

Navitrak International CORP
Form 10KSB
April 18, 2007
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2006**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from []

Commission file number 000-52412

NAVITRAK INTERNATIONAL CORPORATION

(Name of small business issuer in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

20-2437159

(I.R.S. Employer Identification No.)

400-1190 Barrington Street

Halifax, NS

(Address of principal executive offices)

Issuer's telephone number **800-661-7830**

B3H 2R4

(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Nil

Name of each exchange on which registered

Nil

Securities registered pursuant to Section 12(g) of the Act:

Common Shares, \$0.001 par value

(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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State issuer's revenues for its most recent fiscal year. \$Nil

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of a specified date within 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.)

64,518,756 common shares at \$0.115⁽¹⁾ per common share = \$7,419,656.90

⁽¹⁾ Represents the price at which our shares were last traded on the Pink Sheets on March 19, 2007. Used only for the purpose of this calculation.

State the number of shares outstanding of each of the issuer's classes of equity stock, as of the latest practicable date.

66,952,430 common shares issued and outstanding as of March 21, 2007.

Transitional Small Business Disclosure Format (Check one):

Yes [] No

PART I

Item 1. Description of Business.

This annual report contains forward-looking statements. Forward-looking statements are statements about future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as *may*, *should*, *expects*, *plans*, *anticipates*, *believes*, *estimates*, *predicts*, *potential* or *continue* or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks described in the section of this annual report on Form 10-KSB entitled *Risk Factors*, that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee our future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States dollars and are prepared in accordance with United States Generally Accepted Accounting Principles. In this annual report, unless otherwise specified, all dollar amounts are expressed in United States dollars. All references to *common shares* refer to common shares in our capital stock unless expressly stated otherwise.

As used in this annual report, the terms *we*, *us*, *our*, and *Navitrak* means Navitrak International Corporation and our wholly owned subsidiaries, Navitrak Engineering Incorporated, 0705951 BC Ltd. and Navitrak Technologies, Inc., unless otherwise indicated.

General Overview

We market, sell and support airborne moving map and real-time video and electronic sensor control systems that acquire, fuse and dynamically display map, sensor and other geo-referenced data. These systems are used by the airborne surveillance community to increase situational awareness and to achieve more efficient task management via a combination of software, hardware and geographic information datasets. Our systems provide real time information on geographic position and directional orientation through proprietary software, moving map display technology and location-based information. We also have developed interfaces to manage and control airborne cameras and other sensors. Historically, we focused on development of a proprietary system that would provide all of the required functionality but in late 2005 we began to shift towards the development of systems that incorporate components developed by our company as well as those of other companies. Over the course of this shift we have begun to include the *value added* resale of complete systems developed by other companies. We add value to these systems by adapting them to regional or customer-specific requirements and by increasing ease-of-use or functionality.

Our systems are primarily deployed on rotary and fixed wing aircraft. We sell these systems primarily to government agencies including law enforcement, forest-fire fighters, search and rescue organizations, paramilitary agencies and the military.

We have three subsidiaries. One of these is Navitrak Engineering Incorporated, a Nova Scotia corporation with its principal place of business located at 400 - 1190 Barrington Street, Halifax, Nova Scotia, Canada B3H 2R4. We conduct our research and development and our Canadian operations through this company. Our second subsidiary is 0705951 B.C. Ltd., a British Columbia corporation incorporated solely for the purposes of holding tax losses that does not currently have any assets or an active business. Our third subsidiary, Navitrak Technologies Inc., was recently incorporated to conduct some of our U.S. operations and to hold software licenses acquired from U.S. corporations. Navitrak Technologies Inc. maintains an office at 252 North Washington Street, Falls Church, VA 22046. It does not yet have any assets or an active business. Until recently, we had a fourth subsidiary, Navitrak Sales Corporation, a Nevada corporation. This company did not have any assets or an active business and, on

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September 1, 2005, we allowed this subsidiary to be revoked by the Secretary of State of the State of Nevada for failure to file its annual list.

Our resident agent in Nevada is Nevada Corporate Services, Inc., whose address is 1800 East Sahara Avenue, Suite 107, Las Vegas, Nevada 89104.

Corporate History

We were incorporated in Nevada on July 9, 1998 under the name BFD Capital Group, Inc., with authorized capital of 25,000,000 common shares, each with a par value of \$0.001 (without adjustment for any subsequent share split or share dividend). On January 28, 2001, we changed our name to Metronet Communications Company and began to implement our business plan to provide small and medium sized businesses in the United States with switchless telecommunications services such as 1+ calling, operator assisted dialing, credit card calls and similar services. We were unable to raise the necessary capital to implement our business plan and the business was abandoned.

In early 2001, our management began to search for other business opportunities. We identified a potential opportunity in FlashPoint, Inc., a privately held Florida corporation with an option to purchase spark-plug technology known as e-plug from its inventor. The e-plug technology consisted of a spark plug designed to improve the efficiency of the combustion process in internal combustion engines.

On August 24, 2001 we acquired FlashPoint, Inc. On August 29, 2001, we changed the name of our company to FlashPoint, Inc. On October 18, 2001 we changed the name of our company to FlashPoint International, Inc.

By early 2004 a majority of our shareholders (excluding those of our shareholders that were members of our management team) and one of our directors decided that the commercial development of the e-plug technology would take more time and cost more money than originally anticipated. In contrast, the majority of our management team, who, acting as a group, controlled our company and consisted mainly of the vendors of the Florida FlashPoint, Inc. entity that we purchased in 2001, remained confident of the e-plug's commercial future. We decided to sell the e-plug technology back to these members of our management team. Accordingly, we entered into an asset purchase agreement dated April 30, 2004 whereby our company and our subsidiary sold the e-plug technology to ePlug, Inc., a newly formed Florida company. This transaction was completed on May 12, 2004.

Upon completion of our asset sale to ePlug, Inc., we began to explore a possible business combination with Blackstone Holdings Corporation, a privately held Nevada corporation. Blackstone had contracted to purchase substantially all of the assets of an Ontario, Canada, public company called Navitrak International Corporation, together with the assets of its Canadian subsidiaries Navitrak Engineering Incorporated, Navitrak Corp., Navimap Corp., Navitrak Manufacturing Incorporated and Navitrak Systems Inc. Prior to commencing its negotiations with these Canadian companies, Blackstone Holdings Corporation did not have, and had not since inception had, a business or own any assets.

The Canadian Navitrak International Corporation, primarily through its subsidiary Navitrak Engineering Incorporated, was actively engaged in the business of developing, marketing and selling advanced GPS-based situational awareness and task management solutions for use by airborne and ground personnel in law enforcement, military, police, fire-fighting, search and rescue and other applications.

In anticipation of the successful conclusion of our negotiations to acquire the Canadian Navitrak International Corporation's assets (including the shares of its operating subsidiary Navitrak Engineering Incorporated), we changed the name of our company to Navitrak International Corporation on May 18, 2004, and we changed the name of our Nevada subsidiary to Navitrak Sales Corporation on July 20, 2004.

Prior to our discussions with Blackstone, Blackstone and the Canadian Navitrak companies had signed a formal asset purchase agreement dated as of January 31, 2004, providing that Blackstone would purchase all of the assets of the Canadian Navitrak companies, including the capital stock of Navitrak Engineering but excluding the capital stock of Navitrak Corp., Navimap Corp., Navitrak Manufacturing Incorporated and Navitrak Systems Inc., in exchange for \$100,000 in cash payable to Navitrak International Corporation of Canada and 46% of the issued and

outstanding common shares of Blackstone at closing. Completion of the asset purchase was subject to various conditions, including, among others, the condition that Blackstone satisfy all of the debt of Navitrak International Corporation of Canada and that it raise funds from the sale of equity of at least \$2,600,000.

Between January 12, 2004, and January 31, 2004, Blackstone entered into agreements with each of the Canadian Navitrak companies' secured creditors (except The Royal Bank of Canada) in which Blackstone agreed to acquire their secured debt in exchange for an aggregate number of common shares of Blackstone equal, at closing, to 28.9% of the issued and outstanding shares of Blackstone. Under the agreement with the Canadian Navitrak International Corporation, this secured debt would all be extinguished at closing.

Between June, 2004, and September, 2004, our company acquired all of the issued and outstanding shares of Blackstone on the basis of one common share of Blackstone for one common share in our company. Prior to this acquisition, there were 12,428,000 shares of our company issued and outstanding. We acquired 3,060,000 common shares of Blackstone, representing all of its issued and outstanding shares, and the Blackstone shareholders, as a group, acquired an aggregate of 6,236,746 shares of our company, representing 33.4% of the 18,664,746 issued and outstanding shares of our company at the completion of the transaction. On November 3, 2004, we merged Blackstone into our company and our company succeeded to all of Blackstone's rights and obligations, including those arising out of the Navitrak agreements.

In an amending agreement signed November 12, 2004, we modified the various agreements with the Canadian Navitrak companies and their secured creditors to, among other things:

waive the closing condition with respect to the \$2,600,000 equity financing;

decrease the number of shares of our company to be received by the Canadian Navitrak International Corporation from approximately 7.1% of Blackstone to approximately 6.7% of our company, or 1,400,000 shares;

decrease the aggregate number of shares of our company to be issued to all of the secured creditors of the Canadian Navitrak companies, as a group, from approximately 28.9% of Blackstone to approximately 10% of our company, or 2,480,000 shares;

decrease the aggregate number of shares of our company to be received by the employees and management of the Canadian Navitrak companies, as a group, from approximately 10% of Blackstone to approximately 6.7% of our company, or 2,230,000 shares; and

appoint Joel Strickland, who was then the Chief Executive Officer of the Canadian Navitrak International Corporation, Randle Barrington-Foote and Richard Brown to our Board of Directors at closing.

Our transactions with the Canadian Navitrak companies and their secured creditors were completed November 12, 2004.

For financial statement purposes, the Canadian Navitrak International Corporation is considered our predecessor company.

On July 21, 2005 we filed a Certificate of Amendment with the Nevada Secretary of State increasing our capital stock to 100,000,000 shares of common stock with a par value of \$0.001 per share and creating 10,000,000 shares of preferred stock with a par value of \$0.001 per share.

On February 28, 2007, our board of directors recommended that we change the name of our company to VECTr Systems, Inc. and that we effect a reverse-split of our common stock on a 100 for 1 basis. On March 2, 2007, the holders of approximately 55.25% of our shares of common stock consented in writing to effect both the change of name and the reverse split of our common stock. On or about March 2, 2007, we filed a preliminary Information Statement on Schedule 14C with the Securities and Exchange Commission with respect to both of these corporate actions. On March 6, 2007, the Securities and Exchange Commission asked us to clarify a few points in our preliminary Information Statement and, on April 12, 2007, we filed an amended preliminary Information Statement providing the requested clarifications. At the date of this annual report on Form 10-KSB, neither of these corporate actions have been effected. We anticipate that both of these corporate actions will be effected during the month of April, 2007.

Our Current Business

We market, sell and support airborne moving map and real-time video and electronic sensor control systems that acquire, fuse and dynamically display map, sensor and other geo-referenced data. These systems are used by the airborne surveillance community to increase situational awareness and to achieve more efficient task management via a combination of software, hardware and geographic information datasets. These systems provide real time information on geographic position and directional orientation through proprietary software, moving map display technology and location-based information. We also have developed interfaces to manage and control airborne cameras and other sensors. These systems are primarily deployed on rotary and fixed wing aircraft and sold primarily to government agencies including law enforcement, search and rescue organizations, paramilitary agencies and the military.

Our predecessor company, the Canadian Navitrak International Corporation, had experienced declining sales over the years leading up to our acquisition of the business. This decline has continued during the two years since we acquired the business. We believe that this decline was and continues to be due primarily to the lack of camera integration and control functions in our early systems and to the failure of these systems to perform well in the rugged work environments where they were deployed. In addition, these early systems were essentially software only systems that required extensive customization for each application. Our earlier systems were the product of our effort to produce a proprietary system that would provide all of the required functionality from proprietary (or highly modified) components. Since our acquisition of the business we have realized that our historical focus on developing a system comprised solely of proprietary components has limited our ability to compete. Early in 2005 we realized that if we were to compete in the market we would need to shift away from a system comprised entirely of proprietary products in favor of a system that would integrate our most functional and reliable component - our proprietary software - with functional and reliable components made by other companies. This shift has resulted in the development of our current AeroNavitraker system, which integrates our software with selected sensors and other off-the-shelf computer hardware manufactured by third parties. While we believe that our current system is more reliable in the field, more easily configured to our customers' airframes and avionics, requires far less on-site and job specific engineering and includes additional functionality, our sales have continued to be sluggish in the face of strong competition and our history of poor functionality and reliability.

In addition to our efforts to improve our proprietary system by utilizing off-the-shelf components manufactured by third parties, we have also been positioning our company to act as a distributor or dealer for companies that sell components and entire systems that are similar to our own product line.

On September 25, 2006 we entered into a non-exclusive agreement with Deep Development Corp., a division of Gatekeeper Systems Inc., in which they granted to our company a non-exclusive right to act as a dealer for their products. Gatekeeper manufactures digital video flight recorder systems that are deployed primarily on both rotary and fixed-wing aircraft. They market and sell their products primarily to government agencies, including law enforcement, fire fighting, search and rescue, paramilitary and military organizations, as well as commercial customers engaged in aerial survey work. Although we have not begun to actively market these Gatekeeper Systems, a casual conversation between one of our employees and one of our customers resulted in a sale of one of the Gatekeeper digital video flight recording systems to a Canadian law enforcement agency during the first quarter of 2007.

On December 15, 2006, we entered into a distribution agreement with EuroAvionics Navigationssysteme GmbH & Co. KG, a German company with a facility in Stuttgart, Germany. In this distribution agreement, EuroAvionics granted to our company the exclusive right to sell and service its Euronav and Euronav M line of products under our new VECTr brand in a territory comprised of North America, Central America, South America (with the exception of Venezuela) and all Caribbean countries that are not colonies of a European country (except Cuba). Certain EuroAvionics accounts with customers in our exclusive territory are excluded from this agreement.

EuroAvionics manufactures digital moving map and flight management systems similar to our AeroNavitraker but with a reputation for superior performance and reliability. We began to market the EuroAvionics systems at an industry event in March of 2007, though we have not yet sold any. Over the next 12 months we plan to increase our efforts to market the EuroAvionics systems.

Our Products

Our product line consists of tactical moving map based systems that can be configured to meet customer needs. Although we will continue to sell and service our AeroNavitraker system, we have recently begun to sell the Euronav and Euronav M systems made by EuroAvionics under our VECTr brand name as well as the digital video flight recorders made by Gatekeeper Systems.

All of our current systems include a tactical moving map that displays the aircraft's location using the Global Positioning System, commonly referred to as GPS, to continuously establish and update that location. Because our targeted market segments each tend to have diverse mission profiles, each of our current systems will be configured to fit the needs of a particular market segment. For example, law enforcement officers have different requirements and operational environments than do military users.

We have developed graphical user interface software to provide and display the tools available to the system operator during a mission. These tools are the interfaces with the various gimbal-stabilized electro-optic imaging systems mounted on our customers' aircraft (gimbal-stabilized electro-optic imaging systems are commonly known as cameras, including video cameras, infrared cameras, etc.). We use different interfaces for different cameras on the aircraft, supporting specific data flows, mission requirements and special configuration requests by customers.

Some customers need to formally plan missions in advance. These customers typically schedule missions that allow them to spend time in a squad room working with a ground support station. Here, they create maps for the mission zone on which they mark waypoints. They can build in a search pattern grid or other known activity to be conducted on a particular mission. These customers typically also conduct substantial post mission debriefings and archive missions for future analysis. Our systems can perform these pre-mission and post-mission duties and data management functions for the customer. Military and search and rescue missions typically fall within the description above.

Other customers are more in the nature of response teams responsible for a specific region. As a result, maps on the computer on the aircraft rarely change. These customers receive a call and must respond immediately. There is little pre- or post-mission planning and these customers typically take to the air on an immediate-response basis to support ground-based actions. Certain law enforcement missions typify this example of a responsive mission. We endeavor to standardize design, components and procedures. A typical system includes a tactical moving map, proprietary interface firmware and hardware, an onboard GPS receiver, an inertial measuring unit which can be included either by the imaging company or independently by our company, computers and displays. The airborne observer will then be able to monitor position on the moving map as well as understand the positioning of the field of view of the airborne camera relative to the moving map. Some of our systems provide field of view information that is highly accurate, while others simply provide an approximation. With a communications link, the system can transmit map, aircraft and sensor positioning information to a ground crew. A digital video and sensor recorder can record and play back mission information, including aircraft position, the ground position that the video camera is aimed at, and the video information that is recorded during the mission.

In addition the Navigation and Map Generation Computer, hardware components that may be included in any of our systems are:

The GPS Receiver

The GPS receiver determines the geographic position of the aircraft by processing radio signals from the NAVSTAR GPS satellite system developed by the US Department of Defense. We source our GPS units from a variety of vendors. We believe that there is no shortage of available vendors that can meet our needs, and that the market for these units is competitive.

The Inertial Measuring Unit

The inertial measuring unit, or IMU, has two functions in the system: it determines the instantaneous acceleration of the aircraft and the rate at which its orientation is changing. The inertial measuring unit and the GPS receiver are tightly coupled by a dedicated microprocessor to function together as a complete inertial navigation system which has higher performance than a stand-alone inertial measuring unit and GPS receiver. The inertial navigation system determines the aircraft's geographic position and velocity and the camera's orientation relative to an external reference.

Combining the information derived from the GPS receiver and the inertial measuring unit, our systems can automatically slew the camera to point to an operator specified location on the ground. The local topography must be accounted for to calculate accurately the ground intercept of the camera line of sight. To do this, we use digital elevation data from existing maps. The accuracy of the calculation of the ground intercept point is, in part, dependent upon the accuracy of this map data.

We buy our inertial measuring units from third party vendors. As at the date of this annual report on Form 10-KSB, there are several vendors of inertial measuring units that sell a product that can meet our requirements. As there is a strong demand for these inertial measuring units and supply is short, typical lead times currently run between three to four months.

An increasing percentage of gimbal-stabilized cameras now incorporate embedded inertial measuring units, eliminating the need for us to supply one. Our system can receive the needed attitude and positional data from the embedded inertial measuring units.

The Digital Video and Sensor Recorder

The Digital Video and Sensor Recorder (DVR) is designed to record and replay mission data, including actual video footage of the mission as well as critical geo-referenced information on the mission logged by exact time. We have always outsourced this component to third parties. Currently, we are using the Viperfish-ASX DVR manufactured by GateKeeper Systems located in British Columbia, Canada.

Our Services

After the initial installation of our systems, we provide maintenance, support and upgrades to our customers. To date, our sales have been to early adopters of our earlier systems. Revenues from post-installation assistance that we have provided has been limited. We recently introduced a commercially competitive long term support and service program to our customers, including those early adopters. These fee based programs should typically be for a one year term. They include software upgrades, software patches, on-site service calls, hardware maintenance and replacement. As at the date of this annual report on Form 10-KSB, we have not yet entered into any of these fee based service program contracts.

Branding

Each of our systems has historically been marketed under the brand name AeroNavitraker. We have recently decided to rebrand our company and our products. We propose to change the name of our company to VECTr Systems Inc. and we propose to sell our products under the VECTr brand.

Marketing

Historically, our predecessor focused on sales to the law enforcement, forest fire fighting and military communities. With the exception of forest fire fighting, we believe that these communities continue to represent the primary markets for our products. The law enforcement community includes local, regional and national agencies. The military communities include the various branches of the military and national intelligence agencies.

Our predecessor business focused primarily on the Canadian markets. Since our acquisition of the business, we have shifted focus to markets in North and South America, with primary emphasis on the U.S., which we believe comprises more than 50% of the current worldwide market. In addition, we have begun to explore the potential for additional business opportunities in the Middle East.

Since November 12, 2004 we have expanded our marketing efforts in the United States. We initially contracted A.D. Butler & Associates, a consulting company on a monthly basis to represent our original products. Since August of 2006 we have contracted with them on at a daily rate as needed. A.D. Butler & Associates employs ex-military officers that have a network of military contacts. Through this network of contacts, A.D. Butler & Associates is alerted to information about U.S. government requests for proposals, many of which call for products like ours. We have not yet made any sales through A.D. Butler & Associates.

More recently, we hired Randall Cohn to serve as our marketing director. Mr. Cohn is a retired U.S. Naval Commander with more than 20 years of active service. As a result, he has significant knowledge of the U.S. military community. We believe that his knowledge and contacts will help to generate sales in the U.S.

Also in the U.S., we have informal working relationships with camera manufacturers such as FLIR Systems. Through these informal working relationships, engineers from our respective companies have worked together to develop systems to ensure compatibility between our systems and their cameras. Additionally, we have begun to establish working relationships with aviation systems integrators. Aviation systems integrators are Federal Aviation Administration (FAA) contractors qualified (and certified by the FAA) to install equipment, including systems like ours, on aircraft. Systems integrators assemble bid packages that can include systems such as ours. In these transactions, we would sell our system to the systems integrator who would in turn sell the system to its customer pursuant to the requirements of the bid awarded to the systems integrator by the customer. To date, our work with systems integrators has not resulted in the sale of any systems.

During calendar year 2004, our predecessor business hired a consultant located in the United Arab Emirates to pursue business opportunities in the Middle East. By the middle of calendar year 2005, we determined that we would be better served if we aligned our marketing efforts in the Middle East with the marketing efforts of FLIR Systems Inc., a camera manufacturer. Since October, 2005, we have cooperated with a systems integrator in the development of a prototype off-the-shelf system that will combine the cameras manufactured by FLIR Systems Inc. with our technology and is intended to appeal to the military and law enforcement agencies in the United Arab Emirates, Qatar and Saudi Arabia. FLIR Systems Inc. has a network of contacts in these countries and we hope to benefit from their marketing efforts in these countries. To date, we have not completed the development of the prototype off-the-shelf camera system with this systems integrator. Furthermore, we have not sold any of our systems in the Middle East as the result of this relationship.

We believe that our market communities continue to be defined by their different mission requirements. We are familiar with customers identities, missions and procurement programs, as well as the rules, regulations and processes typically associated with them. There are fundamental differences in terms of customer demands, customer size, system sophistication, project size, cost of participation, revenue potential and time to completion. The sales cycle for the law enforcement market segment is generally six months to one year and tends to be smaller in both unit and monetary terms than the military market. Also, these law enforcement and fire-fighting systems have less demanding specifications and are less complicated than the military in terms of application and administration. This sales cycle is due in large part to the fact that these customers can use a system that contains a higher percentage of commercial off-the-shelf hardware and that requires less custom engineering work.

The military market segment is characterized by a much longer sales cycle of approximately two to three years. The longer sales cycle is generally attributable to the amount of customized engineering required in order to design and

build a customized system. We plan to pursue government-sponsored projects that often have sophisticated demands and tend to be large in both unit and monetary terms.

Finally, we attend at trade shows and we provide on-site demonstrations at prospective customers' facilities.

Competition

Industry competition is specific to each of our market communities, with a small number of companies offering products suiting the needs of specific markets for specific purposes. In all of these markets where we compete, ease of integration, technical superiority, reputation, price, ability to meet delivery schedules, financing, and long term reliability are among the principal competitive factors considered important by our customers and potential customers.

Moving map technology has become commonplace in many markets. A helpful illustration can be found in the automobile market—many manufacturers of automobiles in today's markets offer an optional navigation package in their automobiles that provide moving maps linked to GPS as a navigational aid. These are relatively simple systems and we do not compete in this market. Other examples that help illustrate the availability of moving map products include Microsoft, which has a consumer product called Map Point that is widely available but which has not yet been deployed in our specific markets. Google, with its Google earth map and imagery product, is an interesting source of data but again, we have not yet seen this product deployed in our markets. Garmin specializes in handheld GPS receivers for consumers as well as navigational aids with charts for pilots. We do not believe that we compete directly with Garmin. ESRI, one of the larger companies in the geographic information business, sells geographic information systems (GIS) and has established the industry standards in the geomatics industry. Some of ESRI's products are deployed in our markets.

In our markets, we compete against companies who, like us, are constrained by security clearance and contractual non-disclosure covenants from revealing information about their products, their government contracts and similar matters. Our competitors do not publish meaningful technical system specifications or data and, generally, detailed technical comparisons between their systems and ours have proven to be unreliable. As a result, most of the information available to us about our competition is gathered by word of mouth during the bidding process, or during an installation if we have an opportunity to examine a competitor's product.

In the military sector, digital maps are the basis for almost every mission whether it be airborne, ground or marine in nature. Moreover, the inter-connectability of digital moving maps and various camera networks is a constantly evolving area of concentration as programs develop and receive funding. The prime contractors in the defence business, such as Boeing, Lockheed Martin, Raytheon and Thales, both develop their own moving map software in addition to sub contracting digital moving map work to others. Systems designed by these contractors tend to be very sophisticated and very expensive, with prices ranging in excess of \$5,000,000 including the camera. In contrast, we anticipate that one of our systems using a third party's camera would sell for between \$500,000 and \$1,000,000, depending on the camera and other hardware purchased, in addition to the degree of flexibility required of the system. Contractors such as Rockwell Collins, Harris Corporation, Tactronics, SAIC and CMC Electronics are also involved in a range of programs and have several products and systems focused on airborne applications. As a result, we do not compete directly with these large defence contractors but we might serve as a potential sub contract solution for a particular program. Our strategy continues to focus on developing a military market for less sophisticated systems such as those that we sell, which enable a comparatively inexpensive, easily integrated solution, particularly as it relates to camera deployments.

In the law enforcement market we compete with Avalex Technologies, AeroComputers Airborne Systems, MetaMap, Becker Aviation and an assortment of other small private companies. Like us, these companies provide moving map based systems that are compatible, to varying degrees, with various cameras in the market. Again, none of these companies publish meaningful technical system specifications and it is not feasible to attempt a detailed technical comparison between their systems and ours. We believe that the sales and marketing strategies of our competitors are similar to ours in that they appear to pursue similar programs and customers. Many of our competitors also work closely with the well-established imaging companies. At the present time many of these companies are better established in the North American market. Our limited market research and experience suggests that many of our competitors in this market segment offer a less sophisticated and less expensive product

than ours. In contrast to the military market, our focus in the law enforcement and fire-fighting markets is to produce commercial off-the-shelf applications that preserve the sophistication of our military system at a price that is competitive in the law enforcement and fire-fighting markets.

Our strategy is to achieve technical superiority over our commercial competitors like Aero Computers and Avalex.

Barriers to Future Competitive Entry

Major barriers to entry include:

1. Intellectual Property;
2. Practical experience gained from field installations and operations;
3. Ongoing research and development continues to raise the bar, setting the standard higher;
4. Product sophistication makes start-up entry difficult; and
5. Market segments are large and sophisticated they are difficult to penetrate and the necessary relationships take time to build;

Source and Availability of Raw Material

Most of the components are off the shelf products and readily available. The inertial measuring units, a critical component of our system, require a three to four month lead time to delivery. We pay mostly C.O.D.

Dependence on one or a few major customers

We are highly dependent on sales to the U.S. Government and associated federal, state and local government agencies. During the year ended December 31, 2006 we completed one sale of our AeroNavitraker system, including camera control and mission taping capability, to a U.S. government agency for a purchase price of \$153,000. During the year ended December 31, 2005, we completed one sale of two of our AeroNavitraker systems configured for a law enforcement customer and installed on two helicopters, to the City of Philadelphia Police Department for a sale price of \$32,000 each, or a total of approximately \$64,000. During the period from January 1, 2004 to November 11, 2004, we sold one system to the U.S. government configured for a law enforcement customer for a sale price of approximately \$100,000. Government agencies of the United States continue to constitute our largest potential market, although there are numerous other military, law enforcement, resource management, air-fleet and other customers to which we market.

Need for Government approval

Our systems are designed for use in aircraft. Although we do not do any installations, fixed base operators, system integrators and our customers do. While the overall systems and the installation thereof must comply with standards established by the Federal Aviation Administration, our software is not required to comply with any regulatory standards.

Industry specifications for hardware are evolving. Although we do not manufacture any hardware, our software must be loaded onto hardware that meets industry specifications. We believe that the hardware required for the operation of our products meets or exceeds certification requirements.

Effects of existing or probable government regulations on the business

Our research and development is performed in Canada. Some of our current directors and a majority of our current shareholders are neither U.S. citizens nor U.S. residents. Companies like ours, whose management or operations may be influenced, directly or indirectly, by foreign interests, are considered by the U.S. government to be under Foreign Ownership, Control or Influence, or foreign ownership. Companies that are under foreign ownership may find it difficult or even impossible to obtain access to classified materials. These companies may, as a result, find it difficult or impossible to qualify for government contracts, especially for the U.S. military community. In order to obtain a security clearance from the U.S. government, we will need to mitigate any risks presented by foreign ownership in order to assure the U.S. government that there will be no possibility of unauthorized access to, or an adverse effect upon, U.S. government classified material. We may not be able to obtain a security clearance from the U.S. Government because we may not be able to mitigate the effects of foreign ownership.

Further, the International Traffic in Arms Regulation makes it difficult for companies with operations in Canada to compete with U.S. companies with operations in the United States for contracts involving advanced technology or classified material. We believe that the U.S. government will be more inclined to enter into contracts pertaining to advanced technology or classified material with U.S. companies with operations in the United States. We do not currently have the capital to effect a relocation of our operations from Canada to the United States, although we do take steps to mitigate these risks and we have registered with certain U.S. and Canadian government co-operative agencies. If we cannot relocate our operations to the United States, our business with the U.S. government might be adversely affected. In 2006 we opened an office in Falls Church, Virginia, from which we intend to conduct an increasing amount of our U.S. business.

Some of the map data that we use is commercially available. Some of the map data that we use is classified as secret and is available to our customers having the appropriate security clearance but is not currently available to our company. To date, we have been able to configure our systems to the specifications of the classified map data without actually seeing the data.

We currently acquire our inertial measurement units from Systron Donner. The inertial measuring unit is a component piece of commercial off-the-shelf hardware used in some of our systems. Access to the grade of inertial measuring unit that we employ in our systems at this time is controlled by the U.S. State Department. Our vendor must apply to the State Department for export approval for each non-U.S. customer.

Some of the cameras that work with our systems are used by the U.S. military. Interface documents for certain of these cameras are subject to International Trade in Arms Restrictions or may be classified. As our employees do not carry U.S. security clearance and our operations are mainly located in Canada, we do not currently have access to some interface documents. We are currently considering how best to address these restrictions.

Estimate of the amount spent during the last two fiscal years on R&D activities and if applicable, the extent to which the cost of such activities are borne directly by customers.

During the years December 31, 2005 and 2006, we spent \$682,795 and \$873,289, respectively, on research and development. Very little of our research and development costs are borne by customers.

Historically, our research and development costs and our costs of operations have been funded by the issuance of our common shares and by funding from Canadian government programs.

Total number of employees

As of March 15, 2007, we had 11 employees and four consultants engaged in various activities within our company including roles as managers, developers and administration. Eight of our 11 employees are located in Canada. The

remaining employees are located in the United States. We are not subject to any collective bargaining agreements and we consider relations with our employees to be excellent. During the next 12 months we plan to hire two additional employees for the provision of marketing and engineering services to be located in the United States.

RISK FACTORS

Much of the information included in this annual report includes or is based upon estimates, projections or other forward-looking statements. Such forward-looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Such estimates, projections or other forward-looking statements involve various risks and uncertainties as outlined below. We caution readers of this annual report that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other forward-looking statements. In evaluating us, our business and any investment in our business, readers should carefully consider the following factors.

RISKS RELATED TO OUR COMPANY

Our independent auditors have expressed substantial doubt about our ability to continue as a going concern, which may hinder our ability to obtain future financing.

We incurred a net loss of \$8,681,846 for the year ended December 31, 2005 and \$6,006,669 for the year ended December 31, 2006. At December 31, 2006, we had an accumulated deficit of \$19,745,169 and a working capital deficit of \$3,756,715.

These circumstances raise substantial doubt about our ability to continue as a going concern, as described in the explanatory paragraph to our independent auditors' report on our consolidated financial statements for the year ended December 31, 2006. Although our consolidated financial statements raise substantial doubt about our ability to continue as a going concern, they do not reflect any adjustments that might result if we are unable to continue our business.

We have had negative cash flows from operations and our current resources are sufficient to fund our operations only until May 31, 2007. Our business operations may fail if our actual cash requirements exceed our estimates and we are not able to obtain further financing.

We currently spend approximately \$250,000 per month on our operations and we estimate our cash requirements for the next 12 months to be approximately \$3,000,000. Unless we raise additional funds we will be unable to fund our operations with our current resources, including cash and our current loan resources, beyond May 31, 2007.

Our company has had negative cash flows from operations. For the twelve months ended December 31, 2006, we earned revenue from product sales of \$199,195 compared to \$73,314 during the twelve months ended December 31, 2005. To date, we have incurred significant expenses in product development and administration in order to ready our products for market. As at December 31, 2006, we had cash and short-term investments of \$54,624 and our current resources, including cash and loan proceeds that have been committed over the next few months by Atlantic Canada Opportunities Agency, are sufficient to fund our operations only until May 31, 2007. There is no assurance that our actual cash requirements will not exceed our estimates, and in any case we will require additional financing to bring our products into commercial operation, finance working capital and pay for operating expenses and capital requirements until we achieve a positive cash flow. In particular, additional capital may be required in the event that:

- we incur unexpected costs in completing the development of our technology or encounter any unexpected technical or other difficulties;

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- we incur delays and additional expenses as a result of technology failure;
- we are unable to create a substantial market for our product and services; or
- we incur any significant unanticipated expenses.

We have historically depended upon capital infusion from the issuance of long and short term debt and equity securities to provide the cash needed to fund our operations but we cannot be assured that we will be able to continue to do so. With the exception of our arrangements with the Atlantic Canada Opportunities Agency, we do not currently have any debt or equity financings in place. Our ability to continue in business depends upon our continued ability to obtain significant financing from external sources and the success of our marketing and sales efforts.

In light of our operating history and our recent defaults on indebtedness, we may not be able to obtain additional equity or debt financing on acceptable terms if and when we need it. Even if financing is available it may not be available on terms that are favorable to us or in sufficient amounts to satisfy our requirements.

If we require, but are unable to obtain, additional financing in the future, we may be unable to implement our business plan and our growth strategies, respond to changing business or economic conditions, withstand adverse operating results, and compete effectively. More importantly, if we are unable to raise further financing when required, our continued operations may have to be scaled down or even ceased and our ability to generate revenues would be negatively affected.

During the period from November 2004 through December, 2006, we defaulted on a number of our outstanding loans. In addition, we are currently in default under two of our existing loans. This history of defaulting on indebtedness may make it difficult for our company to raise money through the sale of debt or equity securities.

One of the primary sources for funding upon which we have depended in the past, and upon which we believe we will continue to depend for funding during the next 12 months, is the Atlantic Canada Opportunities Agency. This agency is focused on supporting the growth of companies like ours as part of its overall effort to stimulate growth in the economy of the Atlantic region of Canada. We currently have three outstanding loans from the Atlantic Canada Opportunities Agency, each of which was made with respect to a specific project. The loan agreements provide that payments do not commence until some period of time after the specific project has been completed but the lender has the right to accelerate all sums due under these loans if we are in default of any of the material covenants included in the loan agreements. From September 30, 2005 until December 1, 2005, we were in default of one of these loans due to our failure to complete the specified project by September 30, 2005, as required by the loan agreement. This default was cured on December 1, 2005, when we amended the loan agreement to extend the project's completion date to September 30, 2006. From March 31, 2006 until May 18, 2006, we were in default of another of these loans due to our failure to complete that specified project by March 31, 2006, as required by the loan agreement. This default was cured on May 18, 2006, when we amended the loan agreement to extend the project's completion date to March 31, 2007.

Although we are current in making any periodic payments required under our loan agreements with the Atlantic Canada Opportunities Agency, we are currently in default of a covenant, contained in two of these loan agreements, that we maintain a minimum level of Equity (Equity is a defined term in these loan agreements, and we have reproduced the definition in the more detailed discussion of our loans from the Atlantic Canada Opportunities Agency that begins at page 27, below). Because we are in default of this covenant to maintain a minimum level of Equity, the Atlantic Canada Opportunities Agency currently has the right to accelerate all sums due under these loans upon delivery to us of written notice. At December 31, 2006, we owed Atlantic Canada Opportunities Agency an aggregate amount, under all three of our loans from them, of \$1,900,130. We are currently making payments on account of one of these loans (a monthly payment of approximately \$2,000); payments on the other two loans are not due until July 1, 2007 and September 1, 2008, respectively, unless these loans are accelerated as the result of our failure to attain the required level of Equity. If the Atlantic Canada Opportunities Agency were to demand immediate payment on all of these loans because of our failure to attain the required level of Equity, we would then be obligated to pay \$1,900,130 promptly. If we failed to pay this amount promptly after demand, the Atlantic Canada Opportunities Agency could initiate one or more actions to collect it. In addition, the Atlantic Canada

Opportunities Agency could refuse to make any new loans to our company. If either of these should occur, our business could be adversely affected.

From November, 2004 until December, 2005, we were in default of our repayment obligations to an agency of the Canadian government under our Program for Export Market Development loan, and during the period from January 1, 2005 until February, 2006, we were in default of our repayment obligations to an agency of the Canadian government under our Industrial Regional Assistance Program loan.

We have historically depended on the U.S. government and associated federal, state and local agencies for a significant portion of our revenues. The loss of this customer base would have a material adverse consequence on our business.

Our past operations were, and our future success is, highly dependent on sales to the U.S. government and associated federal, state and local government agencies. During the year ended December 31, 2006, we completed one sale to a U.S. government agency. During the year ended December 31, 2005, we completed one sale to the City of Philadelphia Police Department. During the period from January 1, 2004 to November 11, 2004, and the year ended December 31, 2003, approximately 91 percent and 67 percent of our predecessor's revenues, respectively, were derived from sales to the U.S. government. Any significant disruption of or deterioration in our relationship with the U.S. government and related federal, state and local government agencies would significantly reduce our revenues and could cause our business to fail.

Further, U.S. government programs are frequently implemented through the award of many different individual contracts and subcontracts, funding for which is subject to appropriation by the U.S. Congress. Although multi-year contracts may be planned or authorized in connection with major programs, Congress generally appropriates funds on a fiscal year basis even though a program may continue for several years. Consequently, programs often receive only partial funding initially, with additional funds committed only as and if Congress makes further appropriations in subsequent years. If Congress were to fail to approve additional funding for any project for which our company had received a contract, our business could be adversely impacted.

A significant portion of our sales are through U.S. government contracts which, by their terms, can be cancelled by the U.S. government without notice.

U.S. government contracts are usually subject to oversight audits by U.S. government representatives. In addition, these contracts usually permit termination without prior notice for the U.S. government's convenience, upon payment of compensation for work done to the date of termination. The cancellation of any project in which we may be involved, or any contract that we might have with respect to that project, could adversely affect our operations.

A significant portion of our sales are made pursuant to U.S. government contracts. These contracts generally require that we comply with U.S. government requirements with respect to various matters. We may not be able to comply with all of these requirements. If we fail to comply with any of these U.S. government requirements, the U.S. government could terminate all of our U.S. government contracts and render us ineligible to receive further U.S. government contracts for a period of time.

U.S. government contracts generally require that contractors comply with numerous requirements, including those related to procurement integrity, export control, security regulations, employment practices, protection of the environment, accuracy of records and the recording of costs and foreign corruption. These requirements increase our performance and compliance costs. Failure to comply with these requirements could lead to suspension or debarment from U.S. government contracting or subcontracting for a period of time. The loss of the government as a customer would adversely affect our ability to fund our operations and could cause our business to fail.

If we cannot qualify for a security clearance, we may not qualify to receive future U.S. Government contracts that require a security clearance. In addition, the U.S. government prefers to do business with U.S. companies with operations located in the United States.

Our research and development is performed in Canada. A majority of our current directors and a majority of our current shareholders are neither U.S. citizens nor U.S. residents. Companies like ours, whose management or operations may be influenced, directly or indirectly, by foreign interests, are considered by the U.S. government to be under Foreign Ownership, Control or Influence, or foreign ownership. Companies that are under foreign ownership may find it difficult or even impossible to obtain access to classified materials. These companies may, as a result, find it difficult or impossible to qualify for government contracts, especially for the U.S. military community. In order to obtain a security clearance from the U.S. government, we will need to mitigate any risks presented by foreign ownership in order to assure the U.S. government that there will be no possibility of unauthorized access to, or an adverse effect upon, U.S. government classified material. We may not be able to obtain a security clearance from the U.S. Government because we may not be able to mitigate the effects of foreign ownership.

Further, International Traffic in Arms Regulation makes it difficult for companies with operations located in Canada to compete with U.S. companies whose operations are located in the United States for contracts that involve advanced International Traffic in Arms restricted technology. We believe that the U.S. government will be more inclined to enter into contracts requiring the use and/or development of such technology with U.S. companies whose operations are located in the United States. We do not currently have the capital to effect a relocation of our operations from Canada to the United States. If we cannot relocate our operations to the United States, our business with the U.S. government might be adversely affected.

We may not be successful in obtaining the necessary export licenses to conduct operations abroad, and the United States Congress may prevent proposed sales to foreign governments.

Export licenses are required from United States government agencies under the Export Administration Act, the Trading with the Enemy Act of 1917 and the Arms Export Control Act of 1976 for export of many of the components of our products. We can give no assurance that we will be successful in obtaining these licenses. Recently, heightened government scrutiny of export licenses for products in our market has resulted in lengthened review periods for our license applications. If we fail to obtain, or are unreasonably delayed in obtaining, these licenses we could be prevented or delayed in selling our products, which could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to effectively protect our intellectual property rights, the foundation of our business, which could harm our business by making it easier for our competitors to duplicate our services.

Certain aspects of our products, processes, services and technology are proprietary. In the past, we have taken steps to protect them with patents, copyrights, trademarks, restrictions on disclosure and other methods.

Three patents that were issued to our company's predecessor and three patent applications with respect to additional patent claims pertaining to various aspects of our technology were assigned to us on November 12, 2004. We have since abandoned all six of these patents and patent applications and we do not currently own any patents, patents pending or patent applications. Our failure to adequately protect our proprietary rights in our products, services and technology could harm our business by making it easier for our competitors to duplicate our products and services. We cannot be certain that third parties will not infringe or misappropriate our proprietary rights or that third parties will not independently develop similar products, services and technology. Any infringement, misappropriation or independent development could cause us to cease operations.

We may have to resort to litigation to enforce our intellectual property rights, protect our trade secrets, determine the validity and scope of the proprietary rights of others, or defend ourselves from claims of infringement, invalidity or unenforceability. While there currently are no outstanding infringement claims pending by or against us, we cannot assure you that third parties will not assert infringement claims against us in the future, that assertion by such parties will not result in costly litigation, or that they will not prevail in any such litigation. In addition, we cannot assure you that we will be able to license any valid and infringed patents from third parties on commercially reasonable

terms or, alternatively, be able to redesign products on a cost-effective basis to avoid infringement. Litigation can be prohibitively expensive and can divert resources even if we win. We may not have the financial resources to fight a protracted legal battle to defend our patents. Any litigation could have a material adverse effect on our business, financial condition and operating results.

We may not effectively manage the growth necessary to execute our business plan.

Our business plan anticipates a significant increase in the number of our strategic partners, manufacturers, dealers, distributors and customers. This growth will place significant strain on our current personnel, systems and resources. We expect that we will be required to hire qualified employees to help us manage our growth effectively. We believe that we will also be required to improve our management, technical, information and accounting systems, controls and procedures. We may not be able to maintain the quality of our operations, control our costs, continue complying with all applicable regulations and expand our internal management, technical information and accounting systems in order to support our desired growth. If we fail to manage our anticipated growth effectively, our business could be adversely affected.

Substantially all of our assets and a majority of our directors and officers are outside the United States, with the result that it may be difficult for investors to enforce within the United States any judgments obtained against us or any of our directors or officers.

Substantially all of our assets are located outside the United States in Canada. We maintain a permanent place of business within the United States in Falls Church, Virginia. In addition, a majority of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, you may be effectively prevented from pursuing remedies under U.S. federal securities laws against them.

Our Articles of Incorporation exculpate our officers and directors from any liability to our company or our shareholders.

Our Articles of Incorporation contain a provision limiting the liability of our officers and directors for their acts or failures to act, except for acts involving intentional misconduct, fraud or a knowing violation of law. This limitation on liability may reduce the likelihood of derivative litigation against our officers and directors and may discourage or deter our shareholders from suing our officers and directors based upon breaches of their duties to our company, though such an action, if successful, might otherwise benefit our company and our shareholders.

Investors' interests in our company will be diluted and investors may suffer dilution in their net book value per share if we issue employee/director/consultant options, bonus shares and other stock based awards or if we issue additional shares to finance our operations.

We may in the future grant to some or all of our directors, officers, insiders, and key employees options to purchase our common shares, bonus shares and other stock based awards as non-cash incentives to those persons. These options and other stock based awards may be granted at exercise prices equal to or less than market prices, and may be granted when the market for our securities is depressed. In addition, we have in the past granted to our General Manager the right to receive annual bonus shares as part of his compensation during the term of his employment agreement with us. The issuance of any equity securities could, and the issuance of any additional shares will, cause our existing shareholders to experience dilution of their ownership interests.

If we issue additional shares or decide to enter into joint ventures with other parties in order to raise financing or acquire other businesses through the sale of equity securities, investors' interests in our company will be diluted and investors may suffer dilution in their net book value per share depending on the price at which such securities are sold. There are currently outstanding common shares to be issued and common share purchase warrants and options exercisable into obligations to issue 12,422,000 common shares, including those that may arise upon the issuance of bonus shares and the exercise of outstanding common share purchase warrants and options, which, if issued, would

represent approximately 28% of our issued and outstanding shares. If all the bonus shares are issued and all of these warrants and options are exercised and the underlying shares are issued, such issuance will cause a reduction in the proportionate ownership and voting power of all other shareholders. The dilution may result in a decline in the price of our shares or a change in the control of our company.

A decline in the price of our common stock could affect our ability to raise further working capital and our ability to continue our normal operations.

Historically, our operations have been financed in large part through a combination of debt and the sale of equity securities. A prolonged decline in the price of our common stock could make it difficult for us to raise capital through the sale of our equity securities. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and could have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations.

We Have No Earnings and Dividend Record.

We have no earnings or dividend record. We have not paid dividends on our common shares since incorporation and do not anticipate doing so in the foreseeable future. We do not generate any cash flow from operations and could not expect to do so in the foreseeable future.

The Loss of Certain Key Management Employees Could Have a Material Adverse Effect On Our Business.

The nature of our business, our ability to continue our development of new and innovative products and to develop a competitive edge in our marketplace depends, in large part, on our ability to attract and maintain qualified key personnel. Competition for such personnel is intense, and there can be no assurance that we will be able to attract and retain them. Our development now and in the future will depend on the efforts of key management figures, such as Robert Knight, our President, Randall Cohn, our Vice President of Marketing and Program Management, Herbert Lustig, our General Manager, and Adam Wolinski, our Director of Technology, Research and Development. The loss of any of these key people could have a material adverse effect on our business. We do not currently maintain key-man life insurance on any of our key employees.

RISKS ASSOCIATED WITH OUR BUSINESS

Competition in our primary market is fierce. If we cannot compete in this market, our business will be adversely affected and you could lose all of your investment

The military and commercial industries in which we operate are fiercely competitive. Our competitors range from highly resourceful small concerns, which engineer and produce specialized items, to large, diversified firms with extensive resources. Several established and emerging companies offer a variety of products similar to our own, including Harris Corp., Thales Group and Raytheon Company in the military sector and Avalex Technologies and AeroComputers Airborne Systems in the law enforcement sector. Many of our competitors have more extensive or more specialized engineering, research and development, manufacturing and marketing capabilities than we do. There can be no assurance that we can successfully compete with these firms. In addition, some of our largest customers could develop the capability to manufacture products similar to ours. This could result in these customers supplying their own products and competing directly with us for sales of these products to other customers, all of which could significantly reduce our revenues and seriously harm our business.

Finally, our competitors do not publish meaningful technical system specifications or data, and it is not feasible to attempt a detailed technical comparison between their systems and ours. As a result, we cannot know with any certainty that our products compete favourably, if at all, with those of our competitors. If we cannot compete, our business will fail.

Our future success will depend on our ability to timely develop, market and sell new and improved products that achieve market acceptance

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

Identify emerging technological trends in our target markets;

Develop, market, sell and maintain competitive products;

Enhance our products by adding innovative features that differentiate our products from those of our competitors; and

Bring cost-effective products to market quickly.

In order to remain competitive we believe that we must continue to invest significant resources in research and development in an effort to ensure the development of new and improved products or the improvement and enhancement of the products that we already sell. These expenditures could divert our attention and resources from other projects, and we cannot be sure that these expenditures ultimately will lead to the timely development of new products. Due to the design complexity of some of our products, development and introduction of new or improved products can be a lengthy process and we cannot be assured that the markets for our products will develop as we anticipate. The failure of our products 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 products that gain market acceptance in advance of our products or that our competitors will not develop new products that cause our existing products to become obsolete. If we fail in our new product development efforts or our products fail to achieve market acceptance more rapidly than those of our competitors, our revenues will decline and our business, financial condition and results of operations will be adversely affected.

Changes in technology, changes in customer requirements and preferences, introduction of products and services embodying new or different technologies and the emergence of new industry standards and practices could render our existing technology and products less competitive or obsolete. Our future success will depend on our ability to enhance and improve the responsiveness, functionality, accessibility and features of our technology and products. We expect that our marketplace will require extensive technological upgrades and enhancements to accommodate many of the new products and services that we anticipate will be added to our marketplace. We cannot assure you that we will be able to expand and upgrade our technology and systems, or successfully integrate new technologies or systems we develop in the future with our current products, to accommodate such increases in a timely manner.

RISKS ASSOCIATED WITH OUR COMMON STOCK

Sales of a substantial number of shares of our common stock into the public market by the selling stockholders may result in significant downward pressure on the price of our common stock and could affect the ability of our stockholders to realize the current trading price of our common stock.

Our common stock is not presently traded on any securities exchange, although our common shares are quoted on the over-the-counter market operated by Pink Sheets LLC. Quotations of our common stock on the Pink Sheets has been sporadic, as has trading volume, and the Pink Sheets LLC does not constitute a viable, established market for our common shares. The sale of a substantial number of shares of our common stock in any public market could cause a reduction in the market price of our common stock. We had 66,952,430 shares of our common stock issued and outstanding as of March 21, 2007.

There is no active trading market for our common stock and if a market for our common stock does not develop, our investors will be unable to sell their shares.

Our common stock is presently not traded on any securities exchange and we have not applied for listing or quotation on any securities exchange. The shares of our common stock are however quoted on the Pink Sheets, operated by Pink Sheets LLC. Quotations of our common stock on the Pink Sheets has been sporadic, as has trading volume, and the Pink Sheets LLC does not constitute a viable, established market for our common shares. There is currently very little active trading in the market for our common stock and such a market may not develop or be sustained. We currently plan to apply to have our common stock quoted on the National Association of Securities Dealers Inc.'s OTC Bulletin Board. However, we cannot provide our investors with any assurance that our common stock will be traded on the OTC Bulletin Board or, if traded, that an actively traded public market will materialize. If our common stock is not quoted on the OTC Bulletin Board or if an active public market for our common stock does not develop, then investors may not be able to resell the shares of our common stock that they have purchased and may lose all of their investment. If we establish a trading market for our common stock, the market price of our common stock may be significantly affected by factors such as actual or anticipated fluctuations in our operating results, general market conditions and other factors. In addition, the stock market has from time to time experienced significant price and volume fluctuations that have particularly affected the market prices for the shares of developmental stage companies, which may materially adversely affect the market price of our common stock.

The holders of the 7,552,000 outstanding share purchase warrants and 4,370,000 stock options have the right to exercise the share purchase warrants or stock options and receive shares of our common stock. Also, our General Manager has the right to receive annual bonus shares as part of his compensation. If the holders exercise all or any number of their share purchase warrants or stock options and we issue all of the annual bonus shares, there will be dilution of your shares of our common stock.

The exercise of any or all of the share purchase warrants will result in dilution to the interests of other holders of our common stock since the holders may ultimately exercise all of the warrants and they may sell some or all of these shares into the public market. If the holders of all of the share purchase warrants and options exercised all of their share purchase warrants and options, then we would be required to issue an additional 11,922,000 shares of our common stock, which would represent approximately 18% of our issued and outstanding shares on March 21, 2007. In addition, we have in the past granted to our General Manager the right to receive annual bonus shares as part of his compensation during the term of his employment agreement with us. The issuance of these bonus shares will also result in dilution to the interest of other holders of our common stock.

Trading of our stock may be restricted by the SEC's penny stock regulations which may limit a stockholder's ability to buy and sell our stock.

The Securities and Exchange Commission has adopted regulations which generally define "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors". The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a sp