix of Software, Geomatics, Systems and systems components in any given period may impact the gross profit for the period.

The lower gross margin percentage for the three months ended February 28, 2005 as compared to the three months ended February 29, 2004 is the result of the Company realizing higher software sales in the three months ended February 29, 2004 when compared to the three months ended February 28, 2005. Software revenue generates more favourable margins than the Company's other revenue streams.

During the first six months of fiscal 2004, the Company's gross profit percentage increased because of an increase in software revenue. During the last six months of fiscal 2004, the Company's gross profit percentage was lower when compared to the first six months as the Software revenue decreased and Systems and systems components revenue increased. During the three months ended February 28, 2005, the Company's gross profit percentage decreased as a result of decreased software revenue when compared to the same period last year.

Results of Operations

The table below presents, for the periods indicated, selected financial data of the Company expressed as a percentage of total revenues:

	<u>Three months ended</u>	
	<u>February 28, 2005</u>	<u>February 29, 2004</u>
Revenue		
Software	66.0%	74.3%
Geomatics	13.6%	17.8%
Systems and system components	18.0%	4.6%
Other	2.4%	3.3%
	<u>100.0%</u>	<u>100.0%</u>
Cost of sales	<u>45.5%</u>	<u>36.3%</u>
Gross profit	54.5%	63.7%
Expenses		
General and administrative	45.8%	18.1%
Research and development	14.1%	11.5%
Sales and marketing	24.4%	19.7%
Depreciation	2.4%	1.3%
Interest	0.5%	0.0%
Foreign exchange gain	(3.2%)	(0.6%)
Technology Partnerships Canada royalty	2.4%	1.1%
Technology Partnerships Canada contribution	(11.7%)	0.0%
	<u>74.7%</u>	<u>51.1%</u>
(Loss) Earnings from operations	(20.2%)	12.6%
Income tax recovery	<u>10.5%</u>	<u>1.1%</u>
(Loss) Earnings for the period	<u><u>(9.7%)</u></u>	<u><u>13.7%</u></u>

Revenues

The Company's core revenue stream is derived from four sources: Software, Systems and system components, Geomatics, and Other which includes system repairs and servicing, training and consulting. The Company's principal developed and manufactured product, the Electronic Chart Precise Integrated Navigation System ("ECPINS®"), delivers the majority of the revenue. The Company also derives revenue from the delivery of the ECPINS® software component of its system product. Combined, ECPINS® systems and software delivered 84.0% of the Company revenue for the three months ended February 28, 2005 and 78.9% for the three months ended February 29, 2004.

Consolidated revenue for the three months ended February 28, 2005 was \$2,259,863 compared with \$4,029,760 for the three months ended February 29, 2004, resulting in a decrease of 43.9%. The decrease is attributable to the timing that new contracts are awarded to the Company, the delivery schedules of existing contracts and the Company experiencing continuing difficulties in penetrating the U.S. markets for its products and services. The Company's revenues are primarily affected by the level, timing and duration of customer orders, relative mix of contracts and customer product delivery requirements. Revenue from the Royal Navy and the Royal Australian Navy in the first quarter of fiscal 2004 amounted to approximately \$3,000,000. Contracts with revenue of this magnitude did not occur in the first quarter of fiscal 2005.

The main customers for the Company's products and services for the three months ended February 28, 2005 were the Royal Navy of the United Kingdom through Lockheed-Martin UK and the Royal Australian Navy through Nautronix Ltd. Revenue from these customers accounted for 77% of the consolidated revenue for the three months ended February 28, 2005. For the three months ended February 29, 2004, the main customers for the Company's products and services were the Royal Navy of the United Kingdom through Lockheed-Martin UK, the U.S. Coast Guard and the Royal Australian Navy through Nautronix Ltd. Revenue from these customers accounted for 83% of the consolidated revenue for the three months ended February 29, 2004.

Segment Results

Revenue from the Navigation Systems business unit for the three months ended February 28, 2005 was \$1,940,783 compared to \$3,280,098 for the same period last year, a decrease of \$1,339,315 or 40.8%. The decrease is attributable to the timing that new contracts are awarded to the Company, the delivery schedules of existing contracts and the Company having realized higher software sales in the first quarter of 2004 when compared to the same period in the current year.

Revenue from the Geomatics business unit for the three months ended February 28, 2005 was \$307,580 compared to \$721,344 for the same period last year, a decrease of \$413,764 or 57.4%. The decrease is primarily the result of the Company experiencing increased difficulty in penetrating the U.S. geomatics market. The Company is implementing changes in the strategies to improve its market position in the U.S. through the acquisition of Mapcon Mapping Consultants Inc., a U.S. land mapping company based in Salt Lake City, Utah.

Revenue from the Applications business unit was \$11,500 for the three months ended February 28, 2005 compared to \$28,318 for the same period last year, a decrease of \$16,818. The Applications business unit develops software applications and tools for situational awareness and provides products and services to military forces, government agencies and systems integrators to enable improved situational awareness. The sales cycle with government customers for Applications products can be upwards of three years. The business unit's initial product is Common Operational Picture – Image Display Server (COP-IDS™). This Applications business unit commenced operations in fiscal 2004.

In all three business units, the Company continues to invest significant corporate, sales and marketing resources in identifying and pursuing new opportunities and contracts, both in its existing customer base and with new prospective customers.

Gross Profit

For the three months ended February 28, 2005, the Company's gross profit decreased \$1,336,665 to \$1,232,108 from \$2,568,773 for the same period last year. Gross profit percentage decreased to 54.5% from 63.7% when comparing the three months ended February 28, 2005 over the same period last year. The lower gross margin percentage is the result of the Company realizing higher software sales in the three months ended February 29, 2004 when compared to the three months ended February 28, 2005.

Segment Results

Gross profit from the Navigation Systems business unit for the three months ended February 28, 2005 was \$1,198,088 compared to \$2,396,046 for the same period last year, a decrease of \$1,197,958 or 50.0%. Gross profit percentage decreased to 61.7% from 73.0% period over period. The decrease was attributable to a decreased percentage of the Company's revenue being attributable to Software revenue and an increased percentage being attributable to Systems and system components revenue when compared to the same period last year.

Gross profit from the Geomatics business unit for the three months ended February 28, 2005 was \$24,008 compared to \$153,759 for the same period last year, a decrease of \$129,751. Gross profit percentage decreased to 7.8% from 21.3% period over period. The decrease is the result of the competitive nature of the geomatics market where customers are very price sensitive and the increasing protectionism the Geomatics business unit has encountered entering the U.S. geomatics market. As stated above, the Company is implementing changes in the strategies to improve its market position in the U.S. through the acquisition of Mapcon Mapping Consultants Inc., of Salt Lake City, Utah.

Gross profit for the Company's new business unit – Applications was \$10,012 for the three months ended February 28, 2005 compared to \$18,968 for the same period last year, a decrease of \$8,956. Gross profit percentage for the three months ended February 28, 2005 was 87.1% and reflected the contract mix that included more applications software contracts than applications systems contracts.

General and Administrative Expenses

General and administrative ("G&A") expenses consist mainly of salaries and benefits of management and administrative personnel, professional fees, public company expenses, related facility costs, other general administrative expenses, interest and other income. For the three months ended February 28, 2005, G&A increased \$306,011 to \$1,036,084 from \$730,073 during the same period last year. As a percentage of revenue, G&A increased to 45.8% from 18.1% period over period. The increase is the result of increased salaries and internal re-alignment of sales staff to G&A activities, professional fees, directors' fees and directors and officers insurance. For the three months ended February 28, 2005, the Company had an increase in the TPC contribution as a result of a new TPC contract being in effect during the first quarter of 2005. The Company anticipates that as a result of recently introduced reporting regulations in Canada and the U.S., the Company will continue to experience increases in costs primarily relating to professional fees and increased infrastructure costs to meet the increased reporting obligations.

Research and Development Expenses

Research and development ("R&D") expenses consist mainly of salaries and benefits of software and hardware engineering personnel, sub-contractor costs, facilities expenses and related expenses. The Company expenses research and development costs in the period incurred.

The Company continued to invest in new product development during the three months ended February 28, 2005. The Company believes that in order to maintain its technological capabilities, it must continue to develop existing products and introduce new high quality products that challenge and redefine the industry standards. For the three months ended February 28, 2005 R&D costs decreased \$143,992 to \$319,232 or 14.1% of revenue, compared to \$463,224 or 11.5% of revenue for the same period last year. The decrease is largely the result of approximately \$223,000 in engineering labour costs charged to cost of sales from R&D for the three months ended February 28, 2005 compared to approximately \$107,000 for the three months ended February 29, 2004, an increase of approximately \$116,000. These costs are to support the software customization required to meet the needs of specific customers.

In November 1999, the Company announced an agreement with Technology Partnerships Canada whereby TPC granted financial assistance to the Company to fund research and development activities to March 31, 2003. As at November 30, 2003, the Company had received the maximum eligible contribution of \$4,000,177. Under the terms of the agreement, the Company is required to pay TPC a royalty based on the revenue of its subsidiary Offshore Systems Ltd. As at February 28, 2005, the Company had paid royalties of \$1,242,022 and accrued for future payment an additional \$53,823. 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.

In April 2004, TPC announced an agreement with the Company whereby TPC granted financial assistance to the Company to fund research and development activities to March 31, 2007. The maximum eligible contribution is \$3,768,391. As at February 28, 2005, the Company had claimed for \$1,736,931 of eligible assistance under the TPC program which includes a receivable of \$378,158. The Company will receive the remaining contributions over the remaining term. Also, under the terms of the agreement, the Company is required to pay TPC a royalty based on the revenue of its subsidiary Offshore Systems Ltd. commencing January 2006. 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. There were no royalties paid or payable in connection with this agreement for the three months ended February 28, 2005.

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. During the year ended November 30, 2004, the Company was subject to an audit by government authorities. The results of the audit have not been communicated to the Company however the Company has no reason to believe that the audit will have a material impact on the Company's financial results. If the Company causes an event of default, as defined in the agreement, TPC can suspend or terminate any obligation.

Sales and Marketing Expenses

Sales and marketing ("S&M") expenses consist primarily of compensation of sales and marketing personnel, as well as expenses associated with advertising, trade shows, facilities and other expenses related to the sales and marketing of the Company's products and services. For the three months ended February 28, 2005, S&M expenses decreased \$241,021 or 30.4%, to \$552,256 (24.4% of revenue) from \$793,277 (19.7% of revenue) for the same period last year. The reduction is primarily the result of a decrease of approximately \$90,000 in expenses relating to the internal re-alignment of sales staff to G&A activities to support corporate and operations initiatives, a decrease of approximately \$72,000 in travel costs because of more efficient travel planning and a decrease of approximately \$30,000 in sales commissions as the result of lower sales achievements for the quarter. The Company's current level of S&M staff continues to allow the Company to pursue business development activity relating to its expansion efforts into American, European and Australasian markets. The expansion effort targets new and existing customers in the military agencies of Canada, U.S., European NATO and other allies of Canada to increase the profile of the Company and its products through the establishment of marketing agreements with companies local to the targeted regions and to broaden the Company's customer base thereby reducing its dependence on the current few international customers. Some of these activities may not result in closing orders during the current year but may yield orders in subsequent fiscal years.

Depreciation and amortization

Total Depreciation and amortization increased \$6,625 to \$84,670 for the three months ended February 28, 2005 from \$78,045 for the same period last year. The increase reflects the acquisitions in the period and mix of plant and equipment in the Company at February 28, 2005.

Interest

Interest expense increased to \$12,716 for the three months ended February 28, 2005 from \$268 for the same period last year as a result of the Company having utilized its operating line credit facility of \$2,000,000 during the period. The Company did not utilize its operating line credit facility during Fiscal 2004.

Foreign exchange

Foreign exchange gain for the three months ended February 28, 2005 increased \$48,403 to \$73,144 from \$24,741 for the same period last year. The increase was the result of exchange rate movements of the Australian dollar which were in the Company's favour when certain forward contracts were extended.

Technology Partnerships Canada royalty

The Company is required to pay a royalty of 3% on annual gross revenue for the Navigation Systems and Applications business units for the period December 1, 1999 to November 30, 2008. Royalty expense increased to \$54,691 for the three months ended February 28, 2005 from \$48,926 for the same period last year.

Income Taxes

Based on the information available at the time of the issue of the unaudited interim consolidated financial statements for the three months ended February 28, 2005, the Company estimated that it will have sufficient taxable earnings in future years from the Navigation Systems business unit to utilize a portion of the Company's \$2,820,108 Canadian and \$250,358 U.S. non-capital losses carried forward and other tax balances. As a result of this assessment, the Company has recognized a deferred tax recovery of \$238,365 for the three months ended February 28, 2005 compared to a deferred tax recovery of \$278,903 for the three months ended February 29, 2004. The current quarter recovery was calculated by using the projected effective tax rate for the fiscal year. This recovery is expected to reverse as the Company generates profitable results for the remainder of the fiscal year. In accordance with U.S. GAAP, the Company provided a valuation allowance against the total deferred tax asset as it is not considered "more likely than not" that the remaining deferred tax asset will be recovered. The Company continues to evaluate its taxable position quarterly and considers factors such as estimated taxable income, the history of losses for tax purposes and the growth of the Company, among others. For the three months ended February 28, 2005, the Company recorded a current tax recovery of \$Nil, compared to a current tax expense for the same period last year of \$232,792.

Earnings/Loss

As a result of the above factors, a loss for the three months ended February 28, 2005 was \$219,591 or 9.7% of revenue, compared to earnings of \$551,791 for the three months ended February 28, 2004, or 13.7% of revenue.

Summary of Quarterly Results

For the three months ended	Revenue \$	Gross Profit \$	Net Earnings/ (Loss) \$	Basic Earnings/ (Loss) per Share \$	Diluted Earnings/ (Loss) per Share \$
February 28, 2005	2,259,863	1,232,108	(219,591)	(0.01)	(0.01)
November 30, 2004	3,696,137	1,968,649	(227,940)	(0.01)	(0.01)
August 31, 2004	2,951,571	1,469,554	(455,922)	(0.02)	(0.02)
May 31, 2004	2,773,835	1,775,003	380,088	0.01	0.01
February 29, 2004	4,029,760	2,568,773	551,791	0.02	0.02
November 30, 2003	2,724,439	1,630,782	315,417	0.01	0.01
August 31, 2003	2,275,152	1,176,210	(347,135)	(0.01)	(0.01)
May 31, 2003	2,958,027	1,694,246	143,824	0.00	0.00

For a discussion on the factors that affect the quarterly results, please refer to the section **Selected Information**.

Liquidity and Capital Resources

The Company strives to maintain cash-contributing profitable operations that provide an adequate liquidity and capital resource base for growth. Every business endeavour the Company develops or acquires targets a positive cash flow from the outset.

The Company believes that cash flow from operating activities, together with line of credit borrowings of \$2,000,000 available under its revolving credit facilities, will be sufficient to fund currently anticipated working capital, planned capital spending and debt service requirements for the next 12 months. The Company expects cash flow from operations will improve for the remainder of the year as scheduled contract milestone payments will be made on several contracts. The expenditures associated with these contracts have been incurred in prior periods. There can be no assurance that these resources will be adequate or that additional financing will be available to the Company.

At February 28, 2005, the Company had current assets of \$10,361,954, current liabilities of \$2,367,121 and a bank overdraft position of \$548,394. Working capital decreased \$292,915 to \$7,994,833 at February 28, 2005 from \$8,287,798 at November 30, 2004 primarily due to a combination of increases in inventory, prepaid expenses and deferred taxes, and a decrease in accounts payable that were partial offset by a decrease in accounts receivable.

The Company has credit facilities consisting of an operating line, standby letters of credit and forward exchange contract facilities. The credit facilities permit the Company to borrow funds directly for general corporate purposes (including acquisitions) at floating rates. At February 28, 2005 the Company had borrowings in the amount of \$548,394 against the operating line. The Company has an operating line of \$2,000,000 available with a Canadian chartered bank collateralized by accounts receivable. The Company has issued a standby letter of credit totalling Australian \$283,886. The Company has utilized the standby letter of credit to support certain performance obligations to our customers. At February 28, 2005, the Company had entered into foreign exchange forward contracts in the amount of Australian \$2,750,000. The Company utilizes its forward exchange contract facility to reduce its exposure to exchange rate movements.

Cash flows used in operating activities for the three months ended February 28, 2005, were \$671,858, compared with \$2,038,037 for the three months ended February 29, 2004, a decrease of \$1,366,179. The decrease in cash flows used in operating activities for the three months ended February 28, 2005 as compared to the same period in 2004 was the result of changes occurring in most non-cash working capital items between these two periods - all within the normal business activities of the Company. The largest change was in the accounts receivable balance for the three month period ended February 29, 2004 which was the result of milestone terms that existed in certain contracts that the Company expects to be paid during the current fiscal year.

Net cash provided by financing activities for the three months ended February 28, 2005 amounted to \$461,828 compared to net cash used of \$40,689 for the same period in 2004. Proceeds from the operating line of credit provided funds of \$548,394 for the three months ended February 28, 2005 compared to the operating line not having provided funds for the same period last year. The issuance of common shares did not provide funds for the three months ended February 28, 2005 compared to the issuance of common shares having provided funds of \$51,177 for the same period in fiscal 2004. The payment of dividends on the Class B preference shares used funds of \$86,566 for the three months ended February 28, 2005 compared to a usage of funds of \$91,866 for the three months ended February 29, 2004.

Cash used in investing activities totalled \$41,007 for the three months ended February 28, 2005 compared with \$42,634 for the same period in 2004.

As a result of the above mentioned changes, the net decrease in cash amounted to \$251,037 for the three months ended February 28, 2005 compared to a decrease of \$2,121,360 for the three months ended February 29, 2004.

Subsequent to February 28, 2005, the Company concluded a \$19.5 million private placement of preference shares and share purchase warrants. For further information, please refer to the section "**Proposed Transactions**".

As at February 28, 2005, the Company estimates that a U.S. \$0.01 increase in the exchange rate of the U.S. dollar relative to the Canadian dollar would have an annualized impact of reducing earnings before income taxes by approximately \$6,000. As at February 28, 2005, the Company estimates that an Australian \$0.01 increase in the exchange rate of the Australian dollar relative to the Canadian dollar would have an annualized impact of reducing earnings before income taxes by approximately \$6,000. As at February 28, 2005, the Company does not expect to have a material number of Euro transactions and therefore does not expect earnings to be impacted by changes in the exchange rate of the Euro relative to the Canadian dollar.

In order to reduce the impact of U.S. to Canadian dollar, Australian to Canadian dollar and Euro to Canadian dollar exchange rate fluctuations, the Company has used the forward exchange contract facility described above. The Company used the forward exchange contract facility to set the exchange rate between the U.S. and Canadian dollar, the Australian to Canadian dollar and the Euro to Canadian dollar for specific transactions at a specific agreed upon rate, thereby mitigating any foreign exchange gain or loss that might occur on those transactions. The Company uses the forward exchange contract facility only for known or reasonably certain future U.S., Australian dollar and Euro transactions.

Contractual Obligations

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Facility leases	621,035	257,369	363,666	-	-
Equipment leases	33,767	14,709	17,592	1,466	-
Total contractual obligations	654,802	272,078	381,258	1,466	-

Off-Balance Sheet Arrangements

Guarantees

The Company has issued a standby letter of credit totalling Australian \$283,886. The standby letter of credit is repayable on demand after certain conditions have been met. The Company utilizes standby letters of credit to support certain performance obligations to its customers.

The Company warrants that its software and hardware products will operate substantially in conformity with product documentation and that the physical media will be free from defect. The specific terms and conditions of the warranties are generally one year but may vary depending on the country in which the products are sold. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified warranty issues based on historical activity. To date, the Company has had no material warranty claims.

Transactions with Related Parties

During the last two years, the Company did not enter into any transactions with its management, members of its Board of Directors or major shareholders. Subsequent to the 2004 fiscal year end, E. Brinton Coxe, a member of the Company's Board of Directors, became a related party by virtue of the fact that the Company has agreed to pay him compensation of \$800,000 and 350,000 common share purchase warrants in consideration of the provision of advisory services in connection with a proposed private placement discussed below under "**Proposed Transactions**". Mr. Coxe has also participated in the financing by purchasing 100 units personally. Should the Company's shareholders not approve the proposed private placement on April 8, 2005, Mr. Coxe's compensation will not be paid to him.

Proposed Transactions

The Company has proposed the following transactions:

Agreement to acquire Mapcon Mapping Consultants Inc.

On February 28, 2005, the Company entered into an agreement to purchase all of the issued and outstanding shares of Mapcon Mapping Consultants Inc. ("Mapcon) of Salt Lake City, Utah. Mapcon is a land mapping company in the U.S. geomatics (digital map and electronic chart data production) market.

Under the terms of the agreement, the Company purchased all of the shares of Mapcon from its shareholders for cash of US\$1,000,000. The purchase was subject to a number of conditions, including the execution of a definitive agreement. The definitive agreement was executed on April 8, 2005 and the transaction closed the same day.

Private placement of Preference Shares

The Company announced on March 8, 2005 its intention to proceed with a private placement (the "financing") of up to \$19.5 million. The financing was led by SDS Capital Group SPC, Ltd. as a principal investor. A recognized United States investment bank acted as agent to offer the securities on a best efforts basis to other institutions and accredited investors. The proceeds of the financing will be used to pursue acquisitions, to increase available cash for operations, and to redeem 57,711 issued and outstanding Class B preference shares Series 1 held by two institutional investors at a cost of approximately \$2.9 million. The Company offered up to 19,500 units, each comprised of 20 voting Class B preference shares Series 2 ("preference shares") and

588 share purchase warrants ("warrants"). The issue price will be \$1,000 per unit. The private placement was fully subscribed. The preference shares will entitle the holders to receive a fixed preferential cumulative 7% dividend payable semi-annually. Each preference share will be convertible at the option of the holder at any time into 58.82 of the Company's common shares, calculated by dividing the issue price of \$50.00 for each preference share by the conversion price of \$0.85. Each warrant will entitle the holder to purchase one of the Company's common shares at the exercise price of \$0.85 for a period of five years.

Mr. E. Brinton Coxe, a director of the Company assisted the Company in structuring and arranging the financing. In consideration for providing his services, the Company has agreed to pay Mr. Coxe an advisory services fee in the amount of \$800,000. In addition, the Company has agreed to issue to Mr. Coxe 350,000 common share purchase warrants which will have the same terms and conditions as the warrants to be issued to the institutions which assist in placing the financing. Mr. Coxe has also participated in the financing by purchasing 100 units personally. Mr. Coxe declared his interest in the proposed financing and related transactions and abstained from voting on all resolutions of the Company's board respecting the financing, including resolutions approving his compensation, at all stages of the review and approval process. Mr. Coxe also excused himself from all board meetings at which the proposed financing was considered so that the remaining members of the board could discuss freely the proposed financing and all matters related thereto, including the proposed compensation of Mr. Coxe.

TSX policies require that the Company obtain shareholder approval for the financing. Consequently, all subscription funds and agreements were held in escrow with an escrow agent pending receipt of shareholder approval. The Company obtained shareholder approval for the financing at its annual general meeting held on April 8, 2005. During the escrow period, the purchasers will receive interest on the subscription funds at the rate of 12% per annum. After shareholder approval was obtained, the financing is to be closed promptly on April 11, 2005 and accrued interest paid to the purchasers. All payments of interest will be net of applicable withholding tax.

Completion of the financing was subject to satisfaction of a number of conditions precedent, including completion of legal documentation and due diligence satisfactory to both the Company and the purchasers, and receipt of all necessary regulatory approvals, including TSX acceptance.

The offered securities have not been, nor will be, registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the U.S. Securities Act.

Critical Accounting Estimates

The Company prepares its consolidated financial statements in accordance with United States generally accepted accounting principles, and makes estimates and assumptions that affect its reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent liabilities. The Company bases its estimates on historical experience and other assumptions that it believes are reasonable in the circumstances. Actual results may differ from these estimates.

The following critical accounting policies affect the Company's more significant estimates and assumptions used in preparing its consolidated financial statements:

Revenue

The Company is required to estimate the costs to complete certain systems and geomatics services contracts. Revenues from these contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to total estimated costs to

complete each contract. The Company may need to adjust the estimated costs to complete for these projects, if the actual results differ from the Company's estimates. If the Company anticipates that a contract or a contract segment will generate a loss, the Company estimates that loss and records the total expected loss on the contract or contract segment. When revenues exceed amounts invoiced under a contract, the difference is recorded as unbilled revenue. The Company believes that unbilled revenue will be invoiced and collected. Billings in excess of revenues are amounts that have been billed to the customer but have not been recognized in revenue.

Income Taxes

The Company is required to estimate its income taxes in each of the jurisdictions in which it operates. This process involves estimating the Company's actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities that may be included on the Company's consolidated balance sheet. The Company recognizes deferred income tax assets to the extent that their realizations are considered more likely than not and provides a valuation allowance against any remaining balance. The valuation allowance is based on the Company's estimates of taxable income by jurisdiction in which it operates and the period over which its deferred tax assets will be recoverable. In the event that actual results differ from these estimates, or the Company adjusts these estimates in future periods, the Company may need to adjust the valuation allowance. Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgement that is subject to audit by tax authorities in the ordinary course of business.

Stock-based Compensation and Other Stock-based Payments

The Company has established three stock option plans under which options to purchase common shares may be granted to directors, officers and employees of the Company and to any other person or company permitted by the applicable regulatory authorities to purchase unissued common shares. The Company recognizes compensation as stock options, which have been granted and vested to third parties under stock option plans with no cash settlement feature based on the fair value method. The fair value of the stock options was estimated using the Black-Scholes option pricing model, using weighted-average assumptions for the following: dividend yield, volatility rate, risk-free interest rate and expected average life. Direct awards of stock to employees, stock option and stock awards granted to non-employees are also accounted for in accordance with the intrinsic method of accounting for stock-based compensation.

Accounts Receivable

The Company maintains an allowance for doubtful accounts for estimated losses that may arise if any of its customers are unable to make required payments. Management specifically analyses the age of outstanding customer balances, historical bad debts, customer credit-worthiness and changes in customer payment terms when making estimates of the uncollectability of the Company's accounts receivable. If the Company determines that the financial condition of any of its customers deteriorates, increases in the allowance may be made. The Company reviews the unbilled revenue balance on a regular basis to assess its fair market value and provides a reserve against any amounts that are impaired.

Inventory

Materials and components are stated at the lower of cost and replacement value as determined by the first-in first-out method. Work-in-process and manufactured parts are stated at the cost of materials and direct labour applied to the product and the applicable share of overhead. Finished goods are stated at the lower of cost and net realizable value. The Company assesses the need for inventory write-downs based on its assessment of estimated net realizable value using assumptions about future demand and market conditions. If market conditions differ from those originally estimated by the Company, an additional inventory write-down may be required.

Changes in Accounting Policies including Initial Adoption

Effective December 1, 2004, the Company elected to report its consolidated financial statements in accordance with U.S. GAAP. The Company prepares a reconciliation highlighting the material differences between its unaudited interim consolidated financial statements prepared in accordance with U.S. GAAP as compared to unaudited interim consolidated financial statements prepared under Canadian GAAP (see Note 16 to the unaudited interim consolidated financial statements). Additional disclosure with respect to the effects of the Company's election to report on its consolidated financial statements in accordance with U.S. GAAP is provided in Notes 1, 2 and 17 of the Company's unaudited interim consolidated financial statements.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 123R - Share-Based Payment ("SFAS 123R"), a revision to SFAS 123 "Accounting for Stock Based Compensation". SFAS 123R requires all share-based payments to be recognized in the financial statements based on their values using either a modified-prospective or modified-retrospective transition method. The standard no longer permits pro-forma disclosure or prospective recognition. Accordingly, from the date of adoption of the revised standard, the Company will be required to recognize compensation expense for all share-based payments based on grant-date fair value, including those granted, modified or settled prior to September 1, 2005, that were previously disclosed on a pro-forma basis. The Company is currently evaluating the impact of SFAS 123R in its consolidated financial statements.

Financial Instruments and Other Instruments

Foreign Exchange Forward Contracts

The Company uses foreign exchange forward contracts to hedge transactions denominated in U.S. dollars, Australian dollars and Euros. The purpose of the Company's hedging activities is to reduce the level of exposure to exchange rate movements. At February 28, 2005, the Company had foreign exchange forward contracts to sell Australian \$2,750,000. The exchange rates set in the foreign exchange forward contracts ranged between \$0.9473 to \$0.9562 for Australian \$1.00. The contracts mature between May 2005 and June 2005.

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposure to reduce its exposure to fluctuations in foreign exchange on certain committed and anticipated transactions. The Company formally documents the relationships between derivative financial instruments and hedged items, as well as the risk management objective and strategy. The Company assesses, on an ongoing basis, whether the derivative financial instruments continue to be effective in offsetting changes in fair values or cash flows of the hedged transactions.

Derivatives are recorded as assets or liabilities, measured at fair value. Derivatives that are not hedges are adjusted to fair value through income. If the derivative is a hedge, depending upon the nature of the hedge, changes in the fair value of the derivative are either offset against the fair value of assets, liabilities or firm commitments through income, or recognized in other

comprehensive income until the hedged item is recognized in income. The ineffective portion of a derivative's change in fair value is immediately recognized into income. The requirement to record derivatives at their fair market value has not had a material impact on the Company's financial statements.

Disclosure of Outstanding Share Data

As at March 31, 2005, the Company had issued and outstanding 27,488,074 common shares, and 1,695,112 outstanding stock options. As at March 31, 2005 the Company also had 30,262 issued and outstanding Class A preference shares and 57,711 issued and outstanding Class B preference shares convertible into common shares at conversion ratios of 1:1 and 1:45.5 respectively which represents 2,656,112 common shares. Also at March 31, 2005 the Company had outstanding 1,393,301 common share purchase warrants convertible to common shares at a conversion ratio of 1:1, representing 1,393,301 common shares.

Other MD&A Requirements

Additional information is also contained in the Company's Annual Report, including the financial statements, for the financial year ended November 30, 2004, the Company's Information Circular dated March 11, 2005 and in the Company's Annual Information Form dated March 17, 2005. The information contained in those documents is hereby incorporated by reference. This and other additional information relating to the Company may be found on SEDAR at www.sedar.com. Also, copies of these documents will be provided to any person, on request to the Secretary of the Corporation at 107-930 West 1st Street, North Vancouver, British Columbia, Canada, V7P 3N4, telephone (604) 904-4600, fax (604) 986-4454.