Atlantis Systems Corp.

SECOND QUARTER REPORT
30 JUNE 2003

The cover shows an F/A-18, a multi-purpose fighter used by the armed forces of many countries around the world. Atlantis is currently developing an F/A-18 Integrated Maintenance Training System for Canada and Australia and actively promoting the sale of two similar systems to the United States armed forces.

MESSAGE TO SHAREHOLDERS

The second quarter's financial results demonstrate the continuing success of Management in positioning Atlantis Systems Corp. (ASC) for long-term profitability. One of the key elements of Management's strategy is to focus on those product lines where the Company has a competitive advantage. In pursuit of this strategy, the Company sold its Intelligent Traffic Systems (ITS) division to SRC Technologies, Inc. for net proceeds of $1.0 million, as noted in the 2003 First Quarter Report. During the second quarter, negotiations progressed towards the divestiture of the Company's Vessel Traffic Systems (VTS) subsidiary, based in Merseyside, UK. On July 30th, 2003, it was announced that an agreement in principle had been reached to sell the VTS business to its local management team.

This transaction represents the final step in the streamlining of Atlantis' operations, allowing Management to concentrate on the core business of simulation-based aircraft training systems. Atlantis Systems International (ASI), the Company's principal subsidiary, holds a recognised position in the international training systems marketplace and its segmented results have now shown a profit for three consecutive quarters.

ASC's second quarter results reflect a one-time charge associated with the write-off of its VTS subsidiary and a one-time gain from the completion of the sale of its naval technology business. ASI's sales for the quarter increased 24 percent compared to the same period in 2002. At the end of the second quarter, the Company had a backlog of $23.1 million.

Highlights of the Quarter:

- Development of the F/A-18 Integrated Maintenance Training Systems (IMTS) for the air forces of Canada and Australia continued on schedule. Subsequent to the end of the quarter, a successful Critical Design Review was held at which the customers gave their approval of the system design and of ASI's progress on the project to date. Delivery of these systems, with a total value of $32 million, is planned for the Fall of 2004.

- Proposals were submitted to the United States armed forces for two multi-million-dollar follow-on contracts to the F/A-18 IMTS. The awardee of these contracts is expected to be announced in the second half of 2003.

- A successful Critical Design Review, with a demonstration of the trainer hardware, was completed in June for the EH-101 helicopter Cockpit Procedures Trainer (CPT) being built for the Westland Helicopters Customer Training Centre in the UK. Work on the EH-101 CPT for the Canadian Forces Cormorant also continued throughout the quarter.

- The Canadian Department of National Defence (DND) awarded ASI contracts worth over $1 million to upgrade an avionics trainer for the C-130 Hercules and provide service and support for two other Atlantis training systems currently in service with the DND.

- ASI won a $1 million contract to supply equipment to Robins Air Force Base in the United States, and a $350,000 contract to supply a Power Plant Simulator to Pratt & Whitney.

- As a member of the Allied Wings team, ASI successfully pre-qualified as a bidder for the Government of Canada's Contracted Flight Training and Support initiative, a programme with the potential to generate up to $100 million in revenues for Atlantis over a 20-year period.

- Atlantis' quality management system, already one of the first in the industry to be registered to the ISO9001:2000 standard, achieved further recognition by gaining registration to the AS9100:2001 quality standard. This puts Atlantis in an advantageous position to compete for defence contracts from major companies which recognise and require this standard.

- Subsequent to the quarter end, John Wright, the Chief Operating Officer of ASC, joined the Board of Directors and assumed the Chairmanship of the Company's Executive Committee. Douglas Olson resigned from the Board of Directors.

As a result of Management's continuing efforts to achieve greater efficiency in the Company's internal business processes, a staff reduction of over 10 percent was carried out in April with minimal impact on the Company's operations or its ability to meet its corporate objectives. Management remains committed to maximising the Company's productivity as an integral part of its drive to increase shareholder value.

On behalf of the Board of Directors,

Neil Raymond
Chairman of the Board

August 2003

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND OPERATING RESULTS

OVERVIEW

The following is a discussion of the material factors influencing the interim operating results and financial condition of Atlantis Systems Corp. ("Atlantis" or the "Company") as at, and for, the three-month and six-month periods ended June 30, 2003 with comparisons to the three-month and six-month periods ended June 30, 2002. All figures are in Canadian dollars unless otherwise specified. This document should be read in conjunction with the Interim Consolidated Financial Statements of the Company and notes thereto as at, and for, the three-month and six-month periods ended June 30, 2002 and the Company's Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Operating Results as at, and for, the year ended December 31, 2002.

The Company had two operating subsidiaries; Atlantis Systems International Inc. ("ASI") and Denbridge Digital Limited ("DDL"). During the second quarter of 2003, given the current economic circumstances faced by DDL, the Board made the decision to close DDL's Vessel Traffic Systems (VTS) division, write-off the remaining book value of DDL, and accrue closing costs, resulting in a loss of $745,000. On July 30, 2003, the Company announced the proposed sale of this division to its United Kingdom-based management group. This sale will be the second divestiture this year of a non-core asset. The Board made the decision to close and sell the DDL operations due to their non-core nature, as well as the fact they were going to require an inordinate amount of Management time and financial resources. The Board believed that these resources were better allocated to the core business of ASI. The Company now consists solely of the ASI operating subsidiary. As a result of the sale of the DDL Intelligent Traffic Systems (ITS) division in the first quarter of 2003 and the closing of the DDL VTS division in the second quarter of 2003, the 2002 and 2003 operating results have been restated to reflect the removal of the revenues, cost of sales, and expenses from the discontinued DDL businesses, thereby providing relevant comparative figures. The net results of the DDL operations are presented on the Consolidated Statement of Operations as discontinued operations.

RESULTS OF OPERATIONS

Sales for the quarter ended June 30, 2003 are $6,312,000 versus $5,110,000 for the quarter ended June 30, 2002; a 24% increase. This sales growth reflects the major contracts secured by Atlantis' Management in 2002. For the six months ended June 30, 2003, sales were relatively unchanged at $12,963,000 versus $13,010,000 in the same period of 2002.

The Company reported a net loss of $614,000 ($0.04 per share) for the three months ended June 30, 2003 and a net loss for the six months ended June 30, 2003 of $352,000 ($0.03 per share). ASI, the only remaining operating subsidiary of the Company, reported net income of $468,000 ($0.03 per share) and $630,000 ($0.05 per share) for the three-month and six-month periods ended June 30, 2003 respectively (net losses of $568,000 and $326,000 for the comparative periods in 2002). For the three-month and six-month periods ended June 30, 2003 respectively, the discontinued operations (primarily the VTS and ITS divisions) contributed a net loss of $745,000 and $584,000, respectively (net losses of $345,000 and $531,000 for 2002). Corporate overhead costs account for the balance.

The Company achieved gross margins of 25% in both the second quarter of 2003 and the first six months of 2003 compared to 21% in same periods of 2002. The improved gross margins were due primarily to the improved profitability realized on large military projects.

The Company incurred general and administrative ("G&A") expenses of $1,816,000 for the six months ended June 30 2003; $196,000 or 12% higher than for the same period in 2002. This is mainly due to one-time costs of $268,000 associated with the reduction of personnel in the ASI division. G&A for the second quarter was 16% higher at $1,140,000 for the same reason. Management expects to realize ongoing savings of up to $2,000,000 per year as a result of the reduction in staffing levels.

Selling and marketing expenses for the six months ended June 30, 2003 were $793,000. This represents a decrease of $273,000 or 26% from the same period in 2002. Savings were realized as a result of reducing sales and marketing personnel in the international marketplace and cost saving initiatives implemented during the first quarter. For the second quarter of 2003, selling and marketing expenses were relatively unchanged at $358,000 compared to $384,000, a 7% decrease from the same period in 2002.

Research and development (R&D) expenses for the six months ended June 30, 2003 were $180,000. This represents a decrease of $36,000 or 17% from the same period in 2002. R&D expenses for the quarter ended June 30, 2003 were down to $31,000 from $73,000 in the same period of 2002. The decrease in R&D charges reflects the large amount of ASI's R&D that is now integrated into its large simulation contracts.

Atlantis achieved operating income, before interest, taxes, depreciation, and amortization, of $540,000 for the six months ended June 30, 2003 compared to an operating loss of $187,000 for the same period in 2002. In the second quarter of 2003, operating income was $61,000 versus an operating loss of $356,000 in the same period of 2002.

Interest expense and financing costs were significantly higher in both the six-month period (up 128% to $594,000) and quarter (up 55% to $273,000) ended June 30, 2003 compared with the same periods in 2002 as a result of increased borrowings in the form of bank loans and promissory notes, higher interest rates on borrowed funds, as well as the financing practice of borrowing funds through the discounting of invoices to support the Company's on-going operating cash requirements.

During the second quarter of 2003, the Company announced the completion of its previously reported sale of certain naval technology, resulting in a gain of $400,000 ($0.03 per share).

The loss from discontinued operations for the second quarter of 2003 of $745,000 is comprised of the DDL operating losses (primarily the VTS division) for the quarter combined with the write-off of the remaining DDL assets and accrued closing costs. The loss from discontinued operations for the first half of 2003 of $584,000 includes the first quarter gain on the sale of the ITS division in the amount of $1,005,000, offset by the operating losses incurred in the first quarter of 2003 by DDL of $844,000 as well as the second quarter loss from discontinued operations described above. Comparative numbers for discontinued operations in 2002 represent the DDL operating losses for those periods.

In the first quarter of 2003, the Company announced the award of a $3.5 million contract to supply a Cockpit Procedures Trainer (CPT) for the IDS (Integrated Display System) variant of the AgustaWestland EH101 helicopter. This is the second EH101 CPT contract awarded to Atlantis. No major new contracts were awarded in the second quarter of 2003. The Company has submitted major bids for follow-on work on the IMTS project. The awardee of these contracts is expected to be announced in the second half of 2003.

ASI's backlog at June 30, 2003 was $23.1 million, compared to $43.3 million at June 30, 2002.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2003, the Company had a working capital deficiency of $10,652,000. The major components of this deficiency include deferred revenue of $5,465,000 and accrued costs on percentage of completion of $5,626,000. The deferred revenue obligation can be extinguished if Atlantis is able to increase efficiencies on major contract execution. The accrued costs on percentage of completion will have a longer-term cash impact. Improving this situation continues to be a top priority of the Board and Management. There are a number of individual components to the working capital deficiency:

- $1,605,000 relates to the NTTT project that is nearing completion but which involves a holdback. The financing of this component of the deficiency is being facilitated by the administrative and business services of the Canadian Commercial Corporation, a Canadian government crown corporation. This programme was delayed during the fourth quarter of 2002 and the first half of 2003 as a result of travel restrictions imposed by the war in Iraq and the SARS virus outbreak. This programme is now scheduled for completion in the fourth quarter of 2003, at which time the holdback will be paid and the project financing will be repaid.

- $1,713,000 comprises promissory notes primarily owing to Innovium Capital Corp. ("Innovium") which is a shareholder of the Company and with whom the Company shares three common directors. Innovium has indicated that it is not currently seeking repayment.

- $5,146,000 relates to the remaining deferred revenues on the F/A-18, E-6, and the two EH101 contracts. Deferred revenue represents the difference between invoices submitted to the customer and revenue reflected in the financial statements. The amount and timing of invoices submitted to the customer is established based upon the Company achieving established engineering contract milestones. Revenue recognised on the financial statements represents the simple ratio of direct labour expended to the total estimated contract labour. As the contracts proceed, the accounting revenue will exceed contract invoicing and the deferred revenue will be eliminated. The cash outlay required to extinguish this liability will be less than the amount recorded as deferred revenue.

- Excluding the NTTT contract as discussed above, the accrued costs on percentage completion represent $4,128,000 of the working capital deficiency. This represents costs accrued in the financial statements in order to match expected contract costs with the accounting revenue recognised. During a typical long-term contract, these costs are accrued during the early stages of a programme (engineering and design phases), and spent during the final stages of the programme (assembly and training phases).

- The balance of the working capital is a surplus of $1,940,000. It consists of inventory of $1,781,000, with two completed flight training simulators representing a large portion of this amount, and the remainder represented by spare parts and amounts expended on current shorter term contracts (work-in-progress).

Bank indebtedness was $4,660,000 at June 30, 2003. The Board and Management continue to seek an expanded banking relationship to include all aspects of the Company's operations and have engaged outside financial advisors to investigate other sources of working capital. The Company has, and will continue to operate with, a modest cash balance for the foreseeable future, thus requiring continuing tight cash management. In the interim, Atlantis continues to fund its operations through cash generated from operations, bank lines of credit and factoring of receivables (with the assistance of Canadian Commercial Corporation). No significant capital expenditures are currently budgeted or anticipated. Any long-term development efforts will be funded through current operations.

As at June 30, 2003, the Company had 13,987,008 shares outstanding. There have been no changes to the Company's capital structure with the exception of 7,500 stock options which expired during the first six months of 2003. There are now 672,500 stock options outstanding at exercise prices ranging from $2.00 to $4.00 with expiry dates of July 19, 2005 to July 31, 2006.

OUTLOOK

The Company will continue to focus on the military sector, as reflected in the F/A-18 Integrated Maintenance Training Systems (IMTS) project, the E-6 trainer upgrade, the CH-149 Cormorant Cockpit Procedures Trainer (CPT), and other key programmes. Prospects for further sales in the military sector are very good. The selection of Atlantis in 2002 as the supplier to the Canadian and Australian forces of an IMTS for the F/A-18, with a total contract value of over $30 million, puts the Company in an advantageous position to win follow-on contracts of similar significance. Selection of the Company in 2002 to supply the CPT for the CH-149 Cormorant Search and Rescue helicopter has enabled Atlantis to establish a strategic relationship with the helicopter manufacturer (AgustaWestland), ensuring Atlantis' participation as a CPT supplier in other international sales the manufacturer is pursuing. The potential of this relationship was demonstrated in January 2003, when Atlantis won a contract to provide a CPT for use in training helicopter pilots at the Westland Helicopters Training Facility in Yeovil, England.

While Atlantis currently derives approximately 90% of its revenues from military contracts, the Company's technology developed for the military has the potential to be adapted for future commercial applications, underscoring the Company's commitment to leadership in both market sectors. Atlantis' advantage is its ability to modify its product line and adjust to current realities with high fidelity systems that meet market needs, are reasonably priced, and are delivered in a timely fashion.

The Company's pursuit of the Canadian Department of National Defence's Contracted Flying Training and Support (CFTS) project reflects a recognition of the trend towards turn-key, privately-funded full-service initiatives in the military training industry, and will help position Atlantis to capture a share of the growing military training market as a full-service training solutions provider.

Atlantis is one of five industry-leading companies that comprise the Allied Wings team, which is one of only two pre-qualified bidders competing for the CFTS project. As part of the Allied Wings team, Atlantis would be responsible for the design, development, installation, operation, and support of the CFTS Ground Based Training System (GBTS) for a 20-year period. The GBTS courseware will include a broad range of academic presentation material, tutorial-style Computer Based Training (CBT), interactive simulation CBT, Flight Training Device (FTD) briefings, and flying training briefings. A suite of flight training equipment, ranging from desktop trainers to fixed-base flight simulators, will support the courseware. The administration of this training suite will be managed by a state-of-the-art Training Information Management System (TIMS).

The sale of the ITS division in the first quarter of 2003 and the write-off and subsequently announced anticipated sale of the VTS division will positively affect the operating results of the Company during the remainder of the year.

BUSINESS RISK FACTORS

The future of the Company is dependent on Management being able to carve out a market niche as a supplier-of-choice of cost-effective high fidelity training systems in both the military and commercial sectors. The success of Atlantis' Management implementing this strategy is dependent on being able to secure sufficient working capital financing and the timely awarding of targeted military contracts.

The markets for Atlantis' current and planned products and services are characterized by rapid technological advances, competing technological platforms, emerging and evolving industry standards, changes in customer requirements and frequent new product introductions and enhancements. Atlantis' future success will depend upon its ability to enhance its current products and services, develop and introduce new products and services that keep pace with technological developments, respond to evolving customer requirements, meet the technical requirements of Atlantis' strategic partners, and achieve market acceptance for its products.

In any one fiscal year, Atlantis has typically derived a substantial portion of its revenues from a small number of contracts with major customers. The composition of this group of major customers has changed from year to year and Atlantis' revenues and profitability are dependent upon its ability to win key contracts from such major customers. In addition, the nature of Atlantis' business may involve lengthy sales cycles and delays over which it has no control. Any ongoing failure of Atlantis to ultimately achieve such sales could have a material adverse effect on the Company's business, financial condition, and results of operations.

Atlantis' historical operating results reflect substantial benefits from programmes sponsored by the Canadian government to support businesses like Atlantis'. If changes in law or government policies regarding these programmes were to result in their termination or adverse modification, or if Atlantis were to become unable to participate in or take advantage of these programmes, the cost of Atlantis' operations could materially increase and there could be an adverse effect on Atlantis' results.

ATLANTIS SYSTEMS CORP.
CONSOLIDATED BALANCE SHEETS

As at June 30, 2003 (unaudited)
(with comparative balances as at December 31, 2002)

		June 30, 2003		December 31, 2002
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**2,000**	$	21,000
Accounts receivable *(note3)*		**6,643,000**		8,817,000
Unbilled revenue		**24,000**		88,000
Income taxes receivable		**172,000**		191,000
Inventory		**1,781,000**		1,950,000
Deferred development costs		**1,892,000**		1,474,000
Current portion of mortgage receivable		**250,000**		250,000
		10,764,000		12,791,000
Non-current assets				
Capital assets, net		**582,000**		1,107,000
Mortgage receivable		**337,000**		326,000
Investment *(note 4)*		**310,000**		--
Goodwill		**11,735,000**		11,735,000
		12,964,000		13,168,000
	$	**23,728,000**	$	25,959,000
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness *(note 5)*	**$**	**4,660,000**	$	6,363,000
Accounts payable and accrued liabilities		**3,646,000**		7,141,000
Accrued costs on percentage of completion		**5,626,000**		4,356,000
Accrued dividends on special shares		**133,000**		92,000
Line of credit		**173,000**		193,000
Promissory notes		**1,713,000**		1,579,000
Deferred revenue		**5,465,000**		3,571,000
		21,416,000		23,295,000
Special shares -- series 2		**800,000**		800,000
Shareholders' equity				
Common shares		**74,958,000**		74,958,000
Contributed surplus		**3,105,000**		3,105,000
Deficit		**(76,551,000)**		(76,199,000)
		1,512,000		1,864,000
	$	**23,728,000**	$	25,959,000

On behalf of the Board:

Vanessa Morgan
Director

Jamie Macintosh
Director

The accompanying notes are an integral part of these consolidated balance sheets.

ATLANTIS SYSTEMS CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(unaudited)

	For the three months ended June 30		For the six months ended June 30	
	2003	2002	**2003**	2002
		(note 4)	*(note 4)*	*(note 4)*
Revenue from commercial operations	**$ 6,312,000**	$ 5,110,000	**$ 12,963,000**	$ 13,010,000
Cost of sales	**4,733,000**	4,044,000	**9,661,000**	10,312,000
Gross margin	**1,579,000**	1,066,000	**3,302,000**	2,698,000
Other income	**11,000**	14,000	**27,000**	17,000
	$ 1,590,000	$ 1,080,000	**$ 3,329,000**	$ 2,715,000
Expenses				
General and administrative	**1,140,000**	979,000	**1,816,000**	1,620,000
Selling and marketing	**358,000**	384,000	**793,000**	1,066,000
Research and development	**31,000**	73,000	**180,000**	216,000
Operating income (loss) before interest, taxes, and depreciation	**61,000**	(356,000)	**540,000**	(187,000)
Depreciation and amortization	**57,000**	82,000	**114,000**	154,000
Interest expense and finance costs	**273,000**	176,000	**594,000**	261,000
Operating loss before the undernoted	**(269,000)**	(614,000)	**(168,000)**	(602,000)
Provision for current income taxes	**--**	--	**--**	(1,000)
Sale of technology *(note 10)*	**400,000**	--	**400,000**	--
Net income (loss) from continuing operations	**$ 131,000**	$ (614,000)	**$ 232,000**	$ (603,000)
Discontinued operations *(note 4)*	**(745,000)**	(345,000)	**(584,000)**	(531,000)
Net loss	**$ (614,000)**	$ (959,000)	**$ (352,000)**	$ (1,134,000)
Deficit, beginning of period	**(75,937,000)**	(75,253,000)	**(76,199,000)**	(75,078,000)
Deficit, end of period	**$ (76,551,000)**	$ (76,212,000)	**$ (76,551,000)**	$ (76,212,000)
Net loss per common share *(note 6)*	**($0.04)**	($0.07)	**($0.03)**	($0.09)

The accompanying notes are an integral part of these consolidated statements.

ATLANTIS SYSTEMS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the three months ended June 30		For the six months ended June 30	
	2003	**2002**	**2003**	**2002**
Cash flows provided by (used in):				
Operations				
Net loss	**$ (614,000)**	$ (959,000)	**$ (352,000)**	$ (1,134,000)
Items not affecting cash:				
Depreciation and amortization	**57,000**	86,000	**121,000**	165,000
Accrued interest on special shares	**20,000**	20,000	**41,000**	57,000
Future income taxes	**--**	--	**--**	19,000
Discontinued operations	**745,000**	--	**(260,000)**	--
	208,000	(853,000)	**(450,000)**	(893,000)
Net change in non-cash working capital items *(note 8)*	**(806,000)**	591,000	**2,435,000**	590,000
	(598,000)	(262,000)	**1,985,000**	(303,000)
Investing				
Capital assets	**--**	(54,000)	**3,000**	(57,000)
Deferred development costs, net	**(94,000)**	--	**(418,000)**	--
	(94,000)	(54,000)	**(415,000)**	(57,000)
Financing				
Share issue costs	**--**	--	**--**	(8,000)
Bank indebtedness	**633,000**	(786,000)	**(1,703,000)**	(887,000)
Promissory notes	**68,000**	451,000	**134,000**	726,000
Line of credit	**(11,000)**	--	**(20,000)**	--
Exercise of warrants	**--**	420,000	**--**	420,000
	690,000	85,000	**(1,589,000)**	251,000
Net decrease in cash and cash equivalents	**(2,000)**	(231,000)	**(19,000)**	(109,000)
Cash and cash equivalents, beginning of period	**4,000**	339,000	**21,000**	217,000
Cash and cash equivalents, end of period	**$ 2,000**	$ 108,000	**$ 2,000**	$ 108,000
Supplemental information				
Interest paid	**$ 96,000**	$ 91,000	**$ 168,000**	$ 115,000
Income taxes paid	**--**	--	**--**	1,000
Conversion of special shares into common shares	**--**	246,000	**--**	946,000

The accompanying notes are an integral part of these consolidated statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

June 30, 2003

Expressed in Canadian dollars unless otherwise indicated

Atlantis Systems Corp. ("Atlantis" or the "Company") is a TSX-listed entity continued under the laws of Canada. The Company's principal operating subsidiary, Atlantis Systems International Inc. ("ASI"), is an internationally recognised developer and supplier of simulation-based training systems for flight crew training, aircraft maintenance training, and other high-tech applications.

1. INTERIM CONSOLIDATED FINANCIAL STATEMENT PREPARATION

The disclosures in these interim financial statements do not meet all disclosure requirements of Canadian generally accepted accounting principles for annual financial statements. These interim financial statements should be read in conjunction with the annual financial statements of the Company and the notes thereto. Certain comparative figures have been reclassified due to discontinued operations (see note 4).

2. SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles used for the annual financial statements for the year ended December 31, 2002. There have been no changes to the Company's accounting policies since December 31, 2002.

3. CONCENTRATION OF CREDIT RISK

The Company has contracts with many customers, however, as of June 30, 2003 one customer represents 71% (67% in 2002) of the accounts receivable and 61% of sales (49% in 2002).

4. DISCONTINUED OPERATIONS

On March 19, 2003, the Company completed the sale of its Intelligent Traffic Systems (ITS) division, Denbridge Digital, Ltd., based in Hayward, California to SRC Technologies, Inc. ("SRC" - formerly Connectivity, Inc.), a Florida-based wireless communications company, for US $440,000 of convertible preferred shares and the assumption of US $560,000 of net liabilities. The preferred shares will be secured against the assets of the ITS division. The agreement calls for the preferred shares to be redeemed for 440,000 publicly-traded common shares of SRC on the fifth anniversary of the closing. These shares are recorded on the financial statements at $310,000. The sale of the ITS division resulted in a net increase of working capital of $694,000, due to the assumption of the ITS division liabilities by SRC, and a gain of $1,005,000.

During the second quarter of 2003, the Company made the decision to close the Vessel Traffic Systems (VTS) division and all other remaining subsidiaries of the Denbridge Digital Limited (DDL) group of companies, and take an associated write-off of $745,000, comprised of the write-off of net assets, an accrual for closure costs, as well as operating losses from DDL in the second quarter. Subsequent to the quarter-end, the Company announced the proposed sale of the VTS division to its United Kingdom-based management group. No further impact on the Statement of Operations is anticipated.

The remaining components of the loss from discontinued operations for the first six months of 2003 represent the operating losses incurred by the DDL businesses. Comparative numbers for 2002 represent operating losses of the DDL businesses. Numbers for the first six months of 2003 and both periods in 2002 have been restated to reflect the discontinued operations.

5. BANK INDEBTEDNESS

At June 30, 2003 and December 31, 2002, ASI had the following bank indebtedness:

	June 30, 2003	December 31, 2002
Operating line of credit	**822,000**	690,000
Demand loan	**3,838,000**	5,673,000
	4,660,000	6,363,000

The operating line of credit is authorised at $1,000,000, bears interest at the bank's prime rate plus 7% per annum, and is due on demand. As at June 30, 2003, the bank's prime rate was 5%.

The demand loan is authorised at $5,755,000, is used to provide financing under the Canadian Commercial Corporation's "Progress Payment Program", and bears interest at the bank's prime rate plus 1% per annum.

The operating line of credit and demand loan ("bank indebtedness") are collateralised by a general assignment of accounts receivable, a general security agreement covering all personal property of ASI now owned or acquired in the future, a $4,000,000 floating charge debenture over all business assets, and an assignment of fire and other perils insurance.

6. LOSS PER SHARE

Basic loss per share figures are calculated using the weighted average number of common shares outstanding during the quarter of 13,987,008 (13,915,495 in 2002) and for the year to date of 13,987,008 (13,243,193 in 2002). Diluted loss per share information for 2003 and 2002 has not been presented as potential conversions are anti-dilutive.

7. SEGMENTED INFORMATION

The Company's operations are conducted in Canada, the United Kingdom, the United States, and Barbados. The results of the operations and the amounts invested in these segments (in thousands of Canadian dollars) are as follows:

	ASI		Denbridge Digital		Corporate	
For the quarters ended June 30th	2003	2002	2003	2002	2003	2002
Revenue						
Canada	**$ 6,312**	$ 5,110	**$ --**	$ --	**$ --**	$ --
Net Earnings (Loss)						
Canada	**468**	(568)	**--**	--	**(337)**	(46)
Discontinued operations	**--**	--	**(745)**	(345)	**--**	--
Depreciation & Amortization						
Canada	**57**	82	**--**	--	**--**	--
Capital Expenditures, net						
Canada	**--**	35	**--**	--	**--**	--
Discontinued Operations	**--**	--	**--**	19	**--**	--

	ASI		Denbridge Digital		Corporate	
For the six months ended June 30th	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Revenue						
Canada	**$ 12,963**	$ 13,010	**$ --**	$ --	**$ --**	$ --
Net Earnings (Loss)						
Canada	**630**	(326)	**--**	--	**(398)**	(277)
Discontinued operations	**--**	--	**(584)**	(531)	**--**	--
Depreciation & Amortization						
Canada	**114**	154	**--**	--	**--**	--
Capital Expenditures, net						
Canada	**(10)**	43	**--**	--	**--**	--
Discontinued operations	**--**	--	**7**	14	**--**	--

	ASI		Denbridge Digital		Corporate	
As at June 30, 2003 and December 31, 2002	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Total Identifiable Assets						
Canada	**$ 11,664**	$ 11,689	**$ --**	$ --	**$ 12,064**	$ 11,740
Discontinued operations	**--**	--	**--**	2,530	**--**	--

8. NET CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	For the three months ended June 30		For the six months ended June 30	
	2003	**2002**	**2003**	**2002**
Accounts receivable	**$ (399,000)**	$ (245,000)	**$ 1,437,000**	$ 327,000
Unbilled revenue	**504,000**	1,090,000	**64,000**	(1,988,000)
Inventory	**(1,462,000)**	(627,000)	**(917,000)**	(530,000)
Mortgage receivable	**(6,000)**	(4,000)	**(11,000)**	(9,000)
Accounts payable and accrued liabilities	**170,000**	(1,241,000)	**(1,302,000)**	(3,604,000)
Accrued costs on percentage of completion	**1,350,000**	(365,000)	**1,270,000**	2,421,000
Other current assets and liabilities	**112,000**	15,000	**--**	60,000
Deferred revenue	**(1,075,000)**	1,968,000	**1,894,000**	3,913,000
	$ (806,000)	$ 591,000	**$ 2,435,000**	$ 590,000

9. RELATED PARTY TRANSACTIONS

During the first half of 2003 and 2002, the Company had three common directors with, and received certain management services from, Innovium Capital Corp. ("Innovium").

During the second quarter of 2003, Innovium billed the Company $33,000 ($33,000 in 2002) for costs incurred on the Company’s behalf. These amounts are reflected in accounts payable.

10. SALE OF TECHNOLOGY

During the second quarter of 2003, the Company completed the sale of certain non-core naval technology for proceeds of $400,000, and reported a gain of $400,000 in the Consolidated Statements of Operations and Deficit.

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year’s financial statement presentation.

Atlantis Systems Corp.
1 Kenview Boulevard
Brampton, Ontario
Canada, L6T 5E6

Tel: 905-792-1981
info@AtlantisSC.com

www.AtlantisSC.com