



OPTIMAL GEOMATICS INC.
Interim Financial Report (Amended)
(First Quarter)

Three months ended April 30, 2004

(Unaudited and not reviewed by auditors)

Executive Officers

Colum Caldwell
President & CEO

Dr. Dmitri Rosenrauch
Chief Technology Officer

Roger Bannon
Non-executive CFO

Board of Directors

Roger Bannon
Dublin, Ireland

Colum Caldwell
West Vancouver, BC, Canada

Raymond Caldwell (Chairman)
London, England

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TSX-V Trading Symbol: OPG

Management Discussion & Analysis (Amended)

October 14, 2004

This document may contain forward –looking statements. These statements present management’s expectations, beliefs, plans and objectives regarding future events and conditions and, as such, involve inherent risks and uncertainties. Actual results could be significantly different from those projected.

Overview

The following discussion and information should be read in conjunction with the unaudited, restated interim financial statements and accompanying notes for the three months ended April 30, 2004. The Company’s financial statements are prepared in accordance with Canadian generally accepted accounting principles and all amounts are in Canadian dollars unless otherwise indicated.

The Company continued to meet management expectations in new business during the quarter ending April 30, 2004, with the Company continuing to win new contract awards including contracts for extension of services to existing customers following completion of projects under prior contracts. The recorded revenues will vary with exchange rates applicable on receipts of progress payments from the United States customer base. Ongoing dialogue with customers regarding further extensions to the engineering work for transmission line and pipeline projects suggests that we are in a strong position to continue receiving repeat business from our utility customers.

The growth that the company is undergoing needs to be managed. Such growth has placed and continues to place challenges on our resources and management systems.

The unaudited, restated operating results during the quarter ending April 30, 2004 include the results for the Company and its subsidiaries in the UK and USA.

Description of Business

Optimal Geomatics Inc. (TSX-VN: OPG) (the “Company” or “Optimal”) based in Vancouver, British Columbia specializes in providing highly accurate aerial mapping solutions to a customer-base, which is primarily composed of Electric and Gas utilities. Optimal employs a number of aerial surveying systems, including proprietary aerial technology for data acquisition and applies innovative technology, techniques and expertise for in-house processing. The Company’s unique mapping products and services help utilities reduce cost, improve efficiency, and better-manage their assets by turning raw data into highly valuable and accurate geospatial information and engineering reports. Optimal’s customers include many of the major utilities across North America and United Kingdom.

Currently the Company is focused principally on the special needs of the electric powerline and gas pipeline sectors, with an emphasis on asset integrity and safety management applications, as well as survey and engineering design.

Management Discussion & Analysis (Amended)

Restatements

The Company has used the current rate method (changed prospectively from temporal method) to translate the financial statements of Optimal Geomatics Limited in UK, a fully owned subsidiary of the Company, effective February 1, 2004 as the subsidiary's operation is primarily independent, revenue and costs are based on its local market, and the results of operations are expected to be sufficient to finance day-to-day business activities beginning the current fiscal year. As a result of applying the current rate method, \$31,877 of foreign exchange translation loss was deferred in a separate component of shareholders' equity as "Cumulative translation adjustment" as of April 30, 2004.

Also effective February 1, 2004, the Company restated its income statement to account for stock-based compensation for options granted since February 1, 2002, according to the CICA Handbook section 3870, Stock-Based Compensation and other Stock-Based Payments. The adoption resulted in a restatement (increase of \$121,454) in Contributed surplus and Deficit on the Balance sheet as of January 31, 2004; the restatement has resulted in an increase of \$87,373 in opening deficit for the three month period ended April 30, 2003; and an increase of \$23,605 and \$16,518 in Administration expense for the three month period ended April 30, 2004 and April 30, 2003 respectively.

The Company's consolidated financial statements for the three months ended April 30, 2004 and the years ended January 31, 2004 and 2003 have been restated to reflect the allocation to equity of fair value to acknowledge the convertible feature on the debentures and the convertible loan payable. As a result of adopting the CICA Handbook Section 3860 to the debentures issued September 3, 2002 (\$1.2 million) and December 3, 2002 (\$786,300), and the loans payable issued in December of 2003, the Balance Sheets and Statements of Operations and Deficit for the years ended January 31, 2004 and 2003 were restated. Besides allocation of a portion of the debentures payable and loans payable to equity, the restatements also involved amortization of the allocation to interest expense. This restatement had the following effects on the net loss and working capital for the current quarter and the last fiscal year:

	Increase (Decrease)	
	3 months ended April 30, 2004	Year ended January 31, 2004
Net loss	\$ 56,278	\$ 161,376
Working capital	(18,741)	43,503

Management Discussion & Analysis (Amended)

The Company's Business

Optimal offers a variety of solutions to meet the increasing demand for specialized services to these industries, which include highly accurate geographic location of features required for engineering utility applications. The proprietary core technologies for the low altitude remote sensing systems were developed for a variety of mapping and asset inspection applications, with the focus on the special requirements for dealing with electric powerline and gas pipeline networks.

The Company's customers include well-known utilities such as AltaLink, TXU, Xcel Energy, Cinergy, Illinois Power and United Utilities. A testament to the quality of the Company's service and technology is the repeat business placed by customers. The Company was also successful in winning several new customers during this past fiscal quarter, including Oklahoma Gas Pipeline and Kansas Gas Services.

The Company intends to be a market-leader in geospatial data-capture, management and reporting for electrical, oil and gas utilities in North America and the United Kingdom. The Company's geomatics engineering services will assist our customers to leverage their existing infrastructure by improving on delivery, reducing costs and increasing end user satisfaction. In addition, the Company will continue to invest in technology in order to offer its customers the best solutions, and will partner with other companies to deepen and broaden its expertise and service offering.

The Company is taking further marketing steps to emphasize its capabilities for the full range of remote sensing and geomatics services. These marketing and sales activities are showing considerable promise for adding to the Company's customer base. We are most pleased to see that our efforts to deliver timely, quality services to utility organizations is resulting in the numbers of significant new contracts being received from existing and new customers and we will continue to stress efforts for establishment of good customer relations.

Market

The Electric Utility industry is expected to experience significant growth over the next 10 years due to the substantial increase in customer needs and energy expectations. An aging infrastructure and the rising rate of unexpected natural disasters have caused the 3,500 electric utility companies in North American to increase their financial budgets for right-of-way maintenance programs. In 1999 they spent over \$3 Billion on the maintenance and operations of transmission lines, and \$2.4 Billion on the construction of transmission lines which includes new construction, upgrades, and replacements.

The Pipeline Utility market has undergone significant changes over the last 10 years. The deregulation of the market and the rigid new regulatory laws has had a considerable impact and brought pipeline inspection and safety to the forefront of the industry. There are over 300 Pipeline Utilities across North America affected by the new regulatory compliance standards. All Oil & Gas companies must comply with the integrity testing and planning regulations by Dec 12, 2012, which will cost an estimated \$400 Million over that period.

Management Discussion & Analysis (Amended)

Summary of Amended Quarterly Results

Optimal Geomatics recorded gross revenue of \$1.3 million for the first quarter ending April 30, 2004 compared to gross revenue of \$782,527 for the same quarter last year and \$4.5 million for the year ended January 31, 2004. Net loss for the three months ended April 30, 2004 was \$186,233 or \$0.01 per share compared to net loss of \$792,992 or \$0.04 per share for the same period last year and \$2.2 million or \$0.10 per share for the twelve months ended January 31, 2004. For the current quarter, there is no revenue or loss incurred from discontinued operation and extraordinary item. For the three months ended April 30, 2003 and twelve months ended January 31, 2004, loss from operations before income tax, discontinued operations, and extraordinary items were \$723,606 or \$0.03 per share and \$2.1 million or \$0.10 per share. Total number of common shares outstanding as of April 30, 2003, January 31, 2004, and April 30, 2004 was 22,514,364.

Summary of the eight most recently completed quarters is as follow:

	Current fiscal year	Fiscal year ended January 31, 2004		
	(unaudited)	(unaudited and restated)		
	1 st quarter ended	4 th quarter ended	3 rd quarter ended	2 nd quarter ended
	Apr 30, 2004	Jan 31, 2004	Oct 31, 2003	Jul 31, 2003
Revenues	\$ 1,338,348	\$ 1,371,954	\$ 769,254	\$ 1,572,287
Gross Profit	515,296	439,085	238,070	468,588
Loss before extraordinary items	186,233	277,419	579,433	572,681
Loss per share				
before extraordinary items	0.01	0.01	0.03	0.03
Net loss	186,233	273,322	579,433	572,681
Net loss per share	0.01	0.01	0.03	0.03
Working capital (deficiency)	(632,857)	(474,068)	(312,510)	(563,190)
Cash and cash equivalent	430,136	428,255	202,451	110,540

	Last fiscal year	Fiscal year ended January 31, 2003		
	(unaudited and restated)	(unaudited and restated)		
	1 st quarter ended	4 th quarter ended	3 rd quarter ended	2 nd quarter ended
	Apr 30, 2003	Jan 31, 2003	Oct 31, 2002	Jul 31, 2002
Revenues	\$ 782,527	\$ 1,206,486	\$ 738,935	\$ 310,299
Gross Profit	173,729	280,064	500,731	10,469
Loss(income) before extraordinary item	723,606	214,303	(76,078)	733,025
Loss (income) per share				
before extraordinary items	0.03	0.01	(0.01)	0.10
Net loss (income)	792,992	214,303	(76,078)	733,025
Net loss (income) per share	0.04	0.01	(0.01)	0.10
Working capital (deficiency)	(453,073)	770,749	(18,889)	(65,382)
Cash and cash equivalent	54,088	599,741	9,599	562

Management Discussion & Analysis (Amended)

Amended Results of Operations

Sales Revenues continue to grow strongly, sales for the quarter ended April 30, 2004 were \$1.3 million; revenues of \$782,527 were recorded for the comparable quarter in the previous fiscal year. The 71% increase in revenues reflects the continuing growth of Optimal's client base. Revenues achieved represent services to electric and gas utility customers in North America and the UK, and follow from enhanced marketing efforts. The substantial increase largely reflects the success of the Company in repositioning itself in the market place as a provider of geomatics and engineering solutions. The Company results for revenue, gross margin and earnings can be affected by the level, timing and duration of customer contracts and product delivery requirements.

The Company expansion into its vertical market penetration by entering the significant natural gas pipeline market in North America continues. Services performed have included mapping and surveying services of gas transmission corridors, and dealing with the safety and security issues of the industry.

A gross profit of \$515,296, representing a gross margin of 39% was achieved during the period, which reflects the mix of sales activities undertaken by the Company. The cost of sales of \$823,052 for the quarter reflects, in part, the initial loading of mobilization costs of the new contracts received in both the United States and United Kingdom.

A substantial decrease in the losses suffered by the company in previous quarters was recorded. Net loss of \$186,233 was recorded during the quarter, compared to a net loss of \$792,992 in the comparable quarter in the previous fiscal. The loss reflects a significant improvement in the company results in this quarter, resulting from the success of the enhanced sales team coupled with the benefits of a reorganized operation.

Total administration expenses decreased to \$342,170 for the quarter ended April 30, 2004, compared to the same quarter in 2003 with administration costs of \$438,049, representing a decrease of 25%. There have been no costs incurred attributed to the reorganization of the Company's operations during the past quarter.

Sales and marketing expenditure decreases 11% to \$239,807 in the current quarter from \$267,990 in the same quarter last year. The slight decrease reflects the corporate mandate to maintain its strong sales growth during this fiscal year ending January 2005 by increasing its exposure and capitalizing on all identified opportunities while exercising tight control on budget. The expenditure involves a greater sales force presence at trade shows and substantial traveling to meet potential customers face to face.

Research and development expenditures during the past quarter were \$29,929 compared to \$62,625. Costs associated for the airworthiness certification of the airborne equipment with the Canadian aviation authorities are included.

Management Discussion & Analysis (Amended)

Liquidity and Capital Resources

Working capital was \$(632,857) at April 30 2004, compared to working capital of \$(474,068) at the previous fiscal year end. Considerable attention continues to be placed on financial controls, project budget procedures and management of cash flows, to deal with the pressures on liquidity consequent to the volume of new sales contracts that are being experienced. The Company is continuously exercising rigorous cash management, cost control, and project budget procedures in order to sustain the current operations and strengthen working capital position. At the same time, the Company remains committed to completing one or more financings to provide additional working capital for its operations.

An issue of 10% convertible debentures in the principal amount of \$1,200,000 was placed with Patonhill Investments Limited, a shareholder. This financing supported non-recurring expenses related to the restructuring during the past two fiscal years. A further financing by way of placement of additional convertible debentures in the amount of \$786,300 was arranged last year. The \$1,986,300 outstanding debentures have three-year terms and are convertible into common shares at a current price of \$0.29 per share and \$0.34 per share in the final year. The debentures are collateralized by a general security agreement over the assets and undertaking of the Company and are due September 3, 2005 and redeemable at the option of the Company.

The Company does not have any foreign exchange contracts to hedge transactions denominated in United States Dollars or Great Britain Pounds

Related Party Transactions

Interest accrued on the portion of the debentures subscribed by a corporate related party was unsecured and has no fixed terms of repayment. At the option of the debentures holder, the interest together with the principal may be converted into common shares. The interest accrual for the current quarter was \$37,136 and the balance as of April 30, 2004 was \$217,454.

OPTIMAL GEOMATICS INC.



Consolidated Balance Sheets (amended)

(Unaudited)

	April 30, 2004 (restated-note2)	January 31, 2004 (restated-note2)
Assets		
Current assets:		
Cash and cash equivalents	\$ 430,136	\$ 428,255
Accounts receivable	1,118,566	810,351
Work in progress	139,648	295,701
Prepaid expenses	61,820	82,157
	<u>1,750,170</u>	<u>1,616,464</u>
Property and equipment (note 5)	159,486	152,796
	<u>\$ 1,909,656</u>	<u>\$ 1,769,260</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,194,840	\$ 1,577,051
Deferred revenue	542,978	218,374
Loans payable (note 6)	645,209	295,107
	<u>2,383,027</u>	<u>2,090,532</u>
Convertible debentures, liability portion (note 8)	1,786,104	1,748,567
Shareholders' equity:		
Share capital (note 9(b))	12,828,764	12,828,764
Shares subscription	712,816	712,816
Contributed surplus (note 3(b))	145,059	121,454
Loans payable, equity portion (note 6)	59,600	54,731
Convertible debentures, equity portion (note 8)	438,474	438,474
Cumulative translation adjustment (note 3(a))	(31,877)	-
Deficit (note 3(b))	<u>(16,412,311)</u>	<u>(16,226,078)</u>
	<u>(2,259,475)</u>	<u>(2,069,839)</u>
	<u>\$ 1,909,656</u>	<u>\$ 1,769,260</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

“Colum Caldwell”

Director

“Roger Bannon”

Director

OPTIMAL GEOMATICS INC.



Consolidated Statements of Operations and Deficit

Three months ended April 30, 2004 and 2003 (amended)

(Unaudited)

	2004 (restated-note2)	2003 (restated-note2)
Revenues (note 10(b))	\$ 1,338,348	\$ 782,527
Cost of sales	823,052	608,798
	515,296	173,729
Expenses:		
Administration (note 3(b))	342,170	438,049
Marketing and sales	239,807	267,990
Research and development	29,929	62,625
Amortization	27,002	17,304
Reorganization costs	-	11,224
	638,908	797,192
Loss before other (income) expense	123,612	623,463
Other (income) expense:		
Foreign exchange (gain) loss	(52,333)	11,280
Interest expense (note 6, 8)	114,954	88,863
	62,621	100,143
Loss before extraordinary expense	186,233	723,606
Goodwill write-off on acquisition (note 4)	-	69,386
Net loss for the period	186,233	792,992
Deficit, beginning of period	16,226,078	14,007,650
Deficit, end of period	\$ 16,412,311	\$ 14,800,642
Net loss per share	\$ 0.01	\$ 0.04
Weighted average number of common shares outstanding	22,514,364	22,514,364

See accompanying notes to consolidated financial statements.

OPTIMAL GEOMATICS INC.
Consolidated Statements of Cash Flows
Three months ended April 30, 2004 and 2003 (amended)
(Unaudited)



	2004 (restated-note2)	2003 (restated-note2)
Cash provided by (used in):		
Operating activities:		
Net loss for the period	\$ (186,233)	\$ (792,992)
Items not involving cash:		
Amortization	27,002	17,304
Stock-based compensation (note 3(b))	23,605	16,518
Amortization of discount on loans payable (note 6)	18,741	-
Amortization of discount on convertible debentures (note 8)	37,537	37,537
Changes in non-cash operating working capital:		
Accounts receivable	(308,215)	862,973
Work in progress	156,053	(15,939)
Prepaid expenses	20,337	(21,492)
Accounts payable and accrued liabilities	(382,211)	(865,487)
Deferred revenue	324,604	-
	(268,780)	(761,578)
Investing activities:		
Purchase of capital assets	(33,692)	(35,634)
Financing activities:		
Loans payable	336,230	251,559
Foreign exchange effect on cash and cash equivalents (note 3(a))	(31,877)	-
Increase (decrease) in cash and cash equivalents	1,881	(545,653)
Cash and cash equivalents, beginning of period	428,255	599,741
Cash and cash equivalents, end of period	\$ 430,136	\$ 54,088
Supplementary information:		
Interest paid	\$ 9,820	\$ 13,133
Interest received	501	42

See accompanying notes to consolidated financial statements.

OPTIMAL GEOMATICS INC.



Notes to Consolidated Financial Statements
Three months ended April 30, 2004 and 2003 (amended)
(Unaudited)

1. Basis of presentation:

The accompanying unaudited consolidated financial statements do not include all information and footnote disclosures required for an annual set of financial statements under Canadian generally accepted accounting principles. In the opinion of management, all adjustments (consisting solely of normal recurring accruals) considered necessary for a fair presentation of the financial position, results of operations and cash flows as at April 30, 2004 and for all periods presented, have been included. Interim results for the three month periods ended April 30, 2004 are not necessarily indicative of the results that may be expected for the fiscal year as a whole.

The unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Optimal Geomatics Limited in United Kingdom, Optimal Geomatics Inc. in United States of America, and Optimal Software Limited, a wholly owned inactive subsidiary of Optimal Geomatics Limited in UK. The Company has eliminated all significant intercompany balances and transactions. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report for the fiscal year ended January 31, 2004.

2. Restatements

The Company's consolidated financial statements for the quarter ended April 30, 2004 have been restated to reflect the changes in accounting policies as disclosed in note 3 and the allocation of equity portion of the convertible debentures and the convertible loans payable (notes 6 and 8). As a result of the restatements, the following increases (decreases) were resulted in the Company's consolidated financials statements:

OPTIMAL GEOMATICS INC.



Notes to Consolidated Financial Statements
Three months ended April 30, 2004 and 2003 (amended)
(Unaudited)

2. Restatements (continued)

	Increase (Decrease)		
	Three months ended		Year ended
	April 30,		Jan 31,
	2004	2003	2004
Stock-based compensation:			
Compensation expense and net loss	\$ 23,605	\$ 16,518	\$ 34,081
Beginning deficit	121,454	87,373	87,373
Ending deficit	145,059	103,891	121,454
Foreign exchange translation:			
Cumulative translation adjustment	31,877	-	-
Foreign exchange loss, net loss, and deficit	(31,877)	-	-
Convertible debentures restatement:			
Convertible debentures payable	37,537	37,537	(237,733)
Convertible debentures, equity portion	-	-	438,474
Interest expense and net loss	37,537	37,537	150,148
Beginning deficit	200,741	50,593	50,593
Ending deficit	238,278	88,130	200,741
Loans payable restatement:			
Loans payable	13,872	-	(43,503)
Loans payable, equity portion	4,869	-	54,731
Interest expense and net loss	18,741	-	11,228
Beginning deficit	11,228	-	-
Ending deficit	29,969	-	11,228
Net effect on net loss	\$ 48,006	\$ 54,055	\$ 195,457

3. Significant accounting policies:

The accompanying unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the annual report for the fiscal year ended January 31, 2004, except for the following:

(a) Translation of foreign currencies

Transactions completed in foreign currencies are recorded in Canadian dollars at the rates prevailing at the time of transactions. Monetary assets and liabilities denominated in foreign currencies are recorded in the consolidated financial statements in equivalent Canadian dollars at the rate of exchange prevailing at the balance sheet date.

OPTIMAL GEOMATICS INC.



Notes to Consolidated Financial Statements
Three months ended April 30, 2004 and 2003 (amended)
(Unaudited)

3. Significant accounting policies (continued):

(a) Translation of foreign currencies (continued)

Foreign operations that are considered integrated (financially and operationally dependent on the parent) are translated to Canadian dollars using current rates of exchange for monetary assets and liabilities. Historical rates of exchange are used for non-monetary assets and liabilities and average rates for the period are used for revenues and expenses except for amortization, which is translated at exchange rates used in the translation of the related asset accounts. Gains or losses resulting from these translation adjustments are included in income.

Foreign operations that are considered self-sustaining (financially and operationally independent of the parent) are translated to Canadian dollars using the current rates of exchange for assets and liabilities and using average rates for the period for revenues and expenses. Gains or losses resulting from these translation adjustments are deferred in a separate component of shareholders' equity ("Cumulative translation adjustment") until there is a realized reduction in the parent's net investment in the foreign operation.

The Company has determined that Optimal Geomatics Limited in United Kingdom should be classified as self-sustaining foreign operation as their operations have become independent and the continuous growth in revenue and improvement in financial results have allowed the subsidiary to finance its day-to-day activities. The current rate method is used in translating the financial statements of Optimal Geomatics Limited prospectively effective February 1, 2004.

(b) Stock-based compensation

Effective February 1, 2004, the Company adopted the CICA Handbook section 3870, Stock-Based Compensation and other Stock-Based Payments. According to this CICA Handbook section, the Company retrospectively restated the income statement to account for stock-based compensation for the options granted since February 1, 2002. The adoption resulted in a restatement (increase of \$121,454) in Contributed Surplus and Deficit on the balance sheet as of January 31, 2004; the restatement has resulted in an increase of \$87,373 in opening deficit for the three month period ended April 30, 2003; and an increase of \$23,605 and \$16,518 for the three months ended April 30, 2004 and April 30, 2003 respectively.

OPTIMAL GEOMATICS INC.



Notes to Consolidated Financial Statements
Three months ended April 30, 2004 and 2003 (amended)
(Unaudited)

4. Acquisition:

On February 1, 2003, the Company acquired the net assets of Optimal Geomatics Inc., a US-based company (formerly Optimal Technology Inc.) for cash of \$152. The acquisition was accounted for using the purchase method. Goodwill of \$69,386 was written off in the fiscal year ended January 31, 2004:

Cash	\$	36,702
Other current assets		218,199
Current liabilities		(324,287)
Net assets acquired and assigned to goodwill	\$	(69,386)

5. Property and equipment:

	Cost	Accumulated amortization	Net book value	
			April 30, 2004	Jan 31, 2004
Equipment	\$ 499,444	\$ 406,118	\$ 93,326	\$ 82,248
Furniture and fixtures	144,854	97,899	46,955	48,444
Software	38,547	28,611	9,936	14,627
Leasehold improvements	60,706	51,437	9,269	7,477
	\$ 743,551	\$ 584,065	\$ 159,486	\$ 152,796

6. Loans payable:

Demand loan from a corporate related party, unsecured with no fixed terms of interest or repayment, of which \$387,610 is convertible into common share at \$0.24 per share.

	Loans payable principal
Balance, January 31, 2004	\$ 338,610
Additional loans	336,230
Balance, April 30, 2004	\$ 674,840

A portion of the convertible loan was allocated to equity according to CICA Handbook Section 3860, Financial Instruments—presentation and disclosure. The fair value of the convertible feature of the demand loan was estimated using Black-Scholes option pricing model with the following weighted average assumptions:

OPTIMAL GEOMATICS INC.



Notes to Consolidated Financial Statements
Three months ended April 30, 2004 and 2003 (amended)
(Unaudited)

6. Loans payable (continued):

Expected life (in years)	0.79
Risk-free interest rate	3.15%
Volatility	96.16%
Dividend yield	0.00%

Upon issuance of the loan, a discount of \$54,731 was allocated to equity from the demand loan to account for the fair value of the convertible feature. For the three months ended April 30, 2004, a further discount of \$4,869 was allocated to equity from an additional convertible loan of \$49,000. Included in operations for the three months ended April 30, 2004 was \$18,741 in interest expense related to the amortization of the total discount on the convertible loan on a straight line basis over the expected term of the loan.

	Loans payable account balance
Loan, December 2003	\$ 338,610
Equity portion allocation	(54,731)
Amortization for the year ended January 31, 2004	11,228
Account balance, January 31, 2004	\$ 295,107
Addition loan without convertible feature	287,230
Addition loan with convertible feature	49,000
Equity portion allocation for addition loan with convertible feature	(4,869)
Amortization for the quarter ended April 30, 2004	18,741
Balance, April 30, 2004	\$ 645,209

7. Related party transactions:

Interest accrued on the portion of the debentures subscribed by a corporate related party was unsecured and has no fixed terms of repayment. At the option of the debentures holder, the interest together with the principal may be converted into common shares.

	Interest Payable
Balance, January 31, 2004	\$ 180,318
Additional interest accrued	37,136
Balance, April 30, 2004	\$ 217,454

OPTIMAL GEOMATICS INC.



Notes to Consolidated Financial Statements
Three months ended April 30, 2004 and 2003 (amended)
(Unaudited)

8. Convertible debentures:

The Company issued three convertible debentures, for total proceeds of \$1,986,300 with effective dates September 3, 2002 (\$1.2 million) and December 3, 2002 (\$786,300). The convertible debentures bear interest at 10% per annum compounded quarterly. The debentures, collateralized by a general security agreement over the assets and undertaking of the Company, are redeemable, in whole or in part, at a price equal to the principal amount plus interest, at any time prior to the maturity date of September 3, 2005. At the option of the holders, the principal and interest may be converted into common shares at \$0.29 per share, increasing by \$0.05 per share per annum. A corporate related party subscribed for \$1,200,000 of the debentures.

In accordance with CICA Handbook Section 3860, Financial Instruments—disclosure and presentation, the Company allocated a portion of the debentures to liabilities and a portion to equity. The equity portion acknowledges the convertible feature of the convertible debentures. In making this allocation, the Company valued the equity conversion feature of the debentures using the Black-Scholes option-pricing model with the following assumptions as at the effective dates of the debentures:

	September 3, 2002	December 3, 2002
Expected life (in years)	3.00	2.75
Risk-free interest rate	3.38%	3.46%
Volatility	160%	144%
Dividend yield	0.00%	0.00%

Upon the issuance of these convertible debentures, an aggregate discount of \$438,474 was allocated as the equity portion of the principal of the convertible debentures. The discount is amortized to interest expense on a straight-line basis over the terms of the debentures.

Included in operations for the three months ended April 30, 2004 was \$37,537 in interest expense related to the amortization of the discount on the principal of the convertible debentures.

	Convertible debentures liability portion
Principal	\$ 1,986,300
Equity portion allocation	(438,474)
Amortization for the year ended January 31, 2003	50,593
Amortization for the year ended January 31, 2004	150,148
Balance, January 31, 2004	\$ 1,748,567
Amortization for the quarter ended April 30, 2004	37,537
Balance, April 30, 2004	\$ 1,786,104

OPTIMAL GEOMATICS INC.



Notes to Consolidated Financial Statements
Three months ended April 30, 2004 and 2003 (amended)
(Unaudited)

8. Convertible debentures (continued):

Interest accrued on the debentures for the three month period ended April 30, 2004 was \$45,547. Unpaid interest accrued as at April 30, 2004 since the debentures issuance date was \$273,954.

9. Share capital:

- (a) Authorized:
100,000,000 common shares without par value
- (b) Issued:

	Number of common shares	Amount
Outstanding, January 31, 2004 and April 30, 2004	22,514,364	\$ 12,828,764

(c) Stock option plan:

Under the terms of the Company's employee stock option plan, the Board of Directors may grant options to employees, officers and directors. Options granted on or before January 31, 2004 generally vest over one and a half years with the first 1/4 vesting on the grant date and the balance vesting in equal amounts at the end of three six-month periods thereafter. Options granted after January 31, 2004 generally vest over three years with 1/3 vesting at the first, second, and third year anniversary date of the grant. Option exercise prices may not be less than the discounted share market price as prescribed by the TSX Venture Exchange regulation. The Company determines the term of each option at the time it is granted, with options generally having a five-year term. The Company has reserved 3,400,000 options for issuance under its employee share option plan of which 2,025,000 have been granted and are outstanding as at April 30, 2004.

On February 11, 2004, the Company re-priced 1,022,500 stock options with an exercise price of \$0.24 to \$0.15 and cancelled 205,000 stock options as agreed by the Company and certain insider optionees. The amended stock options will expire on March 12, 2007.

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9. Share capital (continued):

(c) Stock option plan (continued):

A summary of the Company's stock option activity for the three months ended April 30, 2004 is as follows:

	Outstanding options	
	Number of shares	Weighted average exercise price
Outstanding, January 31, 2004	1,227,500	\$ 0.15
Options granted	1,002,500	0.15
Options cancelled	(205,000)	0.15
Outstanding, April 30, 2004	2,025,000	\$ 0.15

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	Three months ended	
	2004	2003
Expected life (in years)	2.75	-
Risk-free interest rate	2.48%	-
Volatility	124%	-
Dividend yield	0.00%	-

The following table summarizes the share options outstanding at April 30, 2004:

Option Exercise price	Options outstanding			Options exercisable	
	Number of shares	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 0.15	2,025,000	2.91 years	\$ 0.15	766,250	\$ 0.15

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10. Segmented information:

(a) Operating segments:

The Company is engaged in providing transmission corridor asset management and engineering solutions using innovative geospatial technology and all sales of the Company's services are made in this segment. Management makes decisions about allocating resources based on the one operating segment.

(b) Geographic information:

Over 80% of the Company's fixed assets are located in Canada. The Company earned revenues attributed to the following countries based on the geographic location of the customer:

	Three months ended April 30	
	2004	2003
Canada	\$ -	\$ -
United States	989,095	371,881
Europe	343,244	410,646
Other	6,009	-
	<u>\$ 1,338,348</u>	<u>782,527</u>

(c) Significant customers:

There was one customer accounting for more than 20% of revenue for the three-month period ended April 30, 2004.

11. Comparative figures:

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current period.
