



Norsat®
International Inc.

*Management Discussion and Analysis
For the Three Months Ended March 31, 2005*

Norsat International Inc. Management Discussion and Analysis

May 9, 2005

The following information should be read in conjunction with the Company's unaudited interim consolidated financial statements and related notes included therein for the three months ended March 31, 2005, and the audited consolidated financial statements, related notes included therein and Management Discussion and Analysis for the year ended December 31, 2004 included in the Company's 2004 Annual Report. All of the Company's financial statements are prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP). All amounts following are expressed in Canadian Dollars unless otherwise indicated. Additional information relating to the Company, including the Company's annual information form for the year ended December 31, 2004, may be found on the Company's web page at www.norsat.com and at www.sedar.com.

Forward Looking Statements

Statements in this report relating to matters that are not historical fact are forward-looking statements based on current expectations, forecasts and assumptions that involve risks and uncertainties that could cause actual outcomes and results to differ materially. Factors that could cause or contribute to such differences include, but are not limited to, general economic conditions, changes in technology, reliance on third party manufacturing, managing rapid growth, global sales risks, limited intellectual property protection and other risks and uncertainties described in Norsat's public filings with securities regulatory authorities.

Overall Performance

First quarter sales were \$2.5 million, gross margins were 38%, and net loss was \$1.2 million, compared to sales of \$4.4 million, gross margins of 47% and net income of \$0.7 million in the same period last year.

Sales from Satellite Systems were lower than previous quarters due mostly to delays in receiving customer contracts and the Microwave business unit, in its mature market, continued to see price erosion and competitive bidding from its competitors. From a product development perspective, our teams worked to bring our new product offerings to market and continue to focus on projects that will produce near-term revenue streams. Even with such development, we continued to maintain our cost control measures and saw almost no increases in operating costs.

Highlights

- Our Norsat NewsLink™ portable terminal was sold to ITN, United Kingdom's largest television news supplier, to enable live and timely broadcasts of breaking news stories from around the world and to carry live exchanges between a nightly news anchor, based in a news hot spot, and the studio in London.
- We entered into partnership with Atlas Telecom. Atlas Telecom will promote Norsat's products in particular the Norsat OmniLink™ portable satellite terminal family and provide Tier I, post-sales support to customers in the Gulf Cooperation Countries (G.C.C.).
- Our Microwave Business Unit introduced the industry's first commercially-produced phase-locked loop low noise block downconverters (PLL LNBS) operating at X and Ka frequency bands and released its new lines of solid-state power amplifiers and recorded its first sales during the quarter.
- We appointed Mr. George King, Mr. Dan Dixon, Mr. Joseph Caprio and Mr. Christopher Hoyle to the Company's Board of Directors.

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Highlights (continued)

- We appointed Mr. William Coyne III, as President & Chief Executive Officer. Mr. Coyne takes office on May 16, 2005.

Results of Operations

Three Months Ended March 31 (unaudited)

Sales (\$000's)	2005	2004
Microwave	\$1,945	\$2,655
Satellite Systems	574	1,703
	<u>\$2,519</u>	<u>\$4,358</u>

First quarter sales were \$2.5 million, down 42% from the \$4.4 million earned in the first quarter of 2004. Satellite Systems revenue was \$0.6 million and includes the delivery of a Norsat NewsLink™ portable terminal into another premier satellite newsgathering organization ITN, United Kingdom's largest television news supplier. ITN joins our customer base that already includes organizations such as CBS and Fox News in the United States and Sky News in Europe. The significant decline in sales compared to the prior year reflects the timing of receipt of customer contracts. The 2004 balances include the Company's successful penetration into the U.S. military market with contracts in excess of \$1.5 million. Our product development teams continue to focus on projects that will produce near-term revenue streams and we expect to see their effects in future periods. The Microwave business produced sales of \$1.9 million, compared to the \$2.7 million in the same period last year. Microwave sales continue to feel the effects of a mature market, ongoing price competition and a significantly weaker U.S. dollar compared to a year ago. During the quarter we introduced our new products in X and Ka frequency bands and launched our new lines of solid-state power amplifiers and recorded our first sales. We will continue to promote these new products in both new and our existing markets and extend these offerings into our range of portable satellite terminals.

Three Months Ended March 31 (unaudited)

Gross Margin	2005	2004
Microwave	36%	45%
Satellite Systems	46%	50%
	<u>38%</u>	<u>47%</u>

The gross margin from Satellite Systems remained strong at 46% in the first quarter of 2005, compared with the 50% in the same period last year. Microwave margins were significantly lower than the 45% recorded in the in the first quarter of 2004, but rebounded from the 20% in the fourth quarter of 2004 and consistent with the 36% for fiscal 2004. With continued sales pricing competition in both business units we will continue to work with our suppliers to ensure quality products and best overall pricing.

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Operating Costs (\$000's)	Three Months Ended March 31 (unaudited)	
	2005	2004
Selling, general and administrative	\$1,478	\$1,425
Product development	409	361
Amortization	159	150
	<u>\$2,046</u>	<u>\$1,936</u>

Operating costs totaled \$2.0 million and were slightly higher than the \$1.9 million in the same period of 2004.

Selling, general and administrative (SG&A) expenses in the first quarter were \$1.5 million and were relatively consistent with the prior year. We expect SG&A expenses to remain constant in the foreseeable future. Product development activities totaled \$0.4 million for the first quarter, and increased slightly compared to the prior year but reflects our focus to meet and exceed our customers' needs and focus to constantly improve and extend our range of product offerings in both business units.

	Three Months Ended March 31 (unaudited)	
	2005	2004
Earnings (loss) from continuing operations before other expenses and income taxes	\$(1,087)	\$113

Loss from continuing operations before other expenses and income taxes was \$1.1 million in the first quarter of 2005, compared to earnings of \$0.1 million in 2004, due primarily to lower sales and gross margins being earned in the current period.

Other expenses for the first quarter remained consistent with the prior year at \$0.1 million and income tax expense was \$6.7 thousand.

The net effect of the above factors was a net loss from continuing operations for the quarter of \$1.2 million or \$0.03 per share basic and diluted, compared to earnings of \$11.6 thousand in 2004 or \$0.00 per share - basic and diluted in 2004.

There were no significant effects from discontinued operations during the quarter compared to a gain from discontinued operations of \$0.7 million in the same period of 2004, representing a settlement of a liability with a supplier.

Net loss for the quarter was \$1.2 million or \$0.03 per share - basic and diluted, compared to net earnings of \$0.7 million or \$0.02 per share - basic and diluted in 2004.

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Quarterly Financial Data (unaudited)
(In \$000's, except per share amounts)

	Three Months Ended			
	Mar 31	Jun 30	Sep 30	Dec 31
2005				
Sales	\$2,519			
Loss from continuing operations	(\$1,187)			
Net loss	(\$1,188)			
Loss per share from continuing operations				
- basic and diluted	(\$0.03)			
Net loss per share - basic and diluted	(\$0.03)			
Weighted average common shares outstanding				
- basic and diluted	42,052			
2004				
Sales	\$4,358	\$3,371	\$5,005	\$4,787
Earnings (loss) from continuing operations	\$ 12	(\$355)	\$1,006	(\$233)
Net earnings (loss)	\$ 732	(\$355)	\$1,008	(\$232)
Earnings (loss) per share from continuing operations				
- basic	\$0.00	(\$0.01)	\$0.03	(\$0.01)
- diluted	\$0.00	(\$0.01)	\$0.02	(\$0.01)
Earnings (loss) per share				
- basic	\$0.02	(\$0.01)	\$0.03	(\$0.01)
- diluted	\$0.02	(\$0.01)	\$0.02	(\$0.01)
Weighted average common shares outstanding				
- basic	39,715	39,880	40,037	41,512
- diluted	41,495	39,880	40,638	41,512
2003				
Sales	\$3,367	\$2,512	\$3,701	\$3,400
Loss from continuing operations	(\$2,706)	(\$2,685)	(\$2,130)	(\$648)
Net loss	(\$2,706)	(\$2,685)	(\$2,130)	(\$724)
Loss per share from continuing operations				
- basic and diluted	(\$0.08)	(\$0.07)	(\$0.06)	(\$0.02)
Net loss per share - basic and diluted	(\$0.08)	(\$0.07)	(\$0.06)	(\$0.02)
Weighted average common shares outstanding				
- basic and diluted	34,177	36,023	36,177	37,983

Liquidity and Capital Resources

The Company's cash and short-term investments balance at March 31, 2005 was \$3.8 million, compared to \$5.1 million at December 31, 2004. This change resulted primarily from cash used in operations of \$1.1 million and capital purchases of \$0.1 million.

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Tabular Disclosure of Contractual Obligations

As of March 31, 2005, the impact that our contractual obligations are expected to have on our liquidity and cash flow in future periods is as follows:

(\$000's)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Lease Obligations	\$1,535	\$ 979	\$ 538	\$ 18	-
Inventory Purchase Obligations	\$3,917	\$3,917	-	-	-
Long Term- Debt Obligations	\$2,420	-	\$2,420	-	-
	\$7,782	\$4,896	\$2,958	\$ 18	-

Outstanding Share Data

As at March 31, 2005, the Company had issued and outstanding 42,051,832 common shares. As at May 9, 2005, no additional common shares had been issued and a total of 2,340,717 options and 3,096,811 share purchase warrants were outstanding that entitle their holder to purchase one common share of the Company at various prices were outstanding.

Significant Accounting Policies and Estimates

Significant accounting policies are described in note 2 to the Consolidated Financial Statements included in Norsat's 2004 Annual Report. A discussion of the critical accounting policies and the related estimates are included in Management's Discussion and Analysis in the 2004 Annual Report. There were no significant changes in accounting policies or estimates since the fiscal year ended December 31, 2004.