

The following discussion and analysis provides a review of activities, results of operations, and financial condition of OSI Geospatial Inc. for the fiscal year and fourth quarter ended November 30, 2006 in comparison with those for the fiscal year and fourth quarter ended November 30, 2005. The following discussion should be read in conjunction with our audited annual consolidated financial statements for the year ended November 30, 2006 prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP").

Effective December 1, 2004, we elected to report our consolidated financial statements in accordance with U.S. GAAP as permitted by Canadian regulators. Effective March 1, 2006 we adopted the U.S. dollar as our reporting currency. All references in this report to financial information concerning OSI Geospatial Inc. are in accordance with U.S. GAAP and all dollar amounts are in U.S. dollars unless otherwise indicated. A reconciliation of our results to Canadian generally accepted accounting principles ("Canadian GAAP") is provided in note 21 of the notes to the consolidated financial statements.

Beginning in the first quarter of fiscal 2006, we have changed our financial reporting segments in order to reflect changes in management's analysis of our business. Our consolidated revenue categories have changed to marine systems, land and air systems, and mapping and our reportable segments are now U.S. Systems Operations, International Systems Operations, Mapping Operations, and Corporate and Public Company costs. On April 12, 2006 at the Company's annual general meeting, its shareholders voted in favor of changing the Company's name from Offshore Systems International Ltd. to OSI Geospatial Inc. The name change was effective June 5, 2006. For the purposes of this report, the Company is referred to by its new legal identity.

This report contains forward-looking statements within the meaning of securities laws including Section 27a of the Securities Act of 1933, as amended, and Section 21e of the Securities Exchange Act of 1934, as amended, including statements regarding the future achievement of corporate objectives, advancement of additional project interests, analysis and development of acquisition opportunities, various project interests and other matters. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these forward-looking statements. These risks include risks related to the effects of general economic conditions, changing foreign exchange rates, actions by government authorities, uncertainties associated with contract negotiations, and industry supply, as well as other factors discussed below and those risks which are discussed under the heading "Risks and Uncertainties". Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

ECPINS and COP-IDS are registered trademarks of Offshore Systems Ltd., an OSI Geospatial company. Other company brand, product and service names are for identification purposes only and may be either trademarks, service marks or registered trademarks of their respective owners. Data is subject to change without notice.

Additional information relating to OSI Geospatial, including our Annual Information Form and our Form 20-F report is filed on SEDAR at www.sedar.com, on EDGAR at www.sec.gov, and is also available on the company's investor web site at www.osigeospatial.com.

This management's discussion and analysis is dated February 20, 2007.

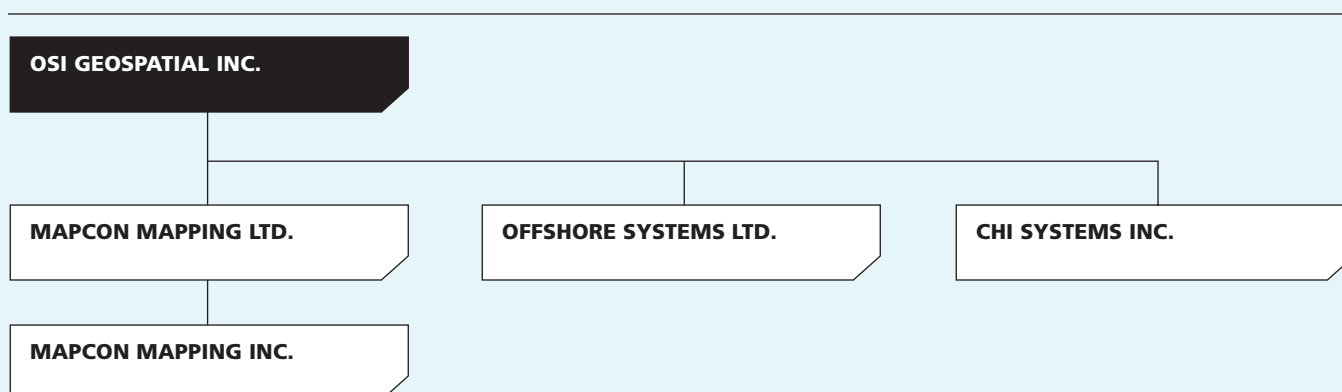
OVERVIEW

Founded in 1977 and headquartered in North Vancouver, Canada, 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.

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 and also renamed the subsidiary to OSI Geomatics Ltd. to reflect its expanded capabilities. The OSI Geomatics Ltd. subsidiary has now been renamed Mapcon Mapping Ltd. to better reflect its business relocation into the United States and a common Mapcon Mapping brand name shared with the Company's U.S. subsidiary Mapcon Mapping Inc. The Company's U.S. subsidiary, Mapcon Mapping Inc. came into existence as a result of the amalgamation of former OSI Geomatics Inc. and Mapcon Mapping Consultants Inc. which was acquired in the second quarter of fiscal 2005. Collectively, the two subsidiaries form one of the Company's business unit referred to as Mapcon.

In December 2005, the Company acquired CHI Systems Inc., a United States defence contracting company. The acquisition approximately doubled the Company's revenue and employee base. CHI has multiple offices in the United States, is a supplier of technology and services to the U.S. Department of Defence and key defence prime contractors.

The Company's current corporate structure is presented in the chart below.



The Company's growth strategy is built on four fronts – diversifying its technology, partnering with the best, building on its customer relationships and completing acquisitions complimentary to its existing lines of business.

In diversifying its technology, the Company will lever its market and technology position as a leader in the naval surface and subsurface navigation market to access adjacent markets. Building on its ECPINS® line of electronic chart navigation systems for commercial and military customers, the Company has expanded into the Command & Control (C2) and homeland security markets through the development of applications like the Common Operational Picture product line (COP-PL), Warship Automatic Identification System (W-AIS) and the C2 product line C3CORE. Also, the Company has expanded its product offerings in the commercial market with the introduction of its simplified voyage data recorder (S-VDR) product, the integrated ECPINS®/S-VDR 5000 system.

The Company continues to partner with the best using its technology dominance in the military navigation market to gain entry into major defence programs. We currently have partnering agreements with Terma A/S in Denmark, Lockheed Martin in the U.S. and the U.K. and, Raytheon, L3 Communications, General Dynamics and Northrop Grumman in the U.S.

The Company continues to build on its current customer base by leveraging the strong customer relationships it has developed through the successful execution of major projects. We have existing customers in the military agencies of Canada, U.S., European NATO and other allies of Canada, and national and international commercial marine transportation companies.

The Company has completed acquisitions complimentary to its existing businesses to gain access to key markets, build critical mass and expand its products and markets. In April 2005, the Company completed the acquisition of all the outstanding shares of Mapcon Mapping Consultants Inc. (Mapcon) of Salt Lake City, Utah for \$1.1 million. Mapcon is a land mapping company in the U.S. geomatics (digital map and electronic chart data production) market. In December 2005, the Company completed the acquisition of CHI Systems Inc., a United States defence contracting company for \$9 million. CHI has multiple offices in the United States, is a supplier of technology and services to the U.S. Department of Defence and key defence prime contractors. CHI has developed C2, training simulation and cognitive agent applications to support its customers in multiple U.S. military agencies.

SELECTED DATA

The following tables contain financial information that is derived from the audited consolidated financial statements for the years ended November 30, 2006, 2005, and 2004.

Operations:

IN THOUSANDS OF U.S. DOLLARS	FOR THE YEAR ENDED NOVEMBER 30,		
	2006	2005	2004
Revenue	24,137	11,126	10,411
Gross profit	10,975	5,430	6,018
Gross profit percentage	45%	49%	58%
Net earnings (loss)	693	(2,749)	303
Net loss attributable to common shareholders	(825)	(9,400)	(14)
Loss per share – basic	(0.03)	(0.34)	(0.00)
Loss per share – diluted	(0.05)	(0.34)	(0.00)
Weighted average common shares outstanding – basic	32,381,992	27,989,832	27,147,246
Weighted average common shares outstanding – diluted	48,843,168	27,989,832	29,856,412

Financial Position:

IN THOUSANDS OF U.S. DOLLARS	FOR THE YEAR ENDED NOVEMBER 30,	2006	2005	2004
Cash and cash equivalents, including marketable securities and restricted cash		–	8,412	212
Working capital ⁽¹⁾		7,789	15,245	6,331
Current assets		14,333	19,301	8,587
Total assets		24,345	21,202	10,377
Current liabilities		6,544	4,056	2,256
Long term liabilities		20	201	–
Total liabilities		6,564	4,257	2,256
Shareholders' equity		17,781	16,945	8,122

(1) Working capital is defined as current assets less current liabilities. Working capital does not have a standardized meaning or comparable measure under generally accepted accounting principles and may not be comparable to similar measures presented by other companies.

Dividends Declared Per Share:

IN U.S. DOLLARS	DURING YEAR ENDED NOVEMBER 30	2006	2005	2004
Common shares		–	–	–
Class A preference shares		–	–	–
Class B preference shares – series 1		–	2.36	3.48
Class B preference shares – series 2		3.13	3.52	–

Our annual and quarterly results are primarily influenced by the level, timing, and duration of customer orders, and customer product delivery requirements. We depend heavily on government contracts and derive a significant amount of revenue from a few customers, which may result in varying revenue, gross profit, and earnings.

The increase in the year ended November 30, 2006 as compared to the year ended November 30, 2005 is largely due to the addition of \$8.7 million in land and air systems revenue gained through our recent U.S. Systems acquisition. Our revenue is influenced by the timing of new contracts that are awarded and the delivery schedules of existing contracts.

Fluctuations in gross profit are influenced by the proportion of engineering labor, third-party systems or third-party labor or portions of all three required for a project, and a high proportion of these factors can result in increased cost of sales and therefore lower gross profit. Certain contracts awarded may require the inclusion of engineering labor, third-party systems or third-party labor. In order to maintain competitiveness on these contracts, we may elect to reduce our usual margins on the third-party components. In addition, the product mix of services revenue, software, mapping, and systems and systems components in any given period may impact the gross profit for the period.

The lower gross profit percentage for the year ended November 30, 2006 as compared to the year ended November 30, 2005 is the result of the addition of engineering services revenue generated in our acquired operations. Software revenue generates more favorable margins than our other revenue streams and services revenue generates less favorable margins than other revenue streams.

The revenue for the year ended November 30, 2005 was flat as compared to the year ended November 30, 2004. This is attributable to the timing of new contracts that 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 addressed these issues by acquiring Mapcon Mapping Consultants Inc. of Salt Lake City, Utah and CHI Systems Inc. of Philadelphia, Pennsylvania, a U.S. defense contracting company. The Company completed a private placement of preference shares and warrants of \$16.0 million – part of the proceeds of which was used to acquire previously mentioned companies. Mapcon's acquisition increased the Company's mapping revenue in the U.S. market and CHI's acquisition provided the Company access to the U.S. defence market.

The lower gross margin percentage for the year ended November 30, 2005 as compared to the year ended November 30, 2004 is the result of the Company realizing higher software sales in the year ended November 30, 2004 when compared to the year ended November 30, 2005. Software revenue generates more favourable margins than the Company's other revenue streams.

RESULTS OF OPERATIONS – NOVEMBER 30 2006 COMPARED TO NOVEMBER 30, 2005**Overall Performance**

IN THOUSANDS OF U.S. DOLLARS	2006	2005	2006 TO 2005
Net earnings (loss) before income taxes	\$ 635	\$ (1,876)	\$ 2,511
Net earnings (loss)	\$ 693	\$ (2,749)	\$ 3,442
Net loss attributable to common shareholders	\$ (825)	\$ (9,400)	\$ 8,575
Loss per share – basic	(0.03)	(0.34)	0.31
Loss per share – diluted	\$ (0.05)	\$ (0.34)	\$ 0.29

The net earnings reported in the year ended November 30, 2006 were largely driven by higher revenues offset by the mix of contracts executed in the period and higher operating expenses due to the addition of costs from our acquired operations, product launch activities, and an increase in staff to support our growth plans.

Backlog

Total backlog is the sum of the firm and option backlogs. As at November 30, 2006, total backlog was \$63.2 million compared to \$17.5 million at November 30, 2005.

Firm backlog consists of firm, fixed, or signed orders issued and executable subsequent to the balance sheet date. Firm backlog as at November 30, 2006 was at \$35.2 million compared to \$10.0 million at November 30, 2005.

Option backlog consists of unexercised contract options at the balance sheet date and indefinite-quantity contracts executable subsequent to the balance sheet date. Option backlog as at November 30, 2006 was at \$28.0 million compared to \$7.5 million at November 30, 2005.

There is no guarantee or certainty that our customers will elect to exercise their contract option backlog. Should our 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. Backlog metrics are non-GAAP measures. These measures do not have a standardized meaning or comparable GAAP measure and are likely not comparable to similar measures presented by other companies.

The timing of major contracts awarded can significantly impact our total backlog position and revenue. Historically, major contracts awarded have taken up to three years to finalize. The contracting process involves lengthy discussions and negotiations with several groups of people within the prospective customer's organization. We have continually pursued, and will continue to pursue, major contracts with lengthy sales cycles, and as a result, there could be large variations in our total backlog and revenue from quarter to quarter.

Multi-year contracts with government agencies have a termination-for-convenience clause because governments approve budget expenditures on an annual basis. This 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 of our customers. We have included the full value of these government contracts in total backlog.

Revenue

IN THOUSANDS OF U.S. DOLLARS	2006	% OF TOTAL REVENUE	2005	% OF TOTAL REVENUE	2006 TO 2005
Marine systems	\$ 11,274	47	\$ 8,181	74	\$ 3,093
Land and air systems	8,761	36	–	–	8,761
Mapping	4,102	17	2,945	26	1,157
	\$ 24,137	100	\$ 11,126	100	\$ 13,011

Our core revenue stream is derived from three sources: marine systems, land and air systems, and mapping. Our land and air systems through our U.S. Systems operations delivered 36% of our revenue for the year ended November 30, 2006. Our principal developed and manufactured product, ECPINS®, delivers the majority of the marine systems revenue. We also derive revenue from the delivery of the ECPINS® software component of our system product. Combined, ECPINS® systems and software delivered 47% and 74% in the year ended November 30, 2006 and 2005, respectively.

In November 2006, our marine systems were awarded a \$29 million long term contract for the provision of warship automatic identification systems (W-AIS) to the UK Royal Navy. This resulted in \$5.8 million of revenue in fiscal 2006. The \$8.7 million revenue earned by our land and air systems relates to the acquisition of CHI Systems Inc.

Our results are primarily affected by the level, timing, and duration of customer orders and customer product delivery requirements. The main customers for our products and services in fiscal 2006 were the U. S. Army, the U.S. Navy and the Royal Navy of the United

Kingdom. Revenue from these customers accounted for 46% of the consolidated revenue. The main customers for our products and services for fiscal 2005 were the Royal Navy of the United Kingdom through Lockheed-Martin UK, the Canadian Navy and the Royal Australian Navy through Nautronix Ltd. Revenue from these customers accounted for 40% of the consolidated revenue.

Revenue by Segment

IN THOUSANDS OF U.S. DOLLARS	2006	% OF TOTAL REVENUE	2005	% OF TOTAL REVENUE	2006 TO 2005
International Systems operations	\$ 9,518	39	\$ 8,181	74	\$ 1,337
U.S. Systems operations	10,517	44	–	–	10,517
Mapping operations	4,102	17	2,945	26	1,157
	<u>\$ 24,137</u>	<u>100</u>	<u>\$ 11,126</u>	<u>100</u>	<u>\$ 13,011</u>

Revenue from the International Systems operations for the year ended November 30, 2006 increased 16% due to the timing of new contracts awarded, the delivery schedules of existing contracts and the mix of products and services delivered.

Revenue from the U.S. Systems operations has no comparatives as this revenue comes from CHI Systems Inc., which was acquired December 14, 2005 and there was no Marine systems sales to U.S. customers.

Revenue from our Mapping operations for the year ended November 30, 2006 as compared to the year ended November 30, 2005 increased 39% primarily the result of changes in our strategy implemented to improve our market position in the U.S. through the acquisition of a U.S. land mapping company based in Salt Lake City, Utah.

We continue to invest significant corporate, sales, and marketing resources in identifying and pursuing new opportunities and contracts, both in our existing customer base and with new prospective customers.

Gross Profit

IN THOUSANDS OF U.S. DOLLARS	2006	2005	2006 TO 2005
Gross profit	\$ 10,975	\$ 5,430	\$ 5,545
Gross profit percentage	45%	49%	(4)%

Gross profit increased by 102% in the year ended November 30, 2006 compared to the year ended November 30, 2005 and the gross profit percentage was 4% lower period-over-period. The reduced gross profit percentage compared to the prior fiscal year is due to the addition of lower margin revenue in our acquired operations.

Gross Profit by Segment

IN THOUSANDS OF U.S. DOLLARS	2006	2005	2006 TO 2005
Gross profit:			
International Systems operations	\$ 5,963	\$ 4,381	\$ 1,582
U.S. Systems operations	3,672	–	3,672
Mapping operations	1,340	1,049	291
Consolidated operations	<u>\$ 10,975</u>	<u>\$ 5,430</u>	<u>\$ 5,545</u>
Gross profit percentage:			
International Systems operations	63%	54%	9%
U.S. Systems operations	35%	–	35%
Mapping operations	33%	36%	(3)%
Consolidated operations	<u>45%</u>	<u>49%</u>	<u>(4)%</u>

Gross profit from the International Systems operations increased 36% and gross profit percentage was 9% higher for the year ended November 30, 2006 when compared to the prior year. The increases in fiscal 2006 are the result of higher revenues in the International Systems operations and an increase in our high margin software revenue compared to fiscal 2005.

Gross profit from the U.S. Systems operations was 35% for the year ended November 30, 2006. Gross profit from the U.S. Systems operations did not exist for the year ended November 30, 2005 as CHI Systems was acquired in the current year and there were no U.S. Marine systems sales in the year ended 2005.

Gross profit from the Mapping operations for the year ended November 30, 2006 increased 28% compared to the same period last year. The increase is the result of our successful entrance into the U.S. mapping market through the acquisition of Mapcon Mapping. Gross profit percentage decreased 3% period over period, consistent with the mix of contracts in the business unit.

Operating Expenses

IN THOUSANDS OF U.S. DOLLARS	2006	% OF TOTAL REVENUE	2005	% OF TOTAL REVENUE	2006 TO 2005
General and administrative	\$ 6,034	25%	\$ 3,923	35%	\$ 2,111
Engineering	1,783	7%	1,670	15%	113
Sales and marketing	2,527	10%	2,354	21%	173

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, and other income.

G&A increased by 54% for fiscal 2006 compared to the previous year as a result of the addition of our U.S. Systems operations and the increase of staff to support our growth plans. As a percentage of revenue, G&A was 10% points lower than the prior year.

Engineering expenses consist mainly of salaries and benefits of software and hardware engineering personnel, sub-contractor costs, facilities expenses, and related expenses. We expense research and development-related engineering costs in the period incurred.

Engineering costs increased by 7% in fiscal 2006, compared to the previous year. The increases are related to higher staff levels and expenses for new product activities for the year ended November 30, 2006. We believe that in order to maintain our technological leadership, we must continue to develop existing products and introduce innovative new products that challenge and redefine the industry standards.

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 our products and services.

S&M expenses increased by 7% for fiscal 2006 compared to the previous year. The increases in S&M expenses are primarily due to the addition of our U.S. Systems operations. We believe our current level of S&M staff continues to allow us to pursue business development activities relating to our expansion efforts targeting new and existing customers in the military agencies of Canada, the U.S., European NATO, and other allies of Canada, and national and international commercial marine transportation companies. To increase our profile and our products, and to broaden our customer base in international markets, we have established marketing agreements with companies local to the targeted regions. Some of these activities will not result in closing orders during the current year but may yield orders in subsequent fiscal years.

Depreciation and Amortization

IN THOUSANDS OF U.S. DOLLARS	2006	2005	2006 TO 2005
Depreciation and amortization	\$ 772	\$ 408	\$ 364

Total depreciation and amortization increased by 89% in fiscal 2006 reflecting our U.S. acquisition in the period, the mix of plant and equipment at November 30, 2005, and the amortization of intangibles related to our U.S. acquisitions. For the years ended November 30, 2006 and 2005, a portion of the depreciation, \$262,000 and \$163,000 respectively, was included in cost of sales for equipment used in revenue-generating activities.

Interest expense

IN THOUSANDS OF U.S. DOLLARS	2006	2005	2006 TO 2005
Interest expense	\$ 21	\$ 23	\$ (2)

Interest expense decreased in fiscal 2006 as compared to fiscal 2005 as the result of the Company not utilizing our operating line credit facility of \$2.0 million except for a short period at the fiscal year end.

Interest income

IN THOUSANDS OF U.S. DOLLARS	2006	2005	2006 TO 2005
Interest income	\$ 37	\$ 156	\$ (119)

Interest income decreased in fiscal 2006 as the result of the Company having surplus cash in fiscal 2005 for the period after the Preferred Share financing closed on April 11, 2005 until the acquisition of CHI Systems on December 14, 2005.

Foreign Exchange

IN THOUSANDS OF U.S. DOLLARS	2006	2005	2006 TO 2005
Foreign exchange loss (gain)	\$ (233)	\$ 90	\$ (323)

Foreign exchange gain and loss is largely the result of exchange rate movements of the Australian dollar and the UK pound which were in the Company’s favor during the fiscal 2006, as compared to fiscal 2005.

Technology Partnerships Canada

IN THOUSANDS OF U.S. DOLLARS	2006	2005	2006 TO 2005
Royalty	\$ 493	\$ 243	\$ 250
Contribution	(760)	(1,090)	330

In November 1999, we announced an agreement with Technology Partnerships Canada (“TPC”) whereby TPC granted us financial assistance to fund research and development activities to March 31, 2003. As at November 30, 2003, we had received the maximum eligible contribution of \$3.1 million. Under the terms of the agreement, we are required to pay TPC a royalty based on the revenue of our subsidiary, Offshore Systems Ltd. To November 30, 2006, we had paid royalties of \$1.3 million and accrued for future payment of an additional \$339,000. Royalty payments will continue until the cumulative royalties paid or payable to November 30, 2008 are at least \$6.8 million or until November 30, 2014.

In April 2004, TPC announced an agreement whereby TPC granted us financial assistance to fund research and development activities to March 31, 2007. The Company claimed the maximum eligible contribution of \$3.3 million in September 2006. As at November 30, 2006, we had claimed the maximum eligible contribution of \$3.3 million which includes a receivable of \$269,000. Also, under the terms of the agreement, we are required to pay TPC a royalty based on the revenue of our subsidiary, Offshore Systems Ltd., commencing in January 2006. To November 30, 2006, we had paid no royalties and had accrued for future payment of an additional \$154,000. Royalty payments will continue until the cumulative royalties paid or payable to December 31, 2013 are at least \$5.3 million or until December 31, 2017.

Although we believe that our 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, we were subject to three audits by government authorities. The results of the cost audit did not have a financial impact on the Company’s results. The results of the compliance audit required a repayment of contributions received of \$98,000 which was recognized in the fiscal 2005 as a reduction in TPC contributions. The royalty audit is currently in process. We have no reason to believe that the audit will have a material impact on the Company’s financial results.

Income Taxes

IN THOUSANDS OF U.S. DOLLARS	2006	2005	2006 TO 2005
Deferred income tax expense (recovery)	\$ (265)	\$ 726	\$ (991)
Current income tax expense	207	147	60
	(58)	873	(931)

Based on the information available at the time of the issue of the audited annual financial statements for the year ended November 30, 2006, we estimated that we would not have sufficient taxable earnings in Canada in future periods to utilize a portion of our \$1.6 million Canadian non-capital losses carried forward, \$6.8 million scientific research and experimental development costs and other Canadian tax balances. We have recognized deferred tax recovery in the year ended November 30, 2006 related to temporary timing differences between accounting income and income for tax purposes in our U.S. subsidiaries as we believe that it is more likely than not that these differences will be realized in future fiscal years. In accordance with U.S. GAAP, we provided a valuation allowance against deferred tax assets where realization did not meet the requirements of “more likely than not” under the liability method of tax allocation. We continue to evaluate our taxable position quarterly and consider factors such as estimated taxable income, the history of losses for tax purposes, and the growth of the Company, among others.

RESULTS OF OPERATIONS – NOVEMBER 30 2005 COMPARED TO NOVEMBER 30, 2004**Overall Performance**

IN THOUSANDS OF U.S. DOLLARS	2005	2004	2005 TO 2004
Net earnings (loss) before income taxes	\$ (1,876)	\$ 346	\$ (2,222)
Net earnings (loss)	\$ (2,749)	\$ 303	\$ (3,052)
Net loss attributable to common shareholders	\$ (9,400)	\$ (14)	\$ (9,386)
Loss per share – basic and diluted	(0.34)	(0.00)	(0.34)

The net loss reported in the year ended November 30, 2005 was largely driven by lower gross profit percentage driven by the mix of contracts executed in the period and higher operating expenses due to the addition of costs from our acquired operations, product launch activities, and an increase in staff to support our growth plans.

Backlog

Total backlog is the sum of the firm and option backlogs. As at November 30, 2005, total backlog was \$17.5 million compared to \$17.8 million at November 30, 2004.

Firm backlog consists of firm, fixed, or signed orders issued and executable subsequent to the balance sheet date. Firm backlog as at November 30, 2005 was at \$10.0 million compared to \$7.1 million at November 30, 2004.

Option backlog consists of unexercised contract options at the balance sheet date and indefinite-quantity contracts executable subsequent to the balance sheet date. Option backlog as at November 30, 2005 was at \$7.5 million compared to \$10.7 million at November 30, 2004.

Revenue

IN THOUSANDS OF U.S. DOLLARS	2005	% OF TOTAL REVENUE	2004	% OF TOTAL REVENUE	2005 TO 2004
Marine systems	\$ 8,181	74	\$ 8,090	78	\$ 91
Mapping	2,945	26	2,321	22	624
	<u>\$ 11,126</u>	<u>100</u>	<u>\$ 10,411</u>	<u>100</u>	<u>\$ 715</u>

Our core revenue stream is derived from three sources: marine systems, land and air systems and mapping. Our principal developed and manufactured product, the ECPINS, delivers the majority of the revenue. We also derive revenue from the delivery of the ECPINS software component of our system product. Our ECPINS systems and software are included in our marine systems, which delivered 74% and 78% of revenue in fiscal 2005 and fiscal 2004, respectively.

Our annual results are primarily affected by the level, timing, and duration of customer orders and customer product delivery requirements. The main customers for our products and services in fiscal 2005 were the Royal Navy of the United Kingdom through Lockheed-Martin UK, the Canadian Navy, and the Royal Australian Navy through Nautronix Ltd. Revenue from these customers accounted for 40% of the consolidated revenue. In fiscal 2004, the main customers for our products and services, accounting for 75% of the consolidated revenue, were the Royal Navy of the United Kingdom through Lockheed-Martin UK, the U.S. Coast Guard, and the Royal Australian Navy through Nautronix.

Revenue by Segment

IN THOUSANDS OF U.S. DOLLARS	2005	% OF TOTAL REVENUE	2004	% OF TOTAL REVENUE	2005 TO 2004
International Systems operations	\$ 8,181	74	\$ 8,090	78	\$ 91
Mapping operations	2,945	26	2,321	22	624
	<u>\$ 11,126</u>	<u>100</u>	<u>\$ 10,411</u>	<u>100</u>	<u>\$ 715</u>

Revenue from the International Systems operation business unit for fiscal 2005 increased 1% due to the timing of new contracts awarded and the delivery schedules of existing contracts. The sales cycle with government customers can be upwards of three years. In 2005, we added to our image display server product, a new server for the display of track, target and tactical information, such as mission and operational data, for command and control systems.

Revenue from the Mapping operations business unit increased 27% in fiscal 2005. The increase is primarily the result of changes in our strategy implemented to improve our market position in the U.S. through the acquisition of Mapcon Mapping, a U.S. land mapping company based in Salt Lake City, Utah. Subsequent to the acquisition, Mapcon Mapping became part of amalgamated Mapcon Mapping Inc.

We continue to invest significant corporate, sales, and marketing resources in identifying and pursuing new opportunities and contracts, both in our existing customer base and with new prospective customers.

Gross Profit

IN THOUSANDS OF U.S. DOLLARS	2005	2004	2005 TO 2004
Gross profit	\$ 5,430	\$ 6,018	\$ (588)
Gross profit percentage	49%	58%	(9)%

Gross profit decreased by 9% in fiscal 2005 compared to fiscal 2004 while the gross profit percentage was 13% lower year-over-year. The reduced gross profit and gross profit percentage compared to the prior year is due to lower software sales realized in fiscal 2005.

Gross Profit by Segment

IN THOUSANDS OF U.S. DOLLARS	2005	2004	2005 TO 2004
GROSS PROFIT:			
International Systems operations	\$ 4,381	\$ 5,214	\$ (833)
Mapping operations	1,049	804	245
	<u>\$ 5,430</u>	<u>\$ 6,018</u>	<u>\$ (588)</u>
GROSS PROFIT PERCENTAGE:			
International Systems operations	54%	64%	(10)%
Mapping operations	36%	35%	1%
	<u>49%</u>	<u>58%</u>	<u>(9)%</u>

Gross profit from the International Systems operations business unit decreased 16% and gross profit percentage was 10% lower year over year. The decreases are the result of lower revenues in the International Systems operations business in fiscal 2005 and a reduction in our high margin software revenue compared to fiscal 2004.

Gross profit from the Mapping operations business unit in fiscal 2005 increased 30% compared to the previous year. The increase is the result of our successful entrance into the U.S. mapping market through the acquisition of Mapcon Mapping. Gross profit percentage increased 1% year over year consistent with the mix of contracts in the business unit.

Operating Expenses

IN THOUSANDS OF U.S. DOLLARS	2005	% OF TOTAL REVENUE	2004	% OF TOTAL REVENUE	2005 TO 2004
General and administrative	\$ 3,923	35%	\$ 2,531	24%	\$ 1,392
Engineering	1,670	15%	1,611	15%	59
Sales and marketing	2,354	21%	2,421	23%	(67)

General and administrative ("G&A") increased by 55% for fiscal 2005 compared to the previous year. As a percentage of revenue, G&A was 11% higher year over year as a result of increased salaries and internal re-alignment of sales staff to G&A activities, professional fees, directors' fees, and directors and officers insurance. We anticipate that as a result of recently introduced reporting regulations in Canada and the U.S., we will continue to experience increases in expenses primarily relating to professional fees and higher infrastructure costs to meet the increased reporting obligations. Also, approximately \$670,000 of G&A costs in the fourth quarter related to expenditures of professional fees for capital advisory services, non-employee stock-based compensation, and employee severance costs.

Engineering costs, consisting mainly of salaries and benefits of software and hardware engineering personnel, sub-contractor costs, facilities expenses, and related expenses increased by 3.7% in fiscal 2005, compared to the previous year. For the years ended November 30, 2005 and 2004, additional engineering costs of \$337,000 and \$137,000 respectively were charged to cost of sales. These engineering labor costs are to support specific customer orders. Total engineering costs before the charge to cost of sales increased \$259,000 or 15%.

We believe that in order to maintain our technological leadership, we must continue to develop existing products and introduce innovative new products that challenge and redefine the industry standards.

Sales and marketing ("S&M") expenses decreased by 3%, in fiscal 2005 compared to the previous year. The reduction in S&M expenses is primarily due to a decrease of approximately \$99,000 in travel costs because of more efficient travel planning, a decrease of approximately \$66,000 in expenses relating to the internal re-alignment of sales staff to G&A activities to support corporate and operations initiatives, and a decrease of approximately \$66,000 in sales commissions as the result of lower sales achievements for the year. We believe our current level of S&M staff continue to allow us to pursue business development activities relating to our expansion efforts into the U.S., European, and Australasian markets. This expansion effort targets new and existing customers in the military agencies of Canada, the U.S., European NATO, and other allies of Canada, and national and international commercial marine transportation companies. To increase our profile and our products, and to broaden our customer base in international markets, OSI has established marketing agreements with companies local to the targeted regions. 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

IN THOUSANDS OF U.S. DOLLARS	2005	2004	2005 TO 2004
Depreciation and amortization	\$ 404	\$ 278	\$ 126

Total depreciation and amortization increased 45% in fiscal 2005 reflecting the acquisitions in the period, the mix of plant and equipment at November 30, 2005, and the amortization of intangibles related to the acquisition of Mapcon Mapping compared to the prior year. For the years ended November 30, 2005 and 2004, additional depreciation of \$163,000 and \$101,000 respectively, was included in cost of sales for equipment used in revenue generating activities.

Interest expense

IN THOUSANDS OF U.S. DOLLARS	2005	2004	2005 TO 2004
Interest expense	\$ 23	\$ 2	\$ 21

Interest expense increased in fiscal 2005 as the result of the Company having utilized a portion of our operating line credit facility of \$2,000,000 during the year ended November 30, 2005. We did not utilize our operating line credit facility during fiscal 2004.

Interest income

IN THOUSANDS OF U.S. DOLLARS	2005	2004	2005 TO 2004
Interest income	\$ 156	\$ 22	\$ 134

Interest income increased in fiscal 2005 as the result of the Company having excess cash for the period after the Preferred Share financing closed on April 11, 2005 until the acquisition of CHI Systems Inc. on December 14, 2005.

Foreign Exchange

IN THOUSANDS OF U.S. DOLLARS	2005	2004	2005 TO 2004
Foreign exchange loss (gain)	\$ 90	\$ (35)	\$ 125

Foreign exchange loss increased as a result of exchange rate movements of the Australian dollar and our U.S. dollar exposure during the year ended November 30, 2005 when compared to the year ended November 30, 2004.

Technology Partnerships Canada

IN THOUSANDS OF U.S. DOLLARS	2005	2004	2005 TO 2004
Royalty	\$ 243	\$ 99	\$ 144
Contribution	(1,090)	(1,112)	22

We are required to pay a royalty of 3% on annual gross revenue for the International Systems business unit for the period December 1, 1999 to November 30, 2008. Royalty expense increased 145% for the year ended November 30, 2005 compared to the previous year as a result of an increase in revenues subject to the TPC royalty charge.

We receive a contribution from TPC based on qualifying activities and expenditures incurred with respect to the years ended November 30, 2005 and 2004, we received or will receive the amounts noted above.

Income Taxes

IN THOUSANDS OF U.S. DOLLARS	2005	2004	2005 TO 2004
Deferred income tax expense (recovery)	\$ 726	\$ (491)	\$ 1,217
Current income tax expense	147	534	(387)
	<u>873</u>	<u>43</u>	<u>830</u>

Based on the information available at the time of the issue of the audited annual financial statements for the year ended November 30, 2005, we estimated that we would not have sufficient taxable earnings in future periods from the International Systems business units to utilize a portion of our \$4.4 Canadian non-capital losses carried forward and other tax balances. As a result of this assessment, we have recognized deferred tax expense in fiscal 2005 compared to deferred tax recovery in the previous year. In accordance with U.S. GAAP, we 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. We continue to evaluate our taxable position quarterly and consider factors such as estimated taxable income, the history of losses for tax purposes, and the growth of the Company, among others.

LIQUIDITY AND CAPITAL RESOURCES – NOVEMBER 30 2006 COMPARED TO NOVEMBER 30, 2005

IN THOUSANDS OF U.S. DOLLARS	2006	2005	2006 TO 2005
Cash and cash equivalents	\$ –	\$ 8,222	\$ (8,222)
Current assets	14,333	19,301	(4,968)
Current liabilities	6,544	4,056	2,488
Working capital ⁽¹⁾	7,789	15,245	(7,456)

(1) Working capital is defined as current assets less current liabilities. Working capital does not have a standardized meaning or comparable measure under generally accepted accounting principles and may not be comparable to similar measures presented by other companies.

We strive to maintain cash-contributing profitable operations that provide an adequate liquidity and capital resource base for growth. We believe that cash flow from operating activities, together with lines of credit borrowings of Canadian \$2.0 million and US \$600,000 available under our revolving credit facilities, will be sufficient to fund currently anticipated working capital, planned capital spending, and debt service requirements for the next 12 months. We expect cash flow from operations will continue to improve next year as scheduled contract milestone payments will be made on several contracts. The expenditures associated with these contracts have been incurred in prior periods.

At November 30, 2006 our current assets and working capital decreased primarily due to the acquisition of our U.S. Systems operations.

We have credit facilities consisting of an operating line, standby letters of credit, and forward exchange contract facilities. The credit facilities permit us to borrow funds directly for general corporate purposes, including acquisitions, at floating rates. At November 30, 2006, we had borrowings of \$904,000 against our operating line. We have an operating lines of Canadian \$2.0 million available with a Canadian chartered bank collateralized by accounts receivable and US \$600,000 with a U.S. chartered bank. During fiscal 2005, we utilized the facility which increased interest expense for the year. We had issued a standby letter of credit totaling Australian \$284,000 during fiscal 2005. We had utilized the standby letter of credit to support certain performance obligations to our customers. This standby letter of credit has since been cancelled. We utilize our forward exchange contract facility to reduce our exposure to exchange rate movements.

Cash Flows

IN THOUSANDS OF U.S. DOLLARS	2006	2005	2006 TO 2005
Cash flows provided by (used in):			
Operating activities	\$ 157	\$ (1,717)	\$ 1,874
Investing activities	(8,484)	(1,448)	(7,036)
Financing activities	(44)	10,729	(10,773)
Translation adjustment	149	446	(297)

Cash flows provided by operating activities for the year ended November 30, 2006, were the result of the increase in accounts receivable offset by the income for the year ended November 30, 2006 and a decrease in accounts payable and accrued liabilities. The increase in cash flows provided by operating activities was the result of the Company's return to profitability.

Cash flows used in investing activities for the year ended November 30, 2006 were primarily reflective of our U.S. systems acquisition as well as the acquisitions of plant, equipment and intangibles commensurate with our plans to obtain additional systems and facilities to accommodate our current and future anticipated growth, offset by a decrease in restricted cash.

Cash flows used in financing activities for the year ended November 30, 2006 were the result of Class B preference share dividends paid. Cash flows provided from financing activities for the year ended November 30, 2005 were the net of proceeds of the Class B preference share financing reduced by the Class B preference share dividends paid.

As a result of the above mentioned changes, cash decreased by \$8.2 million for the year ended November 30, 2006.

In order to reduce the impact of U.S. dollar, Australian dollar, euro and British pound to Canadian dollar exchange rate fluctuations, we have used the forward exchange contract facility described above. We use the forward exchange contract facility to set the exchange rate between the U.S. and Canadian dollar, the Australian to Canadian dollar, British pound 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. We use the forward exchange contract facility only for known or reasonably certain future U.S. and Australian dollar and euro transactions. At November 30, 2005, we did not utilize the forward exchange contract facility.

There can be no assurance that we will have adequate financial resources, financing, or cash flows to support the Company into the future.

LIQUIDITY AND CAPITAL RESOURCES – NOVEMBER 30 2005 COMPARED TO NOVEMBER 30, 2004

IN THOUSANDS OF U.S. DOLLARS	2005	2004	2005 TO 2004
Cash and cash equivalents	\$ 8,222	\$ 212	\$ 8,010
Current assets	19,301	8,587	10,714
Current liabilities	4,056	2,256	1,800
Working capital ⁽¹⁾	15,245	6,331	8,914

(1) Working capital is defined as current assets less current liabilities. Working capital does not have a standardized meaning or comparable measure under generally accepted accounting principles and may not be comparable to similar measures presented by other companies.

At November 30, 2005, our current assets and working capital increased primarily due to the cash received from the private placement issuance of Class B preference shares series 2 offset by the cash used to support the operating activities in fiscal 2005 and the acquisition of Mapcon Mapping.

We have credit facilities consisting of an operating line, standby letters of credit, and forward exchange contract facilities. The credit facilities permit us to borrow funds directly for general corporate purposes, including acquisitions, at floating rates. At November 30, 2005, we had no borrowings against our Canadian or U.S. dollar operating line. During fiscal 2005, we utilized the facility which increased interest expense for the year. There were no borrowings in the year ended November 30, 2004. We have issued a standby letter of credit totalling Australian \$284,000. We have utilized the standby letter of credit to support certain performance obligations to our customers. We utilize our forward exchange contract facility to reduce our exposure to exchange rate movements.

Cash Flows

IN THOUSANDS OF U.S. DOLLARS	2005	2004	2005 TO 2004
Cash flows provided by (used in):			
Operating activities	\$ (1,717)	\$ (2,543)	\$ 826
Investing activities	(1,448)	(268)	(1,180)
Financing activities	10,729	87	10,642
Translation adjustment	446	(13)	459

Cash flows used in operating activities for the year ended November 30, 2005, were the result of the loss for the year and increases in accounts receivable, inventory, and prepaid expenses offset by operating items of amortization, stock-based compensation, and future income taxes not requiring cash and increases in accounts payable, accrued liabilities, and deferred revenue. Cash flows used in operating activities for the year ended November 30, 2004 were the result of increased accounts receivable.

Cash flows used in investing activities for the year ended November 30, 2005 were reflective of the acquisition of Mapcon Mapping, the acquisitions of plant, equipment and intangibles commensurate with our plans to obtain additional systems and facilities to accommodate our current and future anticipated growth, and the restriction in usage of \$190,000 cash. Cash flows used in investing activities for the year ended November 30, 2004 were the result of acquisitions of plant, equipment and intangibles.

Cash flows provided by financing activities for the year ended November 30, 2005 were the result of the private placement of Class B preference shares series 2 and warrants, net of issue costs, offset by the repurchase of Class B preference shares series 1 and Class B preference shares dividends declared and paid. Cash flows provided by financing activities for the year ended November 30, 2004 were the net result of common shares issued offset by Class B preference share dividends declared and paid.

As a result of the above mentioned changes cash increased by \$8.0 million in the year ended November 30, 2005 compared to a decrease of \$2.6 million for the year ended November 30, 2004.

Contractual Obligations

IN THOUSANDS OF U.S. DOLLARS	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1 TO 3 YEARS	4 TO 5 YEARS	AFTER 5 YEARS
Facility leases	\$ 3,669	\$ 590	\$ 895	\$ 803	\$ 1,381
Equipment leases	45	32	12	1	-
Total contractual obligations	\$ 3,714	\$ 622	\$ 907	\$ 804	\$ 1,381

Off Balance Sheet Arrangements

GUARANTEES

We warrant that our 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. We accrue for known warranty issues if a loss is probable and can be reasonably estimated, and accrue for estimated incurred but unidentified warranty issues based on historical activity. To date, we have had no material warranty claims.

Transactions With Related Parties

On April 11, 2005, Mr. E. Brinton Cox, a director of the Company, assisted the Company in structuring and arranging the private placement financing (note 13(c)(ii)). In consideration for his services, the Company paid him compensation of \$672,000 and 350,000 common share purchase warrants. Mr. Cox has also participated in the financing by purchasing 100 units personally. Mr. Cox was paid an additional \$125,000 for professional services provided during the year and to be provided to April 2006. For the year ended November 30, 2006, \$25,000 was charged to expenses (2005 – \$100,000).

On April 8, 2005, Gerald J. Shields, a related party by virtue of the provision of legal services to the Company by two law firm in which he has an interest (Mr. Shields having moved from his former firm to his current firm in July, 2005) was elected to the Company's Board of Directors. Fees paid to these two law firms for services Mr. Shields provided to the Company during the fiscal year 2006 totalled \$177,000 (2005 – totalled \$164,000). As of November 17, 2006, Mr. Shields no longer has an interest in any law firm that provided legal services to the Company.

REVIEW OF THE FOURTH QUARTER ENDING NOVEMBER 30, 2006

IN THOUSANDS OF U.S. DOLLARS	2006	% OF TOTAL REVENUE	2005	% OF TOTAL REVENUE
Revenue				
Marine systems	\$ 6,316	63	4,035	79
Land and air systems	2,517	25	–	–
Mapping	1,185	12	1,102	21
	10,018	100	5,137	100
Cost of sales	4,235	42	2,501	49
Gross profit	5,783	58	2,636	51
Expenses				
General and administrative	1,714	17	1,382	27
Engineering	401	4	628	12
Sales and marketing	859	8	796	16
Depreciation and amortization	98	1	61	1
Interest expense	6	–	3	–
Interest income	(17)	–	(64)	(1)
Foreign exchange gain	(215)	(2)	(38)	(1)
Technology Partnerships Canada royalty	273	3	112	2
Technology Partnerships Canada contribution	(29)	–	(198)	(4)
	3,090	31	2,682	52
Income (loss) before income taxes	2,693	27	(46)	(1)
Income tax expense	2	–	826	16
Net Income (loss)	\$ 2,691	27	\$ (872)	(17)
Net income (loss) attributable to common shareholders				
for basic earnings (loss) per share	\$ 2,249		\$ (2,594)	
for diluted earnings (loss) per share	\$ (655)		\$ (2,594)	
Earnings (loss) per share				
Basic	\$ 0.07		\$ (0.09)	
Diluted	\$ (0.01)		\$ (0.09)	

Overall Performance

For the three months ended November 30, 2006, we reported a net income of \$2.7 million compared to a net loss of \$872,000 for the same quarter in 2005. The net income attributable to common shareholders was \$2.2 million for the three months ended November 30, 2006 compared to a loss of \$2.6 million or for the three months ended November 30, 2005.

Our results for the three months ended November 30, 2006 were largely driven by an increase in revenue that resulted from the timing of new contracts awarded, the delivery schedules of existing contracts and the inclusion of revenue from CHI Systems. Expense increases resulted from higher TPC royalties, related to higher revenue and the inclusion of CHI Systems.

The analysis for the three months ended November 30, 2006 compared to the three months ended November 30, 2005 is substantially similar to the annual MD&A describing our year-over-year results and differs from the explanations as indicated below:

- For the three months ended November 30, 2006, the main customers for our products and services, accounting for approximately 60% of consolidated revenue, were the Royal Navy of the United Kingdom and the U.S. Army.
The main customers for our products and services for the three months ended November 30, 2005, accounting for approximately 48% of the consolidated revenue, were the Canadian Navy, the Royal Australian Navy through Nautronix, the Portuguese Navy through Sicom Sistemas De Comunicacoes Lda., and the Royal Danish Navy.
- Engineering costs decreased by 36% for the three months ended November 30, 2006, compared to the three months ended November 30, 2005. The decrease is largely the result of engineering labor costs charged to cost of sales from Engineering for the three months ended November 30, 2006 that did not incur for the same period in the previous year. These engineering labor costs were to support specific customer orders.
- Sales and marketing expenses increased by 8% for the three months ended November 30, 2006 compared to the three months ended November 30, 2005. The increase is consistent with our business development activities in the U.S., European, and Australasian markets period over period.

- The increase in depreciation and amortization of \$38,000 reflects the plant and equipment acquisitions in the three months ended November 30, 2006 and the amortization of intangibles related to the acquisitions of Mapcon Mapping and CHI Systems.
- We are required to pay a royalty to TPC 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 by 143% for the three months ended November 30, 2006 compared to the three months ended November 30, 2005. The increase is the result of more revenue subject to the TPC royalty charge.
- Foreign exchange gain increased over five fold for the three months ended November 30, 2006 compared to the three months ended November 30, 2005. This is a result of exchange rate movements of the Australian dollar and the British pound quarter over quarter.

SELECTED QUARTERLY DATA (UNAUDITED)

IN THOUSANDS OF U.S. DOLLARS

FOR THE THREE MONTHS ENDED	NOVEMBER 30 2006	AUGUST 31 2006	MAY 30 2006	FEBRUARY 28 2006
Revenue	\$ 10,018	\$ 4,316	\$ 6,140	\$ 3,663
Gross profit	5,783	1,403	2,595	1,194
Gross profit percentage	58%	32%	42%	33%
Net earnings (loss)	2,691	(766)	(2)	(1,230)
Net earnings (loss) attributable to common shareholders	2,249	(953)	(715)	(1,406)
Loss per share – basic	0.07	(0.03)	(0.02)	(0.05)
Loss per share – diluted	(0.01)	(0.03)	(0.02)	(0.05)

FOR THE THREE MONTHS ENDED	NOVEMBER 30 2005	AUGUST 31 2005	MAY 30 2005	FEBRUARY 28 2005
Revenue	\$ 5,137	\$ 2,618	\$ 1,533	\$ 1,838
Gross profit	2,636	1,472	317	1,005
Gross profit percentage	51%	56%	21%	55%
Net earnings (loss)	(872)	(308)	(1,370)	(199)
Net earnings (loss) attributable to common shareholders	(2,594)	(1,026)	(5,560)	(220)
Loss per share – basic and diluted	(0.09)	(0.04)	(0.20)	(0.01)

CRITICAL ACCOUNTING POLICIES

Financial statement preparation requires that we use estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses, and the related disclosure of contingent liabilities. Our accounting policies are described in note 4 to our audited consolidated financial statements. The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements:

Revenue

We are required to estimate the costs to complete certain systems, engineering services and mapping 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. We may need to adjust the estimated costs to complete for these projects, if the actual results differ from our estimates. If we anticipate that a contract or a contract segment will generate a loss, we estimate that loss and record the total expected loss on the contract or contract segment.

Revenue from contracts with multiple deliverables is recognized based on the division of the multiple deliverables into separate units of accounting and arrangement consideration is allocated among separate units based on their relative fair values. Revenue from each unit is recognized in accordance with the applicable U.S. GAAP guidance.

When revenues exceed amounts invoiced under a contract, the difference is recorded as unbilled revenue. We believe that unbilled revenue will be invoiced and collected. Deferred revenues are amounts that have been billed to the customer but have not been recognized in revenue. Unbilled revenue represents revenue recognized in accordance with our accounting policies and is not legally invoiced as at the balance sheet date.

Income Taxes

We are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our 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 our consolidated balance sheet. We recognize deferred income tax assets to the extent that their realizations are considered more likely than not and provide

a valuation allowance against any remaining balance. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates, or we adjust these estimates in future periods, we may need to adjust the valuation allowance. Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgment that is subject to audit by tax authorities in the ordinary course of business.

Goodwill

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment. Goodwill is tested for impairment at the reporting unit level at least annually, utilizing a two-step methodology. The initial step requires the Company to assess whether indications of impairment exist. If indications of impairment are determined to exist, the second step of measuring impairment is performed, wherein the fair value of the relevant reporting unit is compared to the carrying value, including goodwill, of such unit. If the fair value exceeds the carrying value, no impairment loss is recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of the reporting unit is impaired and goodwill write down is required. The Company performs its testing for impairment of goodwill and other intangible assets related to the CHI Systems acquisition as of November 30 of each year. Based on testing performed as of November 30, 2006, there was no impairment. The Company performs its testing for impairment of goodwill and other intangible assets related to the Mapcon Mapping acquisition as of February 28 of each year. Based on testing performed as of February 28, 2006, there was no impairment.

Stock-based Compensation and Other Stock-based Payments

We have established three stock option plans under which stock 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 fair value of the stock options is 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 and stock option and stock awards granted are accounted for in accordance with the fair value method of accounting for stock-based compensation.

Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses that may arise if any of our customers are unable to make required payments. Management specifically analyzes 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 our accounts receivable. If we determine that the financial condition of any of our customers deteriorates, increases in the allowance may be made. We review the unbilled revenue balance on a regular basis to assess our fair market value and provide a allowance 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 labor applied to the product and the applicable share of overhead. Finished goods are stated at the lower of cost and net realizable value. We assess the need for inventory write-downs based on our assessment of estimated net realizable value using assumptions about future demand and market conditions. If market conditions differ from those originally estimated by us, an additional inventory write-down may be required.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48 – Accounting for Uncertainty in Income Taxes (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company has not completed its analysis of the adoption of FIN 48 at this time.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard 157, Fair Value Measurements (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (“GAAP”), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, the application of this Statement will change current practice, effective December 1, 2007. The adoption of SFAS 157 will not have a material impact on the Company’s consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

Effective December 1, 2004, we elected to report our consolidated financial statements in accordance with U.S. GAAP. We prepare a reconciliation highlighting the material differences between our audited annual consolidated financial statements prepared in accordance with U.S. GAAP compared to Canadian GAAP (see note 21 to the audited annual consolidated financial statements). Additional disclosure with respect to the effects of our election to report our consolidated financial statements in accordance with U.S. GAAP is provided in notes 1, 3, and 21 of the audited consolidated financial statements.

In December 2005, 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 fair values using either a modified-prospective or modified-retrospective transition method. Accordingly, from the date of adoption of the revised standard, we are required to recognize compensation expense for all stock-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 adoption of SFAS 123R will not have a material impact on the Company’s consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Foreign Exchange Forward Contracts

We use foreign exchange forward contracts to hedge transactions denominated in U.S. dollars, Australian dollars, British pounds and euros. The purpose of our hedging activities is to reduce the level of exposure to exchange rate movements. At November 30, 2006, we had entered into the following foreign exchange forward contracts:

SELL	EXCHANGE RATE IN RELATION TO CAD	VALUE DATE
GBP 107,017	2.1046	December 15, 2006
AUD 375,000	0.8489	December 15, 2006
USD 147,591	1.0992	December 29, 2006
USD 82,880	1.0981	January 31, 2007
USD 310,979	1.1220	January 31, 2007
USD 348,919	1.1289	February 28, 2007
AUD 125,000	0.8442	April 16, 2007
USD 371,276	1.1258	May 30, 2007

Derivative financial instruments are utilized by the Company to reduce our exposure to fluctuations in foreign exchange on certain committed and anticipated transactions. We formally document the relationships between derivative financial instruments and hedged items, as well as the risk management objective and strategy. We assess, 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 or loss. 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 loss, or recognized in other comprehensive income or loss until the hedged item is recognized in income. The ineffective portion of a derivative’s change in fair value is immediately recognized into income or loss. The requirement to record derivatives at their fair market value has not had a material impact on our financial statements.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at February 15, 2007, we had 36,858,810 issued and outstanding common shares and 3,236,916 outstanding stock options. As at February 15, 2007, we also had 30,262 issued and outstanding class A preference shares and 250,570 issued and outstanding class B preference shares series 2 convertible into common shares at conversion ratios of 1:1 and 1:58.82353 respectively which represents 16,461,176 common shares. Also at February 15, 2007, we had 13,788,365 outstanding common share purchase warrants convertible to common shares at a conversion ratio of 1:1, representing 13,788,365 common shares.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in provincial securities legislation. The Company evaluated its disclosure controls and procedures as defined under Multilateral Instrument 52-109 as at November 30, 2006. This evaluation was performed by the Chief Executive Officer and the Vice President Finance with the assistance of other Company employees to the extent necessary and appropriate. Based on this evaluation, the Chief Executive Officer and Vice President Finance concluded that the design and operation of these disclosure controls and procedures were effective.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company maintains internal controls over financial reporting which have been designed to provide reasonable assurance of the reliability of external financial reporting in accordance with US GAAP as required by Multilateral Instrument 52-109. The Chief Executive Officer and the Vice President Finance, along with other employees to the extent considered necessary and appropriate, have designed internal controls over financial reporting that are effective as at November 30, 2006.

Nonetheless, the Chief Executive Officer and the Vice President Finance have identified areas where the Company can enhance process controls and they intend to incorporate such enhancements into the internal controls over financial reporting over the next twelve months. The Company employs entity level controls to compensate for any deficiencies that may exist. Under 52-109, the Chief Executive Officer and the Vice President Finance are not required to, and have not yet tested the actual effectiveness of the Company's internal controls over financial reporting.

There were no changes in the Company's internal control over financial reporting that occurred since the beginning of the Company's fourth quarter to the date of this document that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

RISKS AND UNCERTAINTIES

Certain statements made in this report 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, our financial condition, or results of operations.

We depend heavily on 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 our operations. The contract termination clauses are generally in favor 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 our operations. Also, we cannot give assurance that we would be able to procure new government contracts to offset the revenues lost as a result of any contract termination. As our revenues are dependent on the procurement, performance, and payment under these contracts, the loss of one or more critical contracts could have a negative impact on our financial condition.

In addition, sales to the governments we work with may be affected by:

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

The influence of any of these factors, which are largely beyond our control, could also negatively impact our financial condition.

We derive a significant amount of revenue from only a few customers. We depend on national and international governments for a significant portion of our sales, and the loss of any of these relationships or a shift in any of these governments' funding could have severe consequences on our financial condition.

For the year ended November 30, 2006 approximately 57% of our revenue was from the Royal Navy of the United Kingdom, L-3 Marine Systems and the Canadian Navy. Approximately 40% of our revenue for the year ended November 30, 2005 was from the Royal Navy of the United Kingdom, the Canadian Department of Defence and the Royal Australian Navy. Therefore, any significant disruption or deterioration of any of our relationships with these entities' governments would significantly reduce our 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 we are not involved could have severe consequences for our results of operations.

Our product lines are not broadly diversified.

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

We derive a significant portion of our revenues from international sales and are subject to the risks of doing business in foreign countries.

In the year ended November 30, 2006, approximately 89% of our revenues were from international customers, including governmental customers: 53% from the U.S. and 36% from other international countries. We have focused our expansion efforts for the future on the American, European and Australasian markets. As a result, we expect that international sales will continue to account for a significant portion of our revenues for the foreseeable future. As a result, we are 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 our operations in the future.

The Company derives significant revenue from contracts awarded through a competitive bidding process, which can impose substantial costs upon it, and the Company will fail to maintain its current and projected revenue if it fails to compete effectively.

The Company derives significant revenue from government contracts, both domestic and international, that are awarded through a competitive bidding process. The Company expects that most of the government business it will seek in the foreseeable future will be awarded through competitive bidding. Competitive bidding imposes substantial costs and presents a number of risks. Such risks include, but are not limited to

- the need to bid on engagements in advance of the completion of their design, which may result in unforeseen difficulties in executing the engagement and cost overruns;
- the substantial cost and managerial time and effort that the Company spends to prepare bids and proposals for contracts that may not be awarded to them;
- the need to accurately estimate the resources and costs that will be required to service any contract the Company is awarded;
- the expense and delay that may arise if the Company's competitors protest or challenge contract awards made to them pursuant to competitive bidding, and the risk that any such protest or challenge could result in the resubmission of bids on modified specifications, or in termination, reduction, or modification of the awarded contract; and
- the opportunity cost of not bidding on and winning other contracts the Company might otherwise pursue.

To the extent the Company engages in competitive bidding and are unable to win particular contracts, it not only incur substantial costs in the bidding process that would negatively affect the Company's operating results, but it may be precluded from operating in the market for services that are provided under those contracts for a number of years. Even if the Company wins a particular contract through competitive bidding, its profit margins may be depressed as a result of the costs incurred through the bidding process.

Our revenues and costs are affected by fluctuations in the rate of exchange between the U.S. dollar, which is our reporting currency, the Canadian dollar, the British pound, the Australian dollar, the Danish kroner and the euro.

Exposure to exchange rate fluctuations exists because a significant portion of our trade receivables and revenue transactions are in U.S. dollars, Australian dollars, British pounds and euros. For the year ended November 30, 2006, approximately 14% of the Company's revenues and 51% of our expenses were transacted in Canadian dollars. During the same period, approximately 22% and 2% of the Company's revenues were transacted in British pounds and Australian dollars, respectively. We expect that British pound and Australian dollar sales will continue to account for a material portion of our revenues for the foreseeable future. As a result, exchange rate fluctuations may affect our revenue and earnings growth materially in the future. In order to reduce the impact of Canadian to U.S. dollar, British pounds to U.S. dollar and Australian to U.S. dollar, we utilize our foreign exchange forward contract facility. As at November 30, 2006, we had entered into foreign exchange forward contracts in the amount of U.S. \$1,262,000, £107,000 and Australian \$500,000.

We have established teaming relationships and strategic partnerships with international corporations to pursue major international government procurements, and our reputation and results of operations could be adversely affected by our inability to control their operations.

We rely on agreements with international corporations to assist us in pursuing contracts for major government procurements. These international corporations often assist us with systems integration, complimentary products and services, and local domain knowledge necessary to successfully pursue major government procurements. We do 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 our products in their business priorities.

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

We may lose sales, or sales may be delayed, because of the long sales and implementation cycles for our products and services.

Our customers have typically invested substantial time, money, and other resources and have many people involved in the decision to license our software products and purchase our hardware products and services. As a result, we 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 our 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 our products varies significantly from one customer to the next. Implementing our products can sometimes take several months or even a few years depending on the customer's needs. It may be difficult to deploy our products if the customer has complicated deployment requirements. If a customer utilizes a third party to deploy our products, we cannot guarantee that our products will be deployed successfully.

As a result, our revenue could decrease, and our business and operating results would be adversely affected.

Competition within our markets may reduce our ability to procure future contracts and sales.

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

Our 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, our revenue could decrease, and our business and operating results would be adversely affected.

Our future success will depend on our ability to develop new technologies that achieve market acceptance.

The defense market is characterized by rapidly changing technologies and evolving industry standards. Accordingly, our future performance depends on a number of factors, including our ability to:

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

We believe that, in order to remain competitive in the future, we 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 our products will develop or continue to expand as we currently anticipate. The failure of our technology to gain market acceptance could significantly reduce our revenues and harm our business. Furthermore, we cannot be sure that our competitors will not develop competing technology, which gains market acceptance in advance of our products. The possibility that our competitors might develop new technology or products might cause our existing technology and products to become obsolete. If we fail in our new product development efforts or our products fail to achieve market acceptance more rapidly than our competitors, our revenues will decline and our business, financial condition and results of operations will be negatively affected.

We depend on the recruitment and retention of qualified personnel, and our failure to attract and retain such personnel could seriously harm our business.

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

We do not have fixed-term employment agreements with our officers and key employees and the loss of any officer or key employee could seriously harm our business.

We have not entered into fixed-term employment agreements with our officers and key employees. Our success depends upon the abilities and experience of our 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 our operations and impair our ability to compete.

We depend on foreign sub-contract labor in our mapping operations to maintain a competitive position in the mapping marketplace.

Our mapping operations are dependent upon labor resources located outside North America. While we enter into sub-contract agreements with these suppliers, we cannot be sure that the labor resources will be available when required and at the levels required.

Accordingly, maintaining our 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 labor resources made available to the Company;
- labor 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 our mapping operations in the future.

We may be unable to adequately protect our intellectual property rights, which could affect our ability to compete.

Protecting our intellectual property rights is critical to our ability to compete and succeed as a company. We have trademark and copyright registrations, which are necessary and contribute significantly to the preservation of our 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, we may not be able to obtain necessary licenses on commercially reasonable terms. We enter into confidentiality and invention assignment agreements with our employees, and enter into nondisclosure agreements with our suppliers and customers, as appropriate, so as to limit access to and disclosure of our proprietary information. These measures may not suffice to deter misappropriation or independent third-party development of similar technologies.

Our operations depend on component availability and our key suppliers to manufacture and deliver our products and services.

Our operations are highly dependent on the timely delivery of materials by outside suppliers. While we enter into purchase agreements with a few of our suppliers, we 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 our needs, it may not have readily available alternatives. Our inability to fill our supply needs would jeopardize our ability to satisfactorily complete our obligations under our 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 our reputation and relationships with our customers. All of these events could have a negative effect on our financial condition.

The Company may not be able to meet the delivery terms or budgeted costs of its firm fixed price contracts.

A majority of the Company's contracts are firm fixed price contracts. There is a risk in every firm fixed price contract that the Company will be unable to deliver to the customer within the time specified or at a cost to the Company which is less than the contract price. In the absence of any amendments to the original firm fixed price contract to increase the price of the contract or extend the delivery times, customers may be in a position to terminate the contract, demand repayment or impose penalties on the Company. A significant cost overrun or delay in delivery to the customer could adversely affect the Company's business and operating results.

The unpredictability of our results may harm or contribute to the volatility of the trading price of our common stock.

Our operating results may vary significantly over time for a variety of reasons, many of which are outside our control and any of which may harm our business. The value of our 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 our working capital position;
- our ability and the ability of our key suppliers to respond to changes in customer orders;
- the timing of our new product introductions and our 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.

Sales of a significant number of shares of our common stock by existing shareholders could cause the market price of our common stock to decline.

If the Company's shareholders sell substantial amounts of the Company's common stock, including shares issued upon the exercise of outstanding options, the market price of the Company's common stock may decline. These sales also might make it more difficult for the Company to sell equity or equity-related securities in the future at a time and price that the Company deems appropriate. The Company is unable to predict the effect that sales may have on then prevailing market price of its common stock.

We may pursue strategic relationships, investment, and acquisitions. We may not be able to successfully manage our operations if it fails to successfully integrate the acquired technologies and/or businesses.

As part of our business strategy, we may expand our product offerings to include application software products that are complementary to our 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 we may encounter in acquiring or licensing technology from third parties include the following:

- difficulty in integrating the third-party product with our 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 our 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.

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

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

Our business could be adversely affected if we fail to manage our growth effectively.

If we fail to manage our growth effectively, our business and operating results could be adversely affected. We expect to continue to grow our operations domestically and internationally, and to hire additional employees. The growth in our operations and staff has placed, and will continue to place, a significant strain on our management systems and resources. If we fail to manage our future anticipated growth, we 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 we must, among other things, continue to:

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

To the extent that this anticipated growth does not occur or occurs more slowly than we anticipate, we may not be able to reduce expenses to the same degree. If we incur operating expenses out of proportion to revenue in any given quarter, our operating results may be adversely impacted.

Third parties may claim that we infringe their proprietary rights.

We potentially may receive claims that we have 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, we may become increasingly subject to infringement claims, including patent, trademark, and copyright infringement claims. In addition, former employers of our 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 our core business, require it to stop selling or delay shipping, or cause the redesign of our product or products. In addition, we 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 our customers.

We license and use software from third parties in our 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 our ability to continue licensing this software. Our inability to use any of this third-party software could result in shipment delays or other disruptions in our business, which could materially and adversely affect our operating results.

We may not be able to protect our proprietary information.

We rely on a combination of copyright, trademark, and trade secret laws; confidentiality procedures; contractual provisions; and other measures to protect our 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 our technology. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy our products or to obtain or use information that we regard as proprietary.

Our 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 our efforts to test our products, we might experience significant errors or failures in our 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 our products. Customers use our 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. Our customers may claim that we are responsible for damages to the extent they are harmed by the failure of any of our products. If we 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, we could lose revenue or be subject to liability for service or warranty costs. Should this occur, our business and operating results could be adversely affected.

Our products depend on third-party software products and our reputation and results of operations could be adversely affected by our inability to control their operations.

Our products incorporate and use software products developed by other entities. We do not have assurance that such third parties will:

- remain in business;
- support our 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 our business, results of operation, cash flows, and financial condition.

Our products may not be compatible with various operating systems and therefore we may not be able to sell our products to potential customers.

Our products are used in combination with various operating systems. Our future success depends on our ability to continue to support widely-used operating systems. Our applications run on Microsoft operating systems. Therefore, our ability to increase sales depends on the continued acceptance of Microsoft operating system products. If we are 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, our business and operating results could be adversely affected.

The Company is subject to various government audits, which may result in unfavorable assessments or penalties to the Company.

The Company is occasionally subject to compliance audits from government bodies and agencies relating to its Technology Partnership Canada (TPC) funding agreements, corporate income tax filings or federal, state, provincial and municipal government contracts for the procurement of the Company's products and services. The Company was audited in 2004 by Industry Canada in relation to its TPC funding agreements and as part of a broader Industry Canada review of TPC funding agreements. This compliance audit was focused on ensuring the funding submissions by the Company meet the terms and conditions of its TPC funding agreement. The Company believes that it is in compliance with the terms of its TPC agreements but has not received any notification from Industry Canada regarding its audit conclusions. There can be no assurance that the compliance audit will result in a favorable assessment for the Company or that penalties will not be imposed on the Company for non-compliance.