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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

NORSAT INTERNATIONAL INC.
British Columbia, Canada



(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31st, 2012

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report _____

Commission file number: **0-12600**

Norsat International Inc.
(Exact name of Registrant as specified in its charter)

British Columbia, Canada
(Jurisdiction of incorporation or organization)

110– 4020 Viking Way, Richmond, British Columbia, Canada V6V 2L4
(Address of principal executive offices)

Arthur Chin, 604-821-2809, achin@norsat.com
110– 4020 Viking Way, Richmond, British Columbia, Canada V6V 2L4
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange on which registered

N/A

N/A

Securities registered or to be registered pursuant to Section 12(g) of the Act.

N/A

Title of Class

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Common Shares

Title of Class

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **58,316,532 common shares.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

☐ Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

☐ Yes ☒ No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligation under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐

International Financial Reporting Standards as issued
by the International Accounting Standards Board ☒

Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ☐ Yes ☐ No

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FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements within the meaning of Section 27A of the US Securities Act of 1933, as amended, Section 21E of the US Securities Exchange Act of 1934, as amended, and the safe harbor provisions of the US Private Securities Litigation Reform Act of 1995. Words such as “believe,” “anticipate,” “expect,” “intend,” “seek,” “will,” “plan,” “could,” “may,” “project,” “goal,” “target” and similar expressions often identify forward-looking statements but are not the only way we identify these statements. All statements other than statements of historical fact included in this annual report, including the statements in the sections of this annual report entitled “Item 3D. Key Information – Risk Factors,” “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects” and elsewhere in this annual report regarding our future performance, plans to increase revenues or margins or preserve or expand market share in existing or new markets, reduce expenses and any statements regarding other future events or our future prospects, are forward-looking statements.

We have based these forward-looking statements on our current knowledge and our present beliefs and expectations regarding possible future events. These forward-looking statements are subject to risks, uncertainties and assumptions, the impact of current global economic conditions and possible regulatory and legal developments. For a description of some of the risks we face, see “Item 3D. Key Information – Risk Factors,” “Item 4. Information on the Company,” “Item 5. Operating and Financial Review and Prospects,” “Item 8 A1. Consolidated Statements and Other Financial Information” and “Item 11. Quantitative and Qualitative Disclosures about Market Risk”. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur, and actual results may differ materially from the results anticipated. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Norsat International Inc. is referred to in this annual report as “Norsat”, “we”, “our”, “our company”, “the Company” or “us”.

All dollar amounts presented in the Annual Report on Form 20-F are presented in United States dollars unless otherwise indicated. Reference should be made to Item 3A for information on exchange rates between the Canadian dollar and the United States dollar.

Unless we indicate otherwise, all information in this Annual Report is stated as of March 5, 2013, the date as of which we prepared information for our annual report to shareholders.

PART I

1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT, AND ADVISERS

Not applicable.

2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

3. KEY INFORMATION

A. Selected financial data

Table 1 below summarizes selected consolidated financial data for Norsat International Inc. (“the Company”, or “Norsat”) for the last three fiscal years ended December 31, 2012, 2011, and 2010 prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The information for the last three fiscal years ended December 31, 2012, 2011 and 2010 have been extracted from the Company’s audited consolidated financial statements and related notes included herein and should be read in conjunction with such financial statements appearing under the heading “Item 8 A. Consolidated Statements and Other Financial Information” and with the information appearing under the heading “Item 5 - Operating and Financial Review and Prospects”.

In this Form 20-F Annual Report, unless otherwise specified, all monetary amounts are expressed in United States dollars. The following exchange rates are used in expressing amounts from United States Dollars to Canadian Dollars:

USD to CAD	2012	2011	2010
December 31	1.0051	0.9833	0.9946
Annual average	1.0008	1.0114	1.0299

**Table 1: Selected Financial Information according to IFRS
(Expressed in thousands, except per share amounts)**

Financial results for 2011 and 2010 have been restated below for discontinued operations compared to previously reported financial results.

Year Ended December 31	2012	2011	2010
	\$	\$	\$
Sales	42,429	37,792	19,818
Earnings before income taxes	2,553	1,761	2,159
Current income tax expense	782	811	140
Deferred income tax (recovery)/expense	(3,283)	479	(224)
Earnings from continuing operations	5,054	471	2,244
Net earnings for the period	5,135	411	2,140
Earnings from continuing operations and net earnings per share -basic	0.09	0.01	0.04
Earnings from continuing operations and net earnings per share - diluted	0.09	0.01	0.04
	#	#	#
Weighted average number of shares – basic	58,146	58,046	53,567
Weighted average number of shares – diluted	58,149	58,165	53,651
Dividends per share	-	-	-
As at December 31	2012	2011	2010
	\$	\$	\$
Cash and cash equivalents	5,054	4,193	6,315
Total assets, excluding future income tax assets	36,710	39,064	18,543
Total assets	40,882	40,261	20,414
Net assets	24,234	18,678	15,833
Acquisition loan	6,953	9,650	-
Promissory note payable	693	597	-
Issued capital	39,851	39,851	37,447

B. Capitalization and indebtedness

Not applicable.

C. Reasons for the offer and use of proceeds

Not applicable.

D. Risk factors

Investors should carefully consider the risks and uncertainties described below before making an investment decision. If any of the following risks actually occur, our business, financial condition or operating results could be materially harmed. This could cause the trading price of our common shares to decline, and you may lose all or part of your investment. The items of the following list of risk factors are in no particular order or priority to the Company.

RISKS ASSOCIATED WITH FINANCIAL RESULTS

The Company's inability to generate sufficient cash flows from its operations may affect its ability to continue as a going concern. The Company's consolidated financial statements have been prepared on a going concern basis, which presumes the realization of assets and the settlement of liabilities in the normal course of operations. The application of the going concern basis is dependent upon the Company having sufficient available cash resources and achieving profitable operations to generate sufficient cash flows to fund continued operations. Should the Company fail to generate sufficient cash flows from operations, it will require additional financing to remain a going concern. At December 31, 2012, the Company has accumulated a deficit of \$19,779,153. Although the Company has generated net profit from its continued operations throughout 2012, in the third quarter of 2011 and from the fourth quarter of 2006 through to the fourth quarter of 2010, it has also reported losses in the first, second and fourth quarters of 2011. This past performance cannot be used as an indication of the Company's future performance.

The Company's inability to accurately forecast its results from quarter-to-quarter may affect its cash resources and result in wide fluctuations in the market price of the Company's stock. The operating results have varied on a quarterly basis in the past and may fluctuate significantly in the future as a result of a variety of factors, many of which are described below. Due to these and other factors, most of which are outside of the Company's control, the quarterly revenues and operating results are difficult to forecast. As a result, the Company may not be able to accurately predict its necessary cash expenditures during each quarter or obtain financing in a timely manner to cover any shortfalls. The Company also believes that period-to-period comparisons of its operating results may not be meaningful and one should not rely on any such comparisons as an indication of its future performance.

RISKS ASSOCIATED WITH BUSINESS AND OPERATIONS

The Company's exposure to business and operation risks includes but is not limited to the following:

The Company recognizes the threats posed by operating in an uncertain global economic environment. The uncertain global economy and financial markets continue to limit overall visibility to end markets. This uncertainty may continue to impact our industry, resulting in lower demand for some of the products we manufacture and limiting end market visibility for our customers. This environment can pose significant risk to our business by impacting demand for our customers' products, the financial condition of our customers or suppliers, as well as the level of customer consolidations. A deterioration in economic environment may accelerate the effect of the various risk factors described in this Annual Report, as well as result in other unforeseen events that will impact our business and financial condition.

To succeed, the Company must be able to control spending and prudently allocate financial resources to optimize value. To drive sales, the Company's products must meet the needs of the Company's existing and potential customers and be competitively priced; additional judgement will need to be exercised if the granting of credit to customers is required to close the transaction. In view of the current difficulty, both in obtaining credit and accessing the capital markets, stewardship of cash continues to be critical to the success of the Company.

The Company cannot be sure it will be able to identify emerging technology and market trends, enhance its existing technologies or develop new technologies in order to effectively compete in the communications industry. The communications industry is characterized by rapid technological changes, short technology and product life cycles, pressure to provide improved solutions at increasingly lower prices and frequent introduction of new technologies and products. To succeed, the Company must be able to identify emerging trends and enhance its existing technologies and develop new technologies and products to meet market requirements. To drive sales, the Company's products must meet the needs of existing and potential customers and be competitively priced. Additionally, there must be sufficient interest in and demand for the Company's products. If the Company does not develop these new technologies and products in a timely and cost effective manner, or if others develop new technologies ahead of the Company, the Company may not achieve profitability in the communications industry and it may not be able to participate in selling these new technologies or products. While the Company is able to continue to develop products with funding contributions from the Canadian Federal Government through the SADI program; without the SADI program contribution, the Company's product development costs would not be sustainable, thereby jeopardizing the Company's ability to maintain product innovation and leadership. Our current SADI program ended December 31, 2012. The Company is in the process of applying for a new SADI program. However, we cannot be certain that an agreement will be signed.

The Company has customer concentration. A significant portion of the Company's revenues have been recognized from a limited number of customers. A decline in revenue from the customers on which we are dependent or the loss of a large customer could have a material effect on our financial condition and operating results.

During 2012, one customer of our Sinclair Technologies division represented 11% of our total revenue (2011 and 2010 – no customer above 10%).

While the Company has been diversifying its customer base, the efforts to date may be insufficient to offset the effects of the quarterly variance of sales and delays associated with selling to the Government sector. The Company expects that a majority of the Satellite Systems revenues will continue to be dependent on sales to a small number of customers. The Company also expect that customers will vary from period-to-period as existing customers are under no obligation to continue buying from Norsat.

The Company cannot be sure that it will be able to compete effectively with its current competitors. The Company's markets are intensely competitive. Some competitors have technologies and products that may be more advantageous and compete directly with the Company. Some of these competitors are large, established companies which have significantly greater resources than those of the Company.

Aggressive pricing is a common business dynamic in our markets. Some of our competitors have greater scale as well as a broader service offering than we have. Some of our current or potential competitors may also increase or shift their presence in new lower-cost regions to try to offset the continuous competitive pressure and increasing labor costs, may develop or acquire services comparable or superior to those we develop, combine or merge to form larger competitors, or adapt more quickly than we may to new technologies, evolving industry trends and changing customer requirements.

The Company's ability to compete effectively will depend on its ability to increase sales, attract new customers in a timely and cost effective manner and sell these products at competitive prices. The Company is dependent on others for the supply and manufacture of components and products it sells. The Company has outsourced substantially all of the manufacturing of the microwave products it sells; the Company relies on its suppliers to provide components for the production of other products. If either the manufacturers or suppliers cannot deliver products to the Company on time, its revenues and profits will be adversely affected.

The Company has limited intellectual property protection. The Company's success and ability to compete are dependent, in part, upon its proprietary technology, brand and reputation in the marketplace, and customer relationships. While the Company currently holds four patents (US Patents# 6931245; 7218289; 8200150; 8125400;) and has applied for patent protection on certain other parts of its technology, it relies primarily on trade secrets and does not have adequate trademark and patent protection on all of its technology. The Company also enters into confidentiality, and non-compete agreements with its employees and limits the access to and distribution of the product design documentation and other proprietary information. The Company cannot be sure that these efforts will deter misappropriation or prevent an unauthorized third party, including former associates and former employees, from obtaining or using information, which it deems to be proprietary. Although the Company believes that its technology does not currently infringe upon patents or trademarks held by others, the Company cannot be sure that such infringements do not exist or will not exist in the future, particularly as the number of products and competitors in its industry segment grows.

If the Company experiences rapid growth and does not manage it effectively, profitability may be affected. If its technologies and products achieve widespread acceptance the Company may experience rapid growth. This growth may require the Company to hire more employees, recruit additional management, improve the Company's financial control systems, and expand and manage the technical, sales and support service operations. The Company would need increased revenues and additional funding to operate these increased activities. If the Company does not manage its growth effectively, its profitability may be impacted.

The Company depends on its key employees and it cannot be sure that it will be able to keep these employees or hire and train replacements. The Company's success depends on the skills, experience and performance of the senior management and other key personnel. While it offers competitive compensation packages and stock options to attract key employees, the Company does not carry key person insurance on these employees. Highly skilled technical employees and management in the communications industry are in demand and the market for such persons is highly competitive. The Company cannot be sure that it will be able to retain these employees or hire replacements. If the Company does not successfully retain the key personnel or hire and train replacements it will be unable to develop the new products and technologies necessary to compete in its markets or to effectively manage its business.

The Company intends to expand its international operations, and thus faces a number of risks including tariffs, export controls and other trade barriers; political and economic instability in foreign markets; and fluctuations in foreign currencies. These external risks may not be under the Company's control. Additional human and financial resources may be required for this expansion which the Company may not be able to attract or afford. Failure to expand internationally may impact the Company's prospects for revenue growth and profitability.

The Company may encounter difficulties completing or integrating our acquisitions which could adversely affect our operating results. The Company expects to expand its presence in new end markets or expand our capabilities, some of which may occur through acquisitions. These transactions may involve acquisitions of entire companies and/or acquisitions of selected assets of companies. Potential difficulties related to our acquisitions include:

- integrating acquired operations, systems and businesses;

- retaining customer, supplier, employee or other business relationships of acquired operations;
- addressing unforeseen liabilities of acquired businesses;
- limited experience with new technologies; and
- not achieving anticipated business volumes.

Any of these factors could prevent the Company from realizing the anticipated benefits of an acquisition, including additional revenue, operational synergies and economies of scale. The Company's failure to realize the anticipated benefits of acquisitions could adversely affect our business and operating results. The Company's acquisition of Sinclair Technologies Holdings Inc. in 2011 has resulted in the recording of a significant amount of goodwill and intangible assets at the time of acquisition. The Company's failure to support the carrying value of goodwill and intangible assets in periods subsequent to the acquisitions could require write-downs that adversely affect the Company's operating results.

The Company sells products which may, in certain instances, be subject to export and/or re-export restrictions. The export laws of the governments of Canada and United States apply to products that the Company sells. The United States Department of Commerce, through its Export Administration Regulations, and the Government of Canada, through its Export Controls Division, regulate exports and re-exports of "dual-use" items, i.e., goods, software and technologies with commercial and proliferation/ military applications. In ascertaining whether such items may be subject to export control restrictions, the Company is sometime forced to rely on information in the specifications of certain components from the manufacturers and vendors. Should this information later prove to be incorrect, the Company may be subjected to penalties and fines. It may also be subjected to penalties and fines should there be a breach in the processes.

The Company buys components and products which may, in certain instances, be subject to contractual obligations to purchase minimum quantities during a given period, maintain resale records and abide by certain resale restrictions. Failure to fulfil any or all of these may negatively impact liquidity should the Company be forced to take ownership of any un-purchased units. It may also affect the Company's ability to continue supplying products as originally specified and thus affect obligations to fulfil orders.

The Company may be subject to product liability claims, which are not fully covered by insurance. The manufacture, sale and marketing of the Company's products expose us to the risk of product liability claims. Given the complex nature of our products, the products may contain undetected errors or performance problems may arise. Although the Company's products undergo testing prior to release into the market, it is possible that such products may yet still contain errors and performance problems, which are discovered only after commercial introduction. If these defects and errors are discovered after shipment, they could result in a loss of sales revenues, delay in market acceptance, product returns, warranty claims and the loss of a potential market. In addition, components and other products manufactured and distributed by others, which are incorporated into the Company's products, may also contain such defects and errors, which could substantially reduce the performance of the products. The Company is also at risk of exposure to potential product liability claims from distributors and end-users for damages resulting from defects in products that it distributes. Although product defects have not been a significant factor, the Company maintains comprehensive general liability insurance which provides limited coverage against claims originating in product failure. The Company cannot be sure that this insurance will be adequate to cover all claims brought against us or that this insurance will continue to be available to us on acceptable terms. If these claims are not fully covered by the Company's product liability insurance, they could severely and negatively impact the business liability insurance coverage and the available cash resources. A product liability claim, even one without merit or for which the Company has substantial coverage, could result in significant legal defence costs, thereby increasing the expenses, lowering the earnings and, depending on revenues, potentially resulting in additional losses.

The Company's operations may be disrupted by natural disasters and extreme weather conditions. The Company's headquarters is located in the Greater Vancouver region which has, in recent times, been subjected to high winds and extreme weather conditions. While the Company has managed to continue operating through some of these conditions, employee productivity during these periods is negatively impacted.

Long sales and implementation cycles for the Company's products may adversely affect its operating results. The Company's customers generally devote substantial time, money and other resources to their purchasing decisions. Typically, the larger the potential sale, the more time, money and other resources will be invested. As a result, it may take many months or a few years after the first contact with a customer before a sale may actually be completed. The Company may invest significant sales and other resources in a potential customer that may not generate revenue for a substantial period of time, if at all. Long sales and implementation cycles may affect the size or timing of the order or even cause it to be cancelled. For example, purchasing decisions may be postponed, or large purchases reduced, during periods of economic uncertainty; the Company or its competitors may announce or introduce new products; or the customer's own budget and purchasing needs may change. In addition, long sales and implementation cycles may impact the margins the Company earn on our products. It may cost the Company more to produce our products by the time the purchasing decision is made due to increased supply costs or currency fluctuations. If these events were to occur, sales of the Company's products may be cancelled or delayed, which would reduce its revenue.

Mergers or other strategic transactions by competitors could weaken the Company's competitive position or reduce its revenue. If one or more of the Company's competitors were to merge or partner with another of its competitors, the change in the competitive landscape could adversely affect the Company's ability to compete effectively. The Company's competitors may also establish or strengthen co-operative relationships with existing or prospective clients, thereby limiting the Company's ability to promote its products and services. Disruptions in the Company's business caused by these events could reduce its competitiveness and ultimately its revenue.

If the Company's suppliers do not supply it with a sufficient amount and quality of components at acceptable prices, and in a timely manner, its ability to manufacture the Company's products would be harmed and the business would suffer. The Company relies on third-party suppliers to provide components and product subassemblies. A supplier's failure to supply components or product subassemblies in a timely manner, or failure to supply components or product subassemblies that meet the Company's quality, quantity or cost requirements, or its inability to obtain substitute sources of these components or product subassemblies in a timely manner or on terms acceptable to the Company, could adversely affect its ability to manufacture or source products. The Company may experience delays in the manufacture or sourcing of products and the business and financial results would suffer if the Company fails to identify alternate suppliers, or if the Company's supply is interrupted or reduced or if there is a significant increase in cost.

The Company's level of indebtedness and failure to comply with its indebtedness arrangements may adversely affect its business and operations. The Company relies on the availability of indebtedness arrangements with its lenders. The arrangements contain numerous restrictive covenants that limit the Company's discretion with respect to certain business matters. These covenants place significant restrictions on the Company's ability to pledge or create liens or other encumbrances on its assets. These financial covenants require the Company to meet certain financial ratios and financial condition tests. If the lender was to demand or cancel these facilities, there can be no assurance that the Company's assets would be sufficient to repay in full the indebtedness. It is possible that the Company will not have sufficient funds at the time to fund its operations. In addition, there can be no assurance that future borrowings or equity financing will be available to the Company or available on acceptable terms, in an amount sufficient to meet its repayment obligations. In the event that the lending arrangements cannot be refinanced, or if

they can only be refinanced on terms that are less favourable than the current terms, the Company's business and operations may be adversely affected.

The Company is subject to the risk of increased income taxes and our ability to successfully defend tax audits could adversely affect our financial condition and operating results. The Company conducts business operations in a number of countries. The Company develops its tax filing positions based upon the anticipated nature and structure of our business and the tax laws, administrative practices and judicial decisions currently in effect in the jurisdictions in which the Company have assets or conduct business, all of which are subject to change or differing interpretations, possibly with retroactive effect. In addition, certain of our subsidiaries provide financing, products and services to, and may from time-to-time undertake certain significant transactions with, other subsidiaries in different jurisdictions. Moreover, several jurisdictions in which the Company operates have tax laws with detailed transfer pricing rules which require that all transactions with non-resident related parties be priced using arm's length pricing principles, and that contemporaneous documentation must exist to support such pricing.

The Company is subject to tax audits and reviews by local tax authorities of historical information and our contemporaneous documentation which could result in additional tax expense in future periods relating to prior results. Any such increase in our income tax expense and related interest and penalties could have a significant impact on the Company's future earnings and future cash flows.

Any failure to successfully manage the Company's international operations would have a material adverse effect on its financial condition and operating results. The Company has operations in numerous countries, including Canada, United States, United Kingdom and Switzerland. International operations are subject to inherent risks which may adversely affect us, including:

- labor unrest and differences in regulations and statutes governing employee relations;
- changes in regulatory requirements;
- inflation and rising costs;
- difficulty in staffing and managing foreign operations;
- ability to build infrastructure to support operations;
- changes in local tax rates or adverse tax consequences, including the repatriation of earnings;
- compliance with a variety of foreign laws, including changing import and export regulations;
- adverse changes in trade policies between countries in which we maintain operations;
- economic and political instability;
- potential restrictions on the transfer of funds; and
- foreign exchange risks.

RISKS ASSOCIATED WITH THE VALUE OF NORSAT SHARES

The exercise of the existing outstanding options may substantially dilute the value of the Company's common shares. The Company has 100,000,000 shares of Common Stock authorized, of which 58,316,532 were outstanding at March 5, 2013. Although the Board of Directors has no present intention to do so, it has the authority, within parameters set by the Toronto Stock Exchange (the "TSX"), without action by the shareholders, to issue authorized and unissued shares of Common Stock. Any series of Preferred Stock, if and when established and issued, could also have rights superior to shares of the Company's Common Stock, particularly in regard to voting, the payment of dividends and upon liquidation of Norsat. Convertible debt, if issued to raise additional working capital for the Company, could also have dilutive effect for shareholders.

The current financial market volatility can result in wide fluctuations in the market price of the Company's stock. Although the Company has reported profitability in all four quarters of 2012, the third quarter of 2011 and in 17 consecutive quarters starting from the fourth quarter of

2006, the Company has also reported losses in the first, second and fourth quarters of 2011. Despite the previously mentioned profitable results, the uncertainty and volatility in current financial markets can result in wide fluctuations in the market price of the Company's stock. The Company's operating results have varied on a quarterly basis in the past and may fluctuate significantly in the future.

RISKS ASSOCIATED WITH FOREIGN EXCHANGE

The Company's operations are heavily exposed to fluctuations in foreign currencies. Most of the Company's international sales are denominated primarily in US dollars, Euros and Great British pounds. While the Company expects its international revenues and expenses will continue to be denominated primarily in US dollars, a portion of its international revenues and expenses may be denominated in other foreign currencies in the future. As the functional currency is the United States dollar, the Company could experience and has experienced the risks of fluctuating currencies. A stronger Canadian dollar increases operating expenses on conversion to the U.S. dollar. From time to time the Company may choose to engage in currency hedging activities, which may be unsuccessful and expensive.

A 1% appreciation (depreciation) in the United States dollar price of Canadian dollars would result in gain (loss) of approximately \$180,000 (2011 – \$177,000, 2010 - \$90,000).

4. INFORMATION ON THE COMPANY

A. History and Development of the Company

1. The Company was incorporated in British Columbia, Canada on October 15, 1982 pursuant to the *Company Act* (British Columbia). Effective September 27, 1989, the Company changed its name to NII Norsat International, Inc. At the Company's Annual General Meeting held on June 9, 1999, shareholders passed a special resolution to change the Company's name back to Norsat International Inc. Since July 2, 1999, the Company has operated under the name Norsat International Inc. (herein "Norsat" or the "Company").
2. Norsat was incorporated under and continues to operate under the laws of the Province of British Columbia, Canada. The Company is administered from British Columbia. The corporate laws pertinent to Norsat are those of the Province of British Columbia, although it is also subject to the securities legislation of British Columbia, Ontario and the United States.
3. The Company's principal business is located at the following address:

110 - 4020 Viking Way
Richmond, British Columbia
Canada V6V 2L4

Telephone: 604-821-2800
Fax: 604-821-2801
Email: investor@norsat.com
www.norsat.com
4. The principal business events in Norsat's 30 year history are presented below in chronological order:

1982 The Company developed the first commercial-grade satellite receivers.

- 1983** In March 1983, the Company, based in Surrey, British Columbia, completed its initial public offering on the Vancouver Stock Exchange.
- The Company broke with industry norm and introduced a gallium arsenide low noise amplifier (LNA) instead of a silicon based LNA.
- 1984** The Company developed a new series of low noise blocker (LNB) compatible satellite receivers featuring synthesized video, audio, and infrared remote control.
- 1985** The Company introduced synthesized receivers (JR Series) that enable internal melding of phase and frequency for a very high degree of accuracy; these receivers gain significant traction with private networks.
- 1987** The Company became a leading provider of Ku band private networks for business television and won a landmark deal to supply GTE Spacenet.
- The Company also introduced the Microsat, an IBM PC compatible satellite communications expansion card for broadcast data networks, with optional audio/video capability. The Company later applied for a patent on key elements of this technology; the patent was eventually awarded in 1991.
- 1988** The Company introduced external reference receivers that provide a stable reference source, by minimizing temperature drift, for very low data rate applications. It also introduced a broadcast satellite data multiplexing network control system and a satellite delivered personal computer bulletin board service.
- 1989** In September 1989, the Company changed its name to NII Norsat International, Inc.
- 1990** In August 1990, the Company graduated to the Toronto Stock Exchange.
- 1991** The Company was issued United States Patent No. 5,019,910 entitled "Apparatus for Adapting Computer for Satellite Communications."
- 1992** The Company introduces C-band and Ku-band receivers with noise figures of less than 1.5 dB.
- 1993** The Company introduced the first digital LNB optimized for low data rate applications.
- 1994** The Company introduced the Microsat 150 Multimedia PC receiver that enables a personal computer or laptop to capture real time satellite video, listen to and edit directly from the computer keyboard selections of audio programs, and monitor real time data broadcasts.
- 1995** The European Space Agency extends a grant to the Company to develop portable terminals.
- 1996** The Company introduced video scrambling technology (N-Code II) for cable distribution networks so authorized cable subscribers may receive telecasts.
- 1997** The Federal Court of Appeal rules that the use of U.S. based DTH systems in Canada contravened the Radio communication Act. Aurora Distributing, a division of Diamond Pacific Inc., the Company's consumer products subsidiary, withdrew from the U.S. based DTH receiving market after Norsat settled a lawsuit in which it was a distributor for those systems.

1998 The Company acquired IMT Comsys, a private company and originally the Satellite Communications Division of MPR Teltech. IMT Comsys' products included Ka-band VSATs, solid state power amplifiers and low noise block downconverters (LNBs). The acquiree also had development contracts with the European and Canadian Space Agencies for Ka-band subscriber terminals.

The Company's US Subsidiary, Diamond Pacific, was named the Master Systems Operator by the US Satellite Broadcasting Company, a major supplier of premium movie channels, to support its Multiple Dwelling Unit (MDU) market.

1999 Norsat introduced a line of C-band and Ku-band TNBs (Two-way Norsat block converters), a critical component for the proliferation of wireless broadband media.

Norsat released the NCS-300 Subscriber Management System to enable cable system operators to easily deliver pay-per-view television.

2000 In April, Norsat acquired Winnipeg-based SpectraWorks, a leading developer of systems and software for broadcasting multimedia broadband content across satellite, terrestrial and digital cable networks. Through this acquisition, Norsat added digital video broadcast (DVB) hubs to manage the flow of content into and out of the Internet backbone and between subscriber terminals; and a 100 Mbps IP encapsulator to enable end-to-end multimedia broadcast solutions.

In August, the Company formally exited consumer satellite DBS. The Company discontinued the operations of Norsat America, a distribution business geared towards consumer-oriented, Direct Broadcasting Systems.

Norsat also became a leading provider of Ka-band satellite terminals for various consumer Internet applications through its relationship with SES Astra and Koreasat.

In October 2000, the Company began trading on NASDAQ. It was later de-listed in 2003.

2001 In June 2001, the Company received a \$9.4 million Technology Partnerships Canada investment for the development of satellite interactive terminals.

In December 2001, the Company signed a contract for its pico-terminals with an Asian military. This was completed in October 2002.

The Company introduced a compact IP encapsulator that enables the transport of Internet content at very high speeds (i.e. 200 Mbps) for both the satellite and cable markets.

2002 The Company built on its portable terminal experience by introducing a commercial grade flyaway terminal for news gathering organizations. It sold its first NewsLink system to CBS News.

2003 In May 2003, Norsat appointed SEG a master reseller for some of its microwave components.

The OmniLink family of portable satellite terminals which includes the NewsLink and SecureLink systems were launched, providing rapidly deployable broadband satellite data and video connectivity for a wide range of applications.

2004 The Company became a key supplier of newsgathering equipment to the US Army.

2005 The Company launched the GLOBETrekker, a backpack able satellite terminal initially capable of transmitting and receiving IP-based video and data content.

The Company was issued United States Patent No. 6931245 entitled "Down Converter for the Combined Reception of Linear and Circular Polarization Signal from Collocated Satellite."

2006 In May 2006, the Company was awarded a GSA schedule, facilitating the purchase of its systems by various government agencies.

In September 2006, the Company relocated its international headquarters to Richmond, British Columbia.

2007 The Company launched a line of Low Noise Amplifiers, the GlobeTrekker X-band and the Rapid Application Development Environment variant of the GlobeTrekker, which includes an environmentally-controlled baseband enclosure that is compatible with most commercial and specialized modems.

In addition, the Company introduced the Extended Ku-Band Transmitter and unveiled the Norsat Rover, a single backpack portable satellite terminal.

The Company was issued United States Patent No. 7218289 for the GLOBETrekkerTM design entitled "Portable High-Speed Data & Broadcast Quality Video and Communication Terminal and Case".

2008 The Company announced entry into the marine satellite industry and the Worldwide Interoperability for Microwave Access (WiMAX) network business in 2008.

The Company received a repayable contribution from the Canadian government to assist in research and development activities. The funding program was made through the Ministry of Industry's Strategic and Aerospace Defence Initiative ("SADI"). The total contribution will be a maximum of Canadian \$5.97 million through to the year 2011. The contract was subsequently extended to December 31, 2012.

In September 2008, the Company was awarded a \$5.5 million contract from the U.S. Department of Defence for the delivery of portable satellite systems.

2009 The Company was awarded a contract to manage a Vessel Monitoring System ("VMS") in Europe.

2010 The Company was awarded a \$1.7 million contract with a European military.

The Company was named one of BC Business Top 100 companies.

The Company was awarded \$4.2 million in contract orders with US Government organizations.

2011 On January 21, 2011 Norsat acquired Sinclair Technologies Holdings Inc ("Sinclair") for \$18.5 million.

Norsat obtained a \$12 million loan in connection with the acquisition of Sinclair. As of December 31, 2012, the loan balance had been paid down to \$7.0 million.

The Company's Satellite Solutions segment was awarded a Cdn\$3.5 million sales contract to provide satellite-based communications network and ongoing

satellite airtime to the First Nations' Emergency Society of British Columbia ("FNESS").

Our Satellite Solutions' segment released a High Definition-capable version of our GLOBETrekker™ system.

The Company's Satellite Solutions segment was awarded a new satellite-based communication equipment and services program valued at \$1.3 million from the NATO Consultation, Command and Control Agency ("NATO").

2012 The Company launched a new Power Solutions division that provides turnkey, project-specific power conversion and energy storage solutions for high-integrity applications in the communication, transportation and resource sectors.

Norsat launched a Satellite Locator application for iPhone and Android phones that enable users to locate geostationary satellites, assess obstructions and point satellite ground terminals.

The Company's legal structure was reorganized such that all the assets and liabilities of Sinclair Technologies Inc. ("STI"), a wholly owned subsidiary of Sinclair Technologies Holdings Inc. ("STHI"), were transferred to STHI. Immediately afterwards all the assets and liabilities of STHI were transferred to Norsat International Inc ("Norsat"). As of June 29, 2012, STI and STHI were dissolved under the Business Corporation Act (Ontario) and hence, ceased to exist as legal entities. "Sinclair Technologies" continues to operate as a division of Norsat.

The Company has divested its Italian subsidiary that operated the Company's vessel monitoring unit for cash consideration of Euro 70,000 (\$85,764). The vessel monitoring unit formed part of the Company's Maritime segment. Subsequent to the sale, we began reporting other Maritime Solutions revenue under our Satellite Solutions segment.

Norsat wins a BC Export Awards for Advancing Technology and Innovation for export success and leadership.

In 2012, the Company was issued United States Patent No.8200150 entitled "Automatic Satellite Acquisition System for Portable Satellite Terminal" and United States Patent No.8125400 entitled "Compact Antenna Feed Assembly and Support Arm with Integrated Waveguide."

5. Capital Expenditures

During 2012, the Company made net purchases of property and equipment in the amounts of \$547,662 (2011-\$276,673, 2010-\$584,789) primarily relating to the purchase of equipment for product development and test equipment and operations. There are currently no major capital projects or divestitures in progress.

B. Business overview

1. Norsat Business and Principal Activities

Norsat is a leading provider of innovative communication solutions used by government organizations, militaries, transportation, resource and marine industry companies, news

organizations, public safety, search and rescue operators and others. Our solutions enable the transmission of data, audio and video for challenging applications and environments. Our products and services include leading-edge product design and development, production, distribution and infield support and service of portable ground station satellite terminals, antennas, Radio Frequency (RF) conditioning products, microwave components, and maritime based satellite terminals. Additionally, through our Norsat Power Solutions segment, we provide power conversion and energy storage solutions for the communications, transportation and resource sectors.

Our business currently operates primarily through three business segments: RF antennas and filters (“Sinclair Technologies”), Satellite Solutions, and Microwave Products. We also have two additional segments which have limited activity – Maritime Solutions and Norsat Power Solutions.

Our common shares trade on The Toronto Stock Exchange under the ticker symbol ‘NII’ and on the OTC Bulletin Board (“OTCBB”) under the ticker symbol ‘NSATF’.

While Norsat’s products have traditionally addressed the US government and broadcast television markets, there is growing interest from other NATO militaries; high-end commercial enterprise customers benefiting from the growth in commodity prices and the transportation companies who serve them; and commercial enterprise and government customers seeking to implement business continuity programs.

Geographic Split

The Company generated revenues from external customers located in the following geographic locations:

	Year ended December 31,		
	2012	2011	2010
	\$	\$	\$
Canada	7,569	8,562	469
United States	24,333	21,375	12,552
Europe and other	10,527	7,855	6,797
Total	42,429	37,792	19,818

Customer concentration

For the year ended December 31, 2012, one customer of the Sinclair Technologies operating segment individually represented 10% or more of total consolidated revenue (2011 – no customer). The one customer represented 11% of total revenue for the year ended December 31, 2012.

Business Segments

Our business currently operates primarily through three business segments: RF antennas and filters (“Sinclair Technologies”), Satellite Solutions, and Microwave Products. We also have three additional segments which have limited activity – Maritime Solutions and Norsat Power Solutions. Following the sale of our vessel monitoring unit, we included other Maritime Solutions revenues under the Satellite Solutions reporting segment. Norsat Power Solutions revenues are reported under the Sinclair Technologies reporting segment.

(a) Sinclair Technologies Business Segment

Sinclair Technologies specializes in RF antenna and filter products designed for high performance, reliability and durability in extreme mechanical/electrical environments and weather conditions. Within these two main product lines, we offer over 2,000 distinct products including base station antennas, mobile/transit antennas, covert antennas, filters, receiver multicouplers, and accessories. Engineers in our Sinclair Technologies segment are experienced in custom designing complete systems based on the customer's unique needs. With a strong focus on R&D and continuous product enhancement, we continue to expand our product offerings and improve existing designs to better serve customers.

Antennas

Our Sinclair Technologies segment has developed an exceptionally broad range of antennas, especially in the frequency bands allocated to public safety, air traffic control and land mobile radio applications. Some of these frequencies are currently being "re-farmed" or re-allocated to new applications by governing bodies such as the FCC in the US and Industry Canada. This "re-farming" of frequencies creates new demand, which we can satisfy through engineering derivative modifications to our existing products. This, in turn, preserves our leadership position in the antenna market.

Our Sinclair Technologies segment also manufactures several lines of omni-directional, yagi and panel dipole antennas covering the 30 MHz to 1900 MHz bands. Our family of collinear omni-directional antennae has a strong reputation with private mobile radio operators who use these antennas to provide coverage solutions. Sinclair Technologies was instrumental in developing low passive inter-modulation ("PIM") antennas.

Filters

Sinclair Technologies also produces an extensive portfolio of RF filter products used to optimize the performance of antenna systems including cavity filters, transmitter combiners, duplexers, isolators, circulators and receiver multi-couplers. Our filter product line is based on standard cavity and combines resonator technologies, as well as very small high-performance filters, using cross-coupled technology.

Radio Frequency Based Communications - Market Profile

The antenna and filter products supplied by our Sinclair Technologies segment are used primarily by the Land Mobile Radio ("LMR") industry and specifically by the following industry segments:

- Public safety operators, including several police forces, coast guards and navies, and a large set of ambulance and fire dispatch services;
- Private sector networks including rail, ground and air transportation networks used by natural resource, utility, taxi, trucking, and construction companies, as well as other dedicated network operators. These customers are generally served through an extensive set of dealers specializing in radio systems;
- Mobile radio, public safety, aviation and heavy transport industries; and
- Original equipment manufacturers.

Sinclair products are well established globally. Operating in the 30 MHz to 1.9 GHz frequency range, Sinclair antennas and filters are integral components of many wireless communications

networks - controlling, enhancing and propagating radio frequency signals associated with these systems. Most Sinclair products support both voice and data.

Competition

The primary competition for antenna and filter products are PCTEL Inc. (NASDAQ:PCTI) Tel. Kathrein – Werke KG, Laird PLC (LSE: LRD.L), Bird Technologies Group, EMR Corporation, Axell Wireless, RFI Corporation, COMPROD., dbSpectra and Radio Frequency Systems (RFS).

(b) Satellite Solutions Business Segment

Products

Our Satellite Solutions segment, established in 2003, provides a comprehensive portfolio of fly-away satellite terminals and software interfaces designed for easy portability and reliable connectivity in locations where traditional communication infrastructure is insufficient, unreliable, damaged or non-existent. In 2008, we entered the marine satellite business with a line of maritime very small aperture terminal ("VSAT") and television receive only ("TVRO") terminals and service offerings. This segment provides broadband connectivity for commercial and recreational fishing and boating, as well as military applications. We continue to explore different alternatives for leveraging our technology into the area of maritime communications.

Our portfolio of portable satellite systems includes:

The upgraded Norsat GLOBETrekker™ 2.0 is an intelligent, auto-acquire, rapidly deployable fly-away satellite terminal. GLOBETrekker now includes a modular architecture that enables easy component swapping in the field, a simple one touch interface, elevated electronics for all terrain deployment and a variety of other feature enhancements that improve usability, performance and ruggedness. The terminal is built to military grade specifications (MIL-STD-810G) and is easily transported via IATA compliant packaging. GLOBETrekker is ideal for users with mission critical communication requirements such as military, resource, emergency response, and transportation applications.

The Norsat ROVER™ is an ultra-portable fly-away satellite terminal with assisted acquire technology. Easily assembled in a matter of minutes, the ROVER is Norsat's most portable satellite solution, ideal for the rapid deployments of military or other highly mobile operations. The ROVER is capable of data transfer rates of approximately 1.0 Mbps, yet still compact enough to fit into a single backpack.

SigmaLink™ is a fly-away satellite terminal with antenna sizes up to 2.4m, suitable for longer term deployments, and yet portable enough for mobile operations. SigmaLink is ideal for use by government and peacekeeping agencies, broadcasters, resource exploration companies, distance education institutions, financial institutions, and large corporations.

Offered by Norsat's Maritime Solutions division, COM series is a high performance line of VSAT terminals designed for militaries, fisheries, oil & gas and other commercial applications. The TVRO series provides high quality signal reception, ideal for cruise, yacht and recreational applications. In 2012, Norsat introduced Global-VSAT™, an equipment and service bundle that includes satellite terminals and airtime.

Norsat's high performance fly-away satellite terminals offer superior ease of use, ruggedness, and portability compared to competitive offerings. All systems are shipped with LinkControl software, the industry's most intuitive and powerful suite of satellite pointing tools. LinkControl seamlessly integrates the various hardware components, automates the process of satellite acquisition, and enables user to pre-configure settings for rapid field deployments.

Norsat entered the machine to machine (“M2M”) solutions market in 2013, with Sentinel remote site monitoring and control (“RMC”), a new equipment and service package. M2M solutions refer to a wide variety of technologies that enable both wireless and wired systems to communicate with other devices of the same ability. By enabling machines to communicate with each other, real-time data can easily be collected and analyzed from remote locations.

Norsat’s Sentinel RMC is an end-to-end M2M solution that includes remote terminal units (“RTUs”) for remote site data collection and control, a communication service to backhaul data, a data hosting facility for storage, and a secure web based customer interface for data access. Initially designed for use in the upstream oil & gas market, Sentinel RMC is also ideal for other applications that require real time data monitoring of remote sites, including forestry, municipal water systems and other unique and niche applications.

Satellite – based Communications - Market Profile

Norsat’s satellite-based communications business includes s Satellite Solutions, Microwave Products, Maritime Solutions and M2M Solutions. These products employ satellites that are orbiting the earth to transmit and receive content. Our equipment interoperates with satellites that orbit the earth at the same speed as the earth rotates. These satellites appear to remain at the same point relative to the earth’s surface, thus giving the impression that they are “stationary.” These satellites are known as geostationary satellites, or satellites in geostationary orbit (orbiting approximately 22,300 miles above the earth).

While geostationary satellites are operated on a commercial basis and are fairly standard in their operation, some are owned and operated by militaries and may have unique characteristics. Our equipment has been standardized so that it can operate on most satellites, without further customization. These products permit users to establish a broadband communications link (up to 10 Mbps) between any two points on earth. This broadband communications link is capable of transporting a broad range of content including voice, data and motion video.

The satellite industry continues to see increased demand, primarily driven by the backlog of satellite launches, across all sectors of the market including the commercial and military markets. Our products operate primarily on widely deployed commercial Ku-band satellites. However, some of our products operate on other commercial (C-band and Ka-band) and military (Ka-band and X-band) satellites as well.

Demand for satellite based M2M solutions is on the rise given the needs of key vertical markets. Overall the satellite market is stable and expected to grow at a steady pace. Certain verticals, such as transportation, oil and gas and cargo, show stable growth while military is expected to experience slower growth. Green energy, mining, utilities and civil government show growth typical of nascent markets.

Competition

The competitive pressures in the United States Government market for portable satellite systems are markedly different from the broadcast and commercial markets. While there are some pricing pressures, they are less pronounced; system reliability, performance records and relationships with program offices are significantly more important. In this sector, the Company faces competition from General Dynamics Corp. (NYSE: GD), C3ISR, a segment of L-3 Communications Holdings Inc. (NYSE: LLL), TeleCommunication Systems Inc. (NASDAQ: TSYS), Globecom Systems Inc. (NASDAQ: GCOM) and Ultra electronics, Gigasat, a segment of Ultra electronics Holdings PLC (LSE: ULE). From time to time, the Company also faces competition from Swe-Dish, a subsidiary of Rockwell Collins (NYSE: COL). At times, the Company also faces competition from systems integrators who construct systems on a custom

basis for the military including Thales, Finmeccanica SpA (OTC: FINMY), EADS (OTC: EADSF), Lockheed Martin (NYSE: LMT) and Raytheon Company (NYSE: RTN).

In the broadcast and commercial markets, the Company faces competition from terrestrial alternatives such as microwave radio vendors and the traditional providers of portable satellite systems including: Swe-Dish, a subsidiary of Rockwell Collins (NYSE: COL); VisLink Plc's Advent business unit; Ultra electronics, Gigasat and Holkirk Communications, a subsidiary of Sematron (UK) Ltd. The Company also faces competition from service providers such as Harris Caprock Communications and Spacenet, a subsidiary of Gilat Satellite Networks Ltd. (NYSE:GILT).

(c) Microwave Products Business Segment

Products

Our Microwave Products segment designs, develops and markets receivers, transmitters and power amplifiers that enable the transmission, reception and amplification of signals to and from satellites. Our product portfolio of microwave components includes a comprehensive range of satellite receivers ("LNBs"), transmitters ("BUCs"), transceivers, solid-state power amplifiers ("SSPAs") and other customized products.

Low Noise Block down converters ("LNBs"), are required by every satellite antenna (or "dish") irrespective of aperture or location. The LNB is mounted at the focal point of the dish to convert incoming microwave signals into electrical signals that are routed to the remote receiver or indoor unit. Reliability is critical for these products as they are used in remote areas around the world.

Satellite transmitters or Block Up Converters ("BUCs") convert electrical signals into microwave signals that can be transmitted to an orbiting satellite.

Norsat is a market leader in microwave products. Through more than three decades of participation in this market, we have developed a reputation for quality, reliability and innovation. We believe that we have the largest market share of any of our competitors in this space.

Market Profile

The Company's primary customers include resellers, system integrators, antenna manufacturers and service providers located in North America, Europe and Asia. These customers integrate Norsat's components into a complete satellite solution for end user customers located all over the world. On the microwave components side of the business, the Company will be focusing on the solid-state amplifier line and on military satellite components.

Competition

The primary competition for this business unit comes from New Japan Radio Co, Ltd (Tokyo Stock Exchange: 6911) and to a lesser extent from the Company's own suppliers.

(d) Maritime Solutions Business Segment

Market Profile

We created our Maritime Solutions segment in 2008 when we entered the marine satellite business. This segment provides broadband connectivity over satellite for industries that operate in a marine environment. Examples include commercial fishing, recreational fishing and boating, and the oil and gas industry. We continue to explore different alternatives for leveraging our technology into this area.

On July 17, 2012, we sold Norsat Italia S.r.l., a wholly owned subsidiary of the Company for cash consideration of Euro 70,000 (\$85,764). Norsat Italia S.r.l. operated our vessel monitoring unit which formed part of our Maritime segment. Subsequent to the sale, we began reporting other Maritime Solutions revenue under our Satellite Solutions segment. Please refer to section 5A, under the heading "Discontinued Operations" for further discussion.

Competition

The sector is well established and very competitive. The dominant player in this segment is SeaTel Maritime Communications, a division of Cobham PLC (LSE: COB). In addition to SeaTel, other companies that have established a presence in this space include Orbit Communications Systems and KVH Industries (NASDAQ:KVHI).

(e) Power Solutions Business Segment

Products

Our Power Solutions segment specializes in designing and manufacturing energy storage solutions for AC 3-phase UPS systems used in Mission Critical backup power applications. Our products are deployed in projects requiring high reliability/integrity with runtimes from 1 minute to 8 hours and power levels from 10kW-1MW and are custom engineered using a flexible platform approach to provide optimized (power density, footprint and life) project specific performance.

Market Profile

Power Solutions provide the energy storage component of a backup power system for the following industry segments: data centres, utility generating stations and switchyards, hospitals, air traffic control, industrial process control, oil and gas and mining.

Our Power Solutions are designed to support power systems manufactured by industry leaders such as General Electrical, Liebert (Emerson Network Power), Powerware (Eaton Corporation) & Mitsubishi Electric.

Competition

The dominant player in this segment is Enersys Inc. (NYSE ENS); C&D Technologies; and East Penn Manufacturing

2. Marketing

The Company sells most of its microwave components and portable satellite, other than those bound for the US Government, through resellers. Almost all of the portable satellite systems sold to the US Government have been through the Company's direct sales force.

Norsat also sells Antenna and Radio Frequency Conditioning Products to approximately 1,800 distinct customers. The Company markets these products in North America through a direct sales force, OEMs, distributors and manufacturer representatives. In Europe, Middle East and Africa the Company's products are sold through a direct sales force, OEMs, and system integrators. The Company will continue to use these sales channels and pursue opportunities to cross-sell these products to customers within all of the Company's divisions.

The Company's primary value proposition is rooted in its longevity and reputation for quality. Customers with critical applications tend to place significant value in the quality of Norsat products and the after-sales support infrastructure.

3. Research and Development

Research and development activities and projects are focused on developing new products in the different business segments the Company is involved in. The Company spent approximately 8% of its annual revenues excluding any government contributions and allocated 17% of its staff towards research and development activities.

4. Intellectual Property

The Company relies on patent, trademark, trade secret and copyright laws to protect our proprietary technology and to protect us against claims from others. The Company believes it has direct intellectual property rights covering substantially all of our material technologies. However, there can be no assurance that claims of infringement will not be asserted against the Company or against its customers in connection with their use of our systems and products, nor can there be any assurance as to the outcome of any such claims, given the technological complexity of our systems and products.

The Company has renewed interest in employing patent protection due to competition in its markets. The Company has a patent portfolio of four patents. The Company does not believe that any single patent is material to our business as a whole.

C. Organizational structure

As at December 31, 2012, the Company has five significant wholly-owned and active subsidiaries. These are:

- Norsat International [America], Inc. incorporated and located in Falls Church city, VA, United States of America;
- Norsat International (UK) Ltd. incorporated and located in Lincolnshire, England
- Norsat SA, incorporated in Lausanne, Switzerland
- Sinclair Technologies Ltd. registered and located in Somersham, United Kingdom
- Sinclair Technologies Inc. registered in New York, New York, USA and located in Hamburg, New York, USA

The mandate of Norsat International [America], Inc. is to market and support satellite systems into certain government markets.

The mandate of Norsat International (UK) Ltd. is to market and support microwave component products sold into the Europe Middle East and Africa regions.

Norsat SA's mandate is to concentrate on the Company's sales and supply chain activities as well as provide a regional centre for the Company's expanding level of activity in the European, Middle East and African markets.

The Company's legal structure was reorganized such that all the assets and liabilities of Sinclair Technologies Inc. ("STI"), a wholly owned subsidiary of Sinclair Technologies Holdings Inc. ("STHI"), were transferred to STHI. Immediately afterwards all the assets and liabilities of STHI were transferred to Norsat International Inc. As of June 29, 2012, STI and STHI were dissolved under the Business Corporation Act (Ontario) and hence, ceased to exist as legal entities. "Sinclair Technologies" continues to operate as a division of Norsat.

D. Property, plants and equipment

Description of Property

The Company's head office and principal place of business has been located in Richmond, British Columbia, Canada since September 2006. The Company leases its head office premises.

The lease is for approximately 30,400 square feet of space. This location houses the Company's corporate office, engineering and production department and includes warehouse space.

During fiscal 2010, the Company renewed the lease of its head office location for a further six years. The monthly rent for this space is approximately \$42,000. In addition to the minimum rent, the Company is responsible to pay maintenance, utilities and taxes.

Through the acquisition of Sinclair in 2011, the Company has added leased premises in Aurora, Ontario, Canada. The lease is for approximately 45,246 square feet of space. This location houses the Antenna and RF Conditioning Products operating segment's sales office, engineering and production department and includes warehouse space as well. In 2012, the Company has renewed its lease for the Aurora premises, extending the lease to December 31, 2014. Monthly rent is approximately \$33,000.

Most of the Company's products are produced and shipped out of the Richmond and Aurora locations.

Norsat also operates out of leased premises in Lincoln and Somersham, England; and Hamburg, New York.

There are no known environmental issues that may affect the Company's utilization of its assets at any of the above locations.

4A. UNRESOLVED STAFF COMMENTS

Not applicable

5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating results

The following information should be read in conjunction with the Company's 2012 consolidated financial statements and related notes included therein, which are prepared in accordance with International Financial Standards as issued by the International Accounting Standards Board. All amounts following are expressed in United States Dollars unless otherwise indicated.

The Company currently generates revenue primarily from three business segments, Sinclair Technologies, Satellite Solutions and Microwave Products, as described herein. The Company's annual and quarterly operating results are primarily affected by the level of its sales and costs of operations over these three business segments. Economic factors such as foreign exchange fluctuations, market prices of similar products and worldwide political environment may also play an important role to affect the Company's operating performance and volatility of its share price. To management's knowledge, there are no known economic, political, foreign exchange fluctuations and inflation that have materially affected, directly or indirectly the Company's operations.

Annual Financial Data <i>(Expressed in thousands of dollars, except per share amounts)</i>			
Year ended December 31	2012	2011	2010
	\$	\$	\$
Sales	42,429	37,792	19,818
Earnings before income taxes	2,553	1,761	2,159
Current income tax expense	782	811	140
Deferred income tax (recovery)/expense	(3,283)	479	(224)
Earnings from continuing operations	5,054	471	2,244
Net earnings	5,135	411	2,140
Earnings from continuing operations and net earnings per share - basic	0.09	0.01	0.04
Earnings from continuing operations and net earnings per share - diluted	0.09	0.01	0.14
Year ended December 31	2012	2011	2010
	\$	\$	\$
Total assets, excluding deferred income tax assets	36,710	39,064	18,543
Total assets	40,882	40,261	20,414
Acquisition loan	6,953	9,650	nil
Promissory note payable	693	597	nil
Issued capital	39,851	39,851	37,447
Shareholders' equity	24,233	18,678	15,833

Quarterly Financial Data (unaudited) (Expressed in thousands, except per share amounts)				
	Three Months Ended (unaudited)			
	Mar 31	Jun 30	Sep 30	Dec 31
2012	\$	\$	\$	\$
Sales	10,409	10,425	10,997	10,598
Net earnings (loss) for the period	518	2,771	975	871
Net earnings (loss) per share - basic	0.01	0.05	0.01	0.02
Net earnings (loss) per share - diluted	0.01	0.05	0.01	0.02
Weighted average common shares outstanding - basic	58,317	58,197	58,037	58,037
Weighted average common shares outstanding - diluted	58,343	58,197	58,039	58,039
2011*	\$	\$	\$	\$
Sales	8,599	8,427	11,298	9,468
Net earnings (loss) for the period	(187)	(285)	1,102	(219)
Net earnings (loss) per share - basic	(0.00)	(0.00)	0.02	(0.00)
Net earnings (loss) per share - diluted	(0.00)	(0.00)	0.02	(0.00)
	#	#	#	#
Weighted average common shares outstanding - basic	57,082	58,364	58,351	58,317
Weighted average common shares outstanding - diluted	57,082	58,364	58,380	58,317
2010*	\$	\$	\$	\$
Sales	4,779	5,064	4,424	5,551
Net earnings for the period	505	817	609	215
Net earnings per share - basic	0.01	0.02	0.01	0.00
Net earnings per share - diluted	0.01	0.02	0.01	0.00
	#	#	#	#
Weighted average common shares outstanding - basic	53,677	53,591	53,439	53,566
Weighted average common shares outstanding - diluted	53,855	53,758	53,551	53,651

*Sales for 2012, 2011 and 2010 were restated to reflect discontinued operations. Please refer to section 5A under the heading "Discontinued Operations" for further discussion.

Quarterly results from our three business segments fluctuate from quarter to quarter due to seasonal influences on sales volumes. In our Sinclair Technologies segment, the first and second quarters are historically the strongest, as most of Sinclair's products are installed before the winter season. Among our other three segments, the third and fourth quarters are typically the strongest, as these have traditionally been the periods when military sales occur. The timing of contract awards also creates significant fluctuations in our quarterly results as some large contracts represent a significant share of sales for a given quarter. The timing of these orders is unpredictable.

Fiscal 2012 Compared to Fiscal 2011

Results of Operations

Sales and Gross Margin

Sales (\$000's)	Three Months Ended 2012 (unaudited)				Year Ended Dec 31		
	Mar 31	Jun 30	Sep 30	Dec 31	2012	2011	2010
	\$	\$	\$	\$		\$	\$
Sinclair Technologies	6,167	6,394	5,950	5,662	24,173	20,219	-
Satellite Solutions	2,143	1,691	2,381	2,463	8,678	9,162	11,326
Microwave Products	2,099	2,340	2,666	2,473	9,578	8,411	8,492
Total	10,409	10,425	10,997	10,598	42,429	37,792	19,818

Gross Margin	Three Months Ended 2012 (unaudited)				Year Ended Dec 31		
	Mar 31	Jun 30	Sep 30	Dec 31	2012	2011	2010
Sinclair Technologies	45%	45%	41%	45%	44%	45%	-
Satellite Solutions	41%	32%	40%	38%	38%	40%	52%
Microwave Products	43%	44%	44%	46%	44%	42%	42%
Total	44%	43%	42%	44%	43%	43%	47%

For year ended December 31, 2012, total sales increased by \$4.6 million, or 12%, to \$42.4 million, from \$37.8 million in 2011.

Our Sinclair Technologies segment was a significant contributor to this improvement, with full-year sales increasing 8% to \$24.2 million, from \$20.2 million in 2011. This gain reflects the positive impact of twelve months contribution from Sinclair, compared to just over eleven months contribution last year. The extra partial month in 2012 contributed approximately \$1.0 million in sales. Sales from this segment were also above historical norms, reflecting strong demand, especially in the public safety and transportation sectors.

Satellite Solutions sales were \$8.7 million in 2012, compared to \$9.2 million in 2011. The year-over year change reflects a \$0.5 million in lower equipment sales to the US military due to lower US military spending, \$0.3 million reduction in services sales due to the expiry of warranties and post-service contract service revenue, and a \$0.3 million reduction in other Maritime Solutions related sales, which are now included in Satellite Solutions sales. These decreases were partially offset by an increase in sales and services of \$0.7 million to non-US military customers.

In the satellite industry, US military spending is projected to remain slow in the near term, resulting in reduced demand. Traditionally, US military was the main customer for satellite services. As sales to US military declines, we expect satellite services sales to decline as well.

However, we will continue to diversify our customer and product base, with a focus on militaries beyond the US, as well as the commercial, resource, transportation and public safety segments. As the segment diversifies beyond its traditional military focus, we would expect revenues to increase, however gross margins would be somewhat lower.

Microwave Products sales increased 14% to \$9.6 million for the year ended December 31, 2012, up from \$8.4 million during the same period in 2011. This significant increase reflects higher sales volumes, particularly for Ka and Ku-band receivers, as well as the addition of new products suitable for airborne applications.

On a consolidated basis, gross margin percentage was 43% in 2012, on par with 2011. Gross profit from the Sinclair Technologies maintained a gross margin percentage of 44% comparable to the 45% achieved in 2011. Gross profit margins from the Satellite Solutions segment declined to 38%, from 40% in 2011, reflecting lower margins on the FNESS and NATO contracts, together with lower selling prices for some existing product lines. In addition, gross margins were affected by a lower proportion of high-margin service revenues in the mix. Gross margin percentages from the Microwave Products segment improved to 44%, from 42%, reflecting higher demand for more customized products.

Expenses

Expenses (\$000's)	Three Months Ended 2012 (unaudited)				Year Ended Dec 31		
	Mar 31	Jun 30	Sep 30	Dec 31	2012	2011	2010
	\$	\$	\$	\$	\$	\$	\$
Selling and distributing	1,737	1,979	1,965	1,532	7,213	5,614	2,923
General and administrative	1,477	1,292	992	1,336	5,097	7,195	3,280
Product development, net	530	781	289	773	2,373	1,295	863
Other (Income)/Expense	52	186	577	109	924	491	239
Total Expenses	3,796	4,238	3,823	3,750	15,607	14,595	7,305

For the year ended December 31, 2012, total expenses increased to \$15.6 million, from \$14.6 million in 2011.

Selling and distributing expenses increased to \$7.2 million, from \$5.6 million in 2011. This \$1.6 million increase includes a \$1.0 million investment in sales and marketing resources, \$0.3 million for the launch of our new Norsat Power segment, \$0.2 million higher sales commissions and bonuses resulting from achieving certain revenue and earnings targets, and \$0.1 million from added costs of operating the Sinclair Technologies segment for an extra month in 2012.

General and administrative expenses decreased to \$5.1million, from \$7.2 million during the year ended December 31, 2012. The \$2.1 million reduction reflects the absence of \$0.5 million in acquisition costs incurred in 2011 as part of the Sinclair transaction, reduction of approximately \$1.2 million in salary and incentive payments for the former president of Sinclair, together with a \$0.1 million reduction in professional fees, \$0.3 million in employee related cost savings, and \$0.3 million in other cost savings across the Company. These savings were partially offset by \$0.3 million in additional bonuses resulting from the achievement of certain revenue and profit targets in 2012, and by the \$0.1 million added cost of operating the Sinclair division for an additional month in 2012.

Product Development Costs (\$000's)	Three Months Ended 2012 (unaudited)				Year Ended Dec 31,		
	Mar 31	Jun 30	Sep 30	Dec 31	2012	2011	2010
	\$	\$	\$	\$	\$	\$	\$
Product Development	772	973	712	907	3,364	2,897	1,950
Less: Government Funding	(242)	(192)	(423)	(134)	(991)	(1,602)	(1,087)
Product Development, net	530	781	289	773	2,373	1,295	863

Net product development expenses increased to \$2.4 million, from \$1.3million in 2011. Direct expenses increased by \$0.5 million, reflecting continued investment in research and development of next-generation product offerings and twelve full months of Sinclair operations, compared to eleven months in 2011. Increases in direct costs were offset by a \$0.1 million decrease in amortization costs. More significantly, government contributions were lower by \$0.6 million in 2012 compared to 2011. Our current SADI program ended December 31, 2012 and we utilized all of our remaining SADI funding during the fourth quarter. We are now in the process of applying for funding under a new SADI program, however, we cannot be certain that an agreement will be reached. Product development continues to be a core focus for us and is reflected through our development programs in the Sinclair Technologies and Satellite Solutions business units.

Other expenses for the year ended December 31, 2012 were \$0.9 million, compared to \$0.5 million in 2011. The increase in other expenses primarily reflects foreign exchange variance of \$0.4 million from translating Canadian dollar-denominated payables and loans into US dollars.

Net Earnings for the Period

Earnings (in 000's) except earnings per share	Three Months Ended 2011 (unaudited)				Year Ended Dec 31		
	Mar 31	Jun 30	Sep 30	Dec 31	2012	2011	2010
Earnings before income taxes	762	189	736	866	2,553	1,761	2,056
Net earnings for the period	518	2,770	975	872	5,135	411	2,141
Net earnings per share - basic & diluted	0.01	0.05	0.01	0.02	0.09	0.01	0.04

For the year ended December 31, 2012, earnings before income taxes increased to \$2.6 million, from \$1.8 million in 2011. This change was primarily the result of the positive gross profit contribution of \$1.8 million, offset by higher total expenses of \$1.0 million as discussed above.

As a result of the recent reorganization of our legal structure, we recorded a deferred income tax recovery of \$3.0 million and reduced current tax expenses in 2012.

Net earnings from continuing operations for the year ended December 31, 2012 increased by \$4.6 million to \$5.1 million.

We sold our maritime vessel monitoring unit in 2012, with related revenues and costs being reclassified to earnings/loss from discontinued operations. Please refer to Section 11.0 "Discontinued Operations" for details.

Net earnings for the year ended December 31, 2012 increased significantly to \$5.1 million, from \$0.4 million in 2011. Earnings per share increased to \$0.09 per share, basic and diluted, from \$0.01 per share, basic and diluted, during the same period in 2011.

Fiscal 2011 Compared to Fiscal 2010

Financial results for 2011 and 2010 have been restated below for discontinued operations compared to previously reported financial results.

Results of Operations

Sales and Gross Margin

Sales (\$000's)	Three Months Ended 2011 (unaudited)				Year Ended Dec 31,	
	Mar 31	Jun 30	Sep 30	Dec 31	2011	2010
	\$	\$	\$	\$	\$	\$
Sinclair Technologies	4,346	5,218	5,414	5,240	20,219	-
Satellite Solutions	2,413	1,374	3,425	1,950	9,162	11,326
Microwave Products	1,839	1,834	2,459	2,279	8,411	8,492
Total	8,598	8,426	11,298	9,469	37,792	19,818

Gross Margin	Three Months Ended 2010 (unaudited)				Year Ended Dec 31,	
	Mar 31	Jun 30	Sep 30	Dec 31	2011	2010
Sinclair Technologies	42%	43%	47%	48%	45%	-
Satellite Solutions	49%	32%	43%	29%	40%	52%
Microwave Products	44%	42%	40%	42%	42%	42%
Total	45%	41%	45%	43%	43%	47%

Total sales for the year ended December 31, 2011 increased to \$37.8 million from \$19.8 million in 2010. The \$18.0 million, or 90%, increase reflects the inclusion of \$20.2 million of sales from Sinclair, partially offset by a net \$2.2 million reduction in sales from our other segments.

Sales of Satellite Solutions decreased to \$9.1 million from \$11.3 million in 2010. The year-over-year change reflects a reduction in ordering activity from the US military. Helping to offset the declines in US military orders were \$1.3 million and \$0.3 million in revenues from our FNESS and NATO contracts, respectively. Though we have completed the majority of the hardware installation portion of the FNESS contract, we will continue to see airtime-related revenue for the remainder of the contract. In the case of our new NATO contract, the majority of the contract revenues are expected to occur in the second quarter of fiscal 2012. Included in Satellite Solutions is approximately \$0.3 million in new Maritime sales reflecting positive impact of investments made to develop the maritime sales channel.

Sales of Microwave Products remained constant at \$8.4 million in 2011, compared to \$8.5 million in 2010.

Our overall gross margin for the year ended December 31, 2011 was 43%, compared to 47% in 2010. The decline in gross margin percentage reflects the change in our product and market mix as we expanded sales into the higher-volume, but lower-margin commercial market following the Sinclair acquisition.

Margins on our Sinclair sales outperformed historical levels throughout the year as we benefited from a favourable product mix and strong demand levels, especially from the transportation industry. While we continue to anticipate high levels of demand for our Sinclair products, we expect margins will be tempered by more competitive pricing and increases in labour costs in the coming year.

Gross profit margins from our Satellite Solutions segment declined to 40% in 2011, from 52% in 2010. This change was anticipated and reflects lower than normal margins on the FNESS contract and lower selling prices for certain existing product lines. As we expand our customer base outside the US military and into commercial applications, we expect to experience continued pressure on gross margins. Margins for the Satellite Solutions segment were further impacted by an increase in costs for new product lines. However, we expect that production costs will decrease and efficiencies will improve as we build more of these new products. The margin reduction also reflects a \$0.2 million write down related to obsolete inventory which was recorded in the second quarter, and an additional inventory provision of \$0.1 million in the fourth quarter.

Expenses

Expenses (\$000's)	Three Months Ended 2011 (unaudited)				Year Ended Dec 31,	
	Mar 31	Jun 30	Sep 30	Dec 31	2011	2010
	\$	\$	\$	\$	\$	\$
Selling and distributing	1,160	1,684	1,398	1,372	5,614	2,923
General and administrative	1,738	1,482	1,689	2,286	7,195	3,280
Product development	355	514	537	(111)	1,295	863
Other (Income) Expenses	304	(21)	(379)	587	491	239
Total Expenses	3,557	3,659	3,245	4,134	14,595	7,305

Our commitment to prudent spending has not wavered and our philosophy continues to be reflected in our cost structure. However, when necessary, staff levels are gradually increased to ensure appropriate investments in operations are made, commitments to research and development projects are met, and product innovation and product leadership are not compromised.

For the year ended December 31, 2011, total expenses increased to \$14.6 million, from \$7.3 million in 2010. The addition of Sinclair accounts for approximately \$5.9 million of the year-over-year increase, with the balance primarily reflecting \$0.5 million in non-recurring costs related to the Sinclair acquisition, a \$0.5 million increase in interest expense related to financing for the acquisition, and \$0.8 million of additional amortization of the intangible assets acquired from Sinclair. Operating expenses are expected to remain somewhat higher in upcoming periods, reflecting the costs of operating Sinclair on a full-year basis, and continued investment in sales and marketing resources.

Full-year selling and distributing expenses increased to \$5.6 million in 2011, from \$2.9 million in the prior year. Approximately \$2.2 million of this increase relates to the addition of Sinclair. The balance reflects an increase of \$0.6 million in amortization expenses relating to intangible assets we acquired as part of the transaction, partially offset by a reduction in satellite sales commission expenses.

General and administrative expenses for the year ended December 31, 2011 increased to \$7.2 million, from \$3.3 million in 2010. Approximately \$3.3 million of the increase relates to Sinclair. The balance reflects \$0.5 million in acquisition costs for Sinclair and an increase of \$0.2 million in amortization expenses relating to the intangible assets acquired as part of the transaction.

Product development expenses increased to \$1.3 million, from \$0.9 million in 2010, primarily reflecting \$0.7 million in product development activities at Sinclair, partially offset by a \$0.5 million increase in government contributions under the Strategic Aerospace and Defense Initiative (“SADI”) program, a recovery of \$0.1 million of costs related to our engineers deployed to immediate revenue opportunities and a \$0.3 million increase in amortization costs again relating to Sinclair’s intangible assets. Product development continues to be a core focus for Norsat and is reflected through development programs in all three of the Sinclair Technologies, Satellite Solutions and Microwave Products business units.

Other expenses for the year ended December 31, 2011 increased to \$0.5 million, from \$0.3 million in 2010. This increase primarily reflects a \$0.5 million increase in interest expense relating to the acquisition loan, partially offset by \$0.1 million of impairment loss recognized in 2010 but not in 2011, and a \$0.2 million foreign exchange gain.

Net Earnings for the Period

Earnings (in 000’s) except earnings per share	Three Months Ended 2011 (unaudited)				Year Ended Dec 31,	
	Mar 31	Jun 30	Sep 30	Dec 31	2011	2010
Earnings (loss) before income taxes	272	(202)	1,785	(94)	1,761	2,056
Net earnings (loss) for the period	(187)	(285)	1,104	(221)	411	2,141
Net earnings (loss) per share - basic & diluted	(0.00)	(0.00)	0.02	(0.00)	0.01	0.04

Earnings before income taxes for the year ended December 31, 2011 were approximately \$1.8 million, compared to \$2.1 million in 2010.

Full-year net earnings were \$0.4 million in 2011, compared to net earnings of \$2.1 million in 2010.

Outlook

Looking forward, demand for our Sinclair RF antenna and filter products is expected to remain robust and we will actively invest in new products for this segment as we respond to customer needs. Demand for Microwave Products is also expected to continue to benefit from our proven ability to provide modified or custom solutions specific to our customers’ applications.

In the satellite industry, US military spending is projected to remain slow in the near term. This is expected to result in reduced demand and increased competition as more companies focus on the satellite terminal and related services markets. Given these anticipated pressures, we will continue to work to diversify our customer and product base, with a focus on militaries beyond the US, as well as on the commercial, resource, transportation and public safety segments. As we continue to diversify beyond our traditional military focus, we expect revenues to increase, however gross margins could be somewhat lower.

We remain focused on implementing a business model that will serve to (i) add a recurring revenue stream by offering a range of services, (ii) broaden our portfolio of products and services, (iii) actively recruit and cultivate reseller channel partners, and (iv) diversify our base of customers to include non-defense customers.

Currently, we are working to execute a balanced growth strategy that incorporates investment in staffing levels, new product introductions, and continued enhancement of existing product lines. We are pursuing greater diversification by geographic region and by industry vertical, and

broadening the solutions we provide to customers. We continue to evaluate strategic opportunities that will improve overall operating and financial performance.

While we will maintain our strict focus on preserving a sustainable cost structure, we anticipate higher costs of production and higher operating costs as investments are made to pursue our strategic objectives. We are cognizant of the extent of the current financial global recovery and will remain vigilant in our credit granting practices, however, we believe our exposure to bad debt is relatively low overall. Most of our trade accounts receivables are generated from various military and a large number of commercial customers, which are not believed to be at risk of default. Additionally, the balance of amounts owing is spread over a diverse range of customers.

The current recessionary trends, coupled with our strong financial position and capital structure, have created excellent conditions for realizing growth through business combinations. Going forward, we will actively pursue accretive merger and acquisition opportunities and that meet strict criteria for creating value and that further our strategic objectives.

Critical Accounting Estimates

Accounting Estimates

We have discussed the development and selection of our critical accounting estimates and policies with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the following disclosures.

Significant Management Judgement and Estimation Uncertainty

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to undertake a number of judgements, estimates and assumptions that affect amounts reported in the consolidated financial statements and notes thereto. Actual amounts may ultimately differ from these estimates.

Significant Management Judgement

The following are significant management judgements in applying the accounting policies of the Company that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses:

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Company's future taxable income against which the deferred tax assets can be utilized. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

Recognition of service and contract revenues

Determining when to recognize revenues from after-sales services requires an understanding of the customer's use of the related products, historical experience and knowledge of the market. Recognizing construction contract revenue also requires significant judgement in determining milestones, actual work performed and the estimated costs to complete the work.

Recognition of Government contributions

The Company recognizes Government contributions of eligible expenditures when there is reasonable assurance that the Company will comply with the conditions attached to the grant and the grant will be received. The Company estimates Government contributions based on labour costs and expenses incurred and its belief of what will ultimately be approved for payment by Government agencies. Uncertainty relates to the acceptability of the contribution amounts claimed, actual timing and ultimate collectability that can vary from the Company's estimation.

Estimation Uncertainty

Information about estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Selling prices of multi-element sales arrangements

Determining selling prices for multi-element arrangement follows a hierarchy of selling prices. If vendor specific objective evidence and third party evidence of selling price do not exist, then management's best estimate of selling price for the deliverable is used. This requires significant judgement in determining the selling price based on an understanding of the customer's use of the related product or service, historical experience and knowledge of the market.

Impairment of long-lived assets

In assessing impairment, management estimates the recoverable amount of each asset or cash generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. In 2012, the Company did not recognize any impairment losses of long-lived assets.

Useful lives of depreciable assets

The Company reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utilization of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utilization of certain software and equipment.

Inventories

The Company estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Business combinations

The Company uses valuation techniques in determining fair values of the various elements of a business combination based on future expected cash flows and a discount rate. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Share-based payment - stock options

The Company measures the cost of equity-settled share-based transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. Please refer to Note 16c under Share Option Incentive Plan in the Audited Financial Statements Year Ended December 31, 2012, 2011 and 2010 filed as Exhibit 99.4 to this annual report for information regarding our assumptions for estimating the fair value of stock options.

Share-based payment - restricted share units

The Company measures the cost of equity-settled share-based transactions by reference to the fair value of the equity instruments at the date at which they are granted. For restricted share units, the Company uses the TSX share price at grant date as fair value of the restricted share units. The resulting fair value of the restricted share units is then adjusted for an estimated forfeiture amount. Determining the forfeiture rate is based on historical experience. Actual number of restricted share units that vest is likely to be different from estimation.

Provision for warranties

The Company provides for warranty expenses by analyzing historical failure rates, warranty claims, current sales levels and current information available about returns based on warranty periods. Uncertainty relates to the timing and amount of actual warranty claims that can vary from the Company's estimation.

Allowance account for credit losses

The Company provides for bad debt by analyzing the historical default experience and current information available about customer's credit worthiness on an account by account basis. Uncertainty relates to the actual collectivity of customer balances that can vary

Accounting Policies

The following critical accounting policies reflect our more significant policies used in preparing our consolidated financial statements:

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the consideration transferred, measured at the acquisition date at fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the appropriate share of the acquiree's identifiable net assets. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date. Acquisition costs are expensed in the period that they are incurred.

Goodwill is initially measured at cost being the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If the consideration transferred is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the Consolidated Statements of Earnings and Comprehensive Income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Foreign Currency Translation

Functional and presentation currency

The Company's consolidated financial statements are presented in United States dollars, which is also the Company's functional currency.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective currency of the entity or division, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at period-end exchange rates are recognized in the Consolidated Statements of Earnings and Comprehensive Income.

Non-monetary items that are not re-translated at period end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates as at the date when fair value was determined.

Foreign operations

In the Company's financial statements, all assets, liabilities and transactions of the Company's foreign operations with a functional currency other than US dollars are translated into US dollars upon consolidation.

Each foreign operation of the Company determines its own functional currency and items included in the financial statements of each foreign operation are measured using that functional currency and presented in US dollars.

The functional currency of the Company's foreign operations has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into US dollars at the closing rate at the reporting date. Goodwill and intangible assets arising from acquisition of a foreign operation have been treated as assets and liabilities of the foreign operation and translated into US dollars at the closing rate. Income and expenses have been translated into US dollar at the average rate over the reporting period. Exchange differences are charged/ credited to other comprehensive income and recognized in the currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognized in equity are reclassified to profit or loss and are recognized as part of the gain or loss on disposal.

Share-Based Payments

Stock Options

The Company grants stock options to buy common shares of the Company to directors, senior officers, employees and service providers pursuant to an incentive share option plan. The Board of Directors grants such options for periods of up to 5 years, with vesting periods determined at its sole discretion and at prices equal to the closing market price on the day the options were granted.

Under this method, the Company recognizes compensation expense for stock options awarded based on the fair value of the options at the grant date using the Black-Scholes option pricing model. Measurement inputs include the price of the common shares on the grant date, exercise price of the option, expected volatility of our common shares (based on weighted average historic volatility), weighted average expected life of the option (based on historical experience and general option holder behavior) and the risk-free interest rate. The fair value of the options is amortized over the vesting period and is included in operating expenses with a corresponding increase in contributed surplus. The amount recognized as an expense is adjusted to reflect the number of share options expected to eventually vest. When options are exercised, the proceeds are credited to issued capital.

Restricted Share Units

The Company grants restricted share units ("RSUs") to directors, senior officers and employees pursuant to an incentive restricted share unit plan. The RSU plan gives the eligible persons the right to receive, at the discretion of the Board, common shares, which are not to be issued from treasury, without any monetary consideration payable to the Company. The vesting of the RSUs is subject to time-based vesting terms, condition and restrictions as determined by the Board in its sole discretion. Each RSU is convertible into one common share.

The Company recognizes compensation expenses for RSUs awarded based on the fair value of the common shares at the grant date. The fair value, which is determined by multiplying the Company's share price by the number of RSUs granted, is amortized over the vesting period and is included in operating expenses with a corresponding increase in equity. The amount recognized as an expense is adjusted to reflect the number of RSUs expected to eventually vest.

Shares issued under Employee Share Ownership Plan ("ESOP")

The Company issues common shares in connection with an ESOP offering under the Employee Investment Act (British Columbia) to directors, senior officers and employees. The shares are issued at a discount from share market price as approved by the Toronto Stock Exchange. The Company recognizes compensation expense for the difference between issue price and market price.

Treasury Shares

When the Company reacquires its own shares, the amount of the consideration paid is recognized as a deduction from shareholders' equity. No gains or losses are recognized in the Consolidated Statements of Earnings and Comprehensive Income on the purchase, sale, issue or cancellation of the Company's own shares. Repurchased shares are classified as treasury shares and are presented as a deduction from total shareholders' equity. The Company has granted restricted share units as part of the Company's long term incentive plan. The Company shall purchase common shares in the open market to satisfy the delivery of these share units. Treasury shares are recorded at the cost of the shares acquired in the open market. When treasury shares are sold or released subsequently, the amount received is recognized as an increase in treasury shares, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid interest bearing term deposits that are readily convertible to known amounts of cash with terms to maturity of up to 3 months. The cash and cash equivalents act as the Company's primary source of cash and fluctuate directly as a result of its cash flows from operating, investing and financing activities.

Allowance Account for Credit Losses

All of the Company's trade and other receivables have been reviewed for indicators of impairment. The Company maintains an allowance account for credit losses for estimated losses that may arise if any of its customers are unable to make required payments. Management provides for bad debts by setting aside a percentage of sales towards the allowance account. The percentage is based on the Company's historical default experience and is reviewed periodically to ensure consistency with default experience. In addition, periodically throughout the fiscal year, management specifically analyzes the age of outstanding customer balances, historical bad debt experience, customer credit-worthiness and changes in customer payment terms to evaluate estimates of collectability of the Company's trade and other receivables balance. The allowance set aside is then adjusted to align with the specific analysis performed.

Inventories

Parts and supplies inventory is stated at the lower of weighted average cost and net realizable value. Finished goods and work in process inventories include parts and supplies, labour and manufacturing overhead and are stated at the lower of weighted average cost and net realizable value. Inventory is recorded net of any obsolescence provisions. When there is a significant change in economic circumstances, inventory that had been previously written down below cost may be written back up provided the reversal does not exceed the original write-down.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the Consolidated Statements of Earnings and Comprehensive Income.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Please refer to Note 11 Intangible Assets in the Audited Financial Statements Year Ended December 31, 2012, 2011 and 2010 filed as Exhibit 99.4 to this annual report for information regarding assumptions used to estimate the recoverable amount.

Gains or losses arising from disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the Consolidated Statements of Earnings and Comprehensive Income when the asset is derecognized.

The Company records amortization of intangible assets on a straight-line basis at the following annual rates, which approximate the useful lives of the assets:

Assets	Period
Software	1 to 3 years
Customer relationship	5 to 12 years
Product designs	20 years
Brand	Indefinite
Other	1.5 years to 15 years

Brand is developed through years of advertising, promotional campaign and customer satisfaction. It contains beneficial elements to the Company that have been created over time and continue to create value to the Company. Hence, brand which reflects consumer awareness and recognition is considered indefinite in nature.

For the purpose of annual impairment testing, brand is allocated to Sinclair Technologies - the operating segment expected to benefit from the synergies of the business combination in which the brand arises.

Impairment of Long-Lived Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in the Consolidated Statements of Earnings and Comprehensive Income.

An impairment loss is reversed if there is an indication that an impairment loss recognized in prior periods may no longer exist. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized previously. Such reversal is recognized in the Consolidated Statements of Earnings and Comprehensive Income.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill is tested for impairment annually or when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognized to the extent the carrying amount exceeds the recoverable amount. Impairment losses relating to goodwill are not reversed in future periods.

Intangible assets with indefinite lives are tested for impairment annually either individually or at the cash generating unit level, as appropriate, or when circumstances indicate that the carrying value may be impaired.

Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. Goodwill is carried at cost less accumulated impairment losses. See Section 4.6 for information on how goodwill is initially determined and the assumptions used to estimate the recoverable amount of goodwill.

Deferred Revenue

Revenue that has been paid for by customers but will qualify for recognition within the next year under the Company's policies is reflected in current liabilities as deferred revenue (revenue that can be recognized in one year or less). Included in deferred revenue are amounts related to installation, training, extended warranty, airtime and post contract support associated with the sale of the Company's products.

Revenue Recognition

The Company's revenues consist of sales of hardware, software, consulting, bandwidth, installation, training, extended warranty and post contract customer support. These services are set forth separately in the contractual arrangements such that the total price of the customer arrangement is expected to vary as a result of the inclusion or exclusion of services. Multiple deliverable revenue arrangements are to be divided into more than one unit of accounting and the criteria for revenue recognition are considered separately for each accounting unit if the following criteria are met:

- the delivered item(s) has standalone value and
- when a general right of return exists for the delivered item, the delivery or performance of undelivered item is probable and substantially in the control of the Company.

For those contracts where the services are not essential to the functionality of any other element of transaction, the Company determines selling price for these services based on a hierarchy of selling prices:

- Vendor specific objective evidence ("VSOE") of selling price,
- If VSOE does not exist then third party evidence of selling price ("TPE") is used, or
- If neither VSOE nor TPE exist, then management's best estimate of selling price for the deliverable is used.

Arrangement consideration is allocated to all deliverables based on their relative selling prices. As a result of the hierarchy of selling prices, the Company is required to determine the selling price for each deliverable provided the conditions for separation have been met.

Hardware is considered a separate unit of accounting because (1) the delivered item has standalone value to customers as it is sold separately by the Company and (2) there is no general right of return on products and the delivery or performance of the undelivered item is probable and substantially in the control of the Company. In establishing selling price for hardware, the Company relies on third party evidence based on stand-alone sales of largely interchangeable products. The Company's hardware components are customized in nature and specific to a customer's order requirements. As a result, establishing VSOE of selling price would not be possible.

The Company recognizes revenue from the sale of hardware products upon the later of transfer of title or upon shipment of the hardware product to the customer; so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured.

The Company's multiple-element sales arrangements include arrangements where hardware with embedded software licenses and the associated post contract customer support ("PCS") are sold together. The Company uses VSOE to determine selling price of the undelivered PCS elements based on fair value labour rates and consistent renewal rates.

The Company's multiple-element sales arrangements include rights for the customer to renew PCS after the bundled term ends. These rights are irrevocable to the customer's benefit, are for specified prices, are consistent with the initial price in the original multiple-element sales arrangement, and the customer is not subject to any economic or other penalty for failure to renew. Further, the renewal PCS options are for services comparable to the bundled PCS and cover similar terms and periods.

PCS revenue associated with hardware is recognized ratably over the term of the PCS period, which typically is one year. PCS revenue includes support levels that provide customers with access to telephone support for trouble-shooting, diagnosis and extends to on-site repair of products. PCS is considered a separate unit of accounting because (1) the delivered item has standalone value to customers as it is sold separately by the Company and (2) there is no general right of return and the delivery or performance of the undelivered item is probable and substantially in the control of the Company.

Extended warranty of 1 to 3 years can be purchased separately by customers. Revenue on extended warranty is deferred and recognized in income on a straight-line basis over the contracted period. Extended warranty revenue is recognized after the Company's one year manufacturer's warranty expires.

Revenue is recognized on installation, training, and consulting services when these services have been performed. Selling price on these items is determined by reference to third party evidence of comparable services. Installation, training and consulting services are separate units of accounting because (1) the delivered item has standalone value to customers as it is sold separately by the Company and (2) there is no general right of return and the delivery or performance of the undelivered item is probable and substantially in the control of the Company.

Revenue that has been received but does not yet qualify for recognition under the Company's policies is reflected as either deferred revenue (revenue that can be recognized in less than one year) or long-term deferred revenue (revenue that can be recognized in more than one year).

For reseller arrangements, fees are fixed or determinable on delivery to the reseller because the Company's agreements with customers and resellers do not contain product return rights.

Construction Contracts

The Company also earns revenue from fixed-price construction contracts. These contracts specifically negotiated for the construction of a combination of products and services are awarded at agreed prices. Revenue from fixed-price contracts is recognized under the percentage-of-completion method. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed. Contract revenue is recognized as revenue in profit or loss in the accounting periods in which the work is performed. Contract costs are usually recognized as an expense in the Consolidated Statement of Earnings and

Comprehensive Income in the accounting periods in which the work to which they relate is performed. However, any expected excess of total contract costs over total contract revenue for the contract is recognized as an expense immediately.

If circumstances arise that change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in the Consolidated Statement of Earnings and Comprehensive Income in the period in which the circumstances that give rise to the revision become known by management. Provisions for estimated losses, if any, are recognized in the year or period in which the loss is determined. Contract losses are measured as the amount by which the estimated costs of the contract exceed the estimated total revenue from the contract. Contract work-in-progress revenue is recorded to the extent that revenue has been recognized, but not yet billed to the customer.

Research and Development Costs

Research costs are expensed as incurred. Development costs are deferred if the product or process and its market or usefulness is clearly defined, the product or process has reached technical feasibility, adequate resources exist or are expected to exist to complete the project and management intends to market or use the product or process. If these criteria are not met, the development costs are expensed as incurred.

Government Contributions

Government funding of eligible research and development expenditures are credited when earned against product development expenses or the cost of property and equipment, to which the funding relate. The Company amortizes the cost of the related property and equipment over its useful life according to the Company's accounting policy relating to property and equipment. The Company recognizes government grants only when there is reasonable assurance that the Company will comply with the conditions attached to the grant and the grant will be received. The Company presents the grant as a deduction of the carrying amount of the asset the grant relates to in the Consolidated Statements of Financial Position. The grant is recognized in the Consolidated Statements of Earnings and Comprehensive Income over the life of the depreciable assets as a reduced depreciation expense.

Income Taxes

Income tax expense consists of current and deferred income tax expense. Income tax expense is recognized in the Consolidated Statement of Earnings and Comprehensive Income.

Current income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred income taxes are recorded using the statement of financial position liability method. Under this method, deferred income tax assets and liabilities are recognized for future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled.

The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that substantive enactment occurs.

A deferred income tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority, and when the Company intends to settle its current tax assets and liabilities on a net basis.

The Company accounts for income tax credits in accordance with IAS 12 Income taxes.

Profit or Loss from Discontinued Operations

A discontinued operation is a component of the Company that either has been disposed or, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations,
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or,
- is a subsidiary acquired exclusively with a view to resale.

Profit or loss from discontinued operations, including prior year components of profit or loss, is presented in a single amount in the Consolidated Statements of Earnings and Comprehensive Income. This amount, which comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets classified as held for sale, is further analyzed in Section 11.0 “Discontinued Operations”.

The disclosure for the discontinued operations in the prior year relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

Net Earnings Per share

Basic net earnings per share are computed by dividing net earnings by the weighted average number of common shares outstanding during the period.

Diluted net earnings per share is computed similar to basic net earnings per shares, except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants at the beginning of the reporting period, if dilutive. The number of additional shares is calculated assuming that outstanding stock options and warrants were exercised and the proceeds from such exercises were used to repurchase common shares at the average market price during the reporting period. Stock options and warrants are dilutive when the market price of the common shares at the end of the period exceeds the exercise price of the options and warrants and when the Company generates net earnings.

Provisions and Contingent Liabilities

Provisions for product warranties, legal claims, onerous contracts or other claims are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Timing or amount

of the outflow may still be uncertain. The expense relating to any provision is presented in the Consolidated Statements of Earnings and Comprehensive Income, net of any reimbursement. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbably or remote, no liability is recognized.

Related Party Transactions

Compensation of key management personnel including the Company's President and Chief Executive Officer, Chief Financial Officer, and General Manager and former President of a significant subsidiary are as follows:

('000s)	Year ended Dec 31		
	2012	2011	2010
	\$	\$	\$
Short-term employee benefits	2,115	2,586	677
Share-based payments	73	17	35
Total	2,188	2,603	712

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel. A substantial portion of the 2011 and 2010 year-over-year increase of short-term employee benefits relates to Sinclair's variable component of its employee incentive plan based on achievement of certain financial metrics.

The Company's related party transactions relate solely to compensation of key management personnel.

Recent Accounting Pronouncements

The information provided in note 3.27 under the heading "Future Accounting Pronouncements" set forth in the Audited Consolidated Financial Statements Years Ended December 31, 2012, 2011 and 2010 filed as Exhibit 99.4 to this annual report on Form 20-F, is incorporated by reference herein.

Acquisition of Sinclair

On January 21, 2011, we acquired 100% of the outstanding shares of Sinclair, a private company based in Aurora, Ontario specializing in the manufacture of antenna and radio frequency conditioning products.

We believe the acquisition of Sinclair complements the Company's core businesses and supports our goal of becoming a leading provider of innovative communication solutions that enable the transmission of data, audio and video for challenging applications and environments. It is expected that Sinclair will help diversify our markets into the commercial space and into the municipal government level. In addition, we believe that combining forces with Sinclair may create

opportunities to cross sell its customer base, resell Sinclair's products using its Microwave Products segment, potentially have target design antennas for its Maritime Solutions segment, and expose Sinclair's products to its relationships in Europe and the military markets.

The identified assets, liabilities, and purchase price below are a result of management's best estimates and assumptions after taking into account all relevant information available. We conducted studies and analysis of the acquired assets and liabilities to arrive at the final purchase price allocation below. The assessed fair value of the identifiable assets and liabilities of Sinclair as at January 21, 2011 are as follows:

('000s)	Fair value recognized on acquisition
Assets	\$
Cash and cash equivalents	726
Short-term investments	30
Trade and other receivables	2,301
Inventories	4,845
Prepaid expenses and other	153
Property and equipment, net	598
Intangible assets	10,138
Deferred tax assets	67
Total Assets	18,858
Liabilities	
Trade and other payables	2,065
Deferred income tax liabilities	2,910
Taxes payable	741
Total Liabilities	5,716
Total identifiable net assets at fair value	13,142
Goodwill on acquisition of Sinclair	5,360
Purchase consideration transferred	18,502

Goodwill is primarily related to growth expectations, expected future profitability, the substantial skill and expertise of Sinclair's workforce and expected cost synergies. Goodwill arising on the acquisition of Sinclair is not deductible for tax purposes.

We have collected substantially all cash flows related to trade and other receivables during 2011 and 2012.

Purchase consideration

The fair value of the purchase consideration is summarized as follows:

('000s)	
	\$
Cash	15,962
Shares issued, at fair value	2,037
Promissory notes payable	503
Total purchase consideration	18,502

We paid cash consideration of \$16.0 million, financed from the Company's cash and cash equivalents of \$4.0 million and \$12.0 million in debt financing from our principal banker.

\$1.0 million of the cash consideration was held in escrow and acted as a security for certain events should the Company be subject to any liabilities, claims or similar arising from representation or warranties made by the vendors. The \$1.0 million, less claimed amounts, if any, was releasable to the vendors on January 21, 2013. As at March 5, 2013, all funds have been released from escrow.

In addition, contingent consideration of 4,028,932 common shares were issued from treasury and have an estimated fair value of \$2.0 million and promissory notes with a total face value of \$750,000 plus interest at 3% per annum were issued to the vendors with an estimated fair value of \$0.5 million. The issuance of the common shares and the payment of promissory notes are contingent upon Sinclair achieving certain financial metrics.

At December 31, 2011, the 4,028,932 common shares component of the purchase consideration was held in escrow. The common shares were to be released to the vendors, at rate of 100%, 75% or 0%, subject to Sinclair achieving certain financial metrics for the year ended December 31 2011. Based on Sinclair's fiscal 2011 financial results, the Company released from escrow 100% of the common shares to the vendors during the second quarter of 2012.

We discounted the promissory notes using a discount rate of 20% for the duration of their maturity. The 4,028,932 common shares were discounted compared to the acquisition date's listed stock exchange price using the Black-Scholes Option Pricing model. The assumptions used for the fair value discount of the common shares were as follows:

Assumptions	
Risk-free interest rate	1.70%
Expected life	1.57 years
Vesting period	Immediately
Expected volatility	60.4%
Expected dividends	nil

The promissory notes were held in escrow and were to be released to the vendors, at a rate of 100%, 75% or 0%, subject to Sinclair achieving certain financial metrics for the year ending December 31, 2012.

On May 30, 2012 the vendors and the Company agreed to a reduction in the final contingent payment from the original face value of \$750,000 to \$725,000 for immediate release of the

promissory notes from escrow. The timing of the payout remains unchanged: 50% of the principal plus interest to be paid on March 29, 2013 and the balance of the principal plus interest on June 28, 2013. As a result of the change in face value, the Company decreased in the second quarter the related accretion expense by \$20,833 and accumulated interest accrued by \$312 with a corresponding decrease in promissory note payable and accrued liabilities. The value of the promissory notes as at December 31, 2012 was \$693,129 (2011- \$597,226).

The Company incurred transaction costs of approximately \$0.8 million of which \$0.5 million and \$0.3 million were incurred in 2011 and 2010 respectively, in relation to the acquisition that has been recognized in the Consolidated Statement of Earnings and Comprehensive Income.

Goodwill is primarily related to growth expectations, expected future profitability, the substantial skill and expertise of Sinclair's workforce and expected cost synergies. Goodwill arising on the acquisition of Sinclair is not deductible for tax purposes. The year-to-date change to Goodwill on acquisition of Sinclair is as follows:

('000s)	
Balance, December 31, 2010	-
Goodwill acquired through business combination	\$5,360
Foreign exchange translation	(82)
Balance, December 31, 2011	\$5,278
Foreign exchange translation	111
Balance, December 31, 2012	\$5,389

For the purpose of annual impairment testing, goodwill is allocated to Sinclair Technologies - the operating segment expected to benefit from the synergies of the business combination in which the goodwill arises.

The recoverable amount of goodwill was determined based on value in use calculations, covering a five-year forecast, followed by an extrapolation of expected cash flows for the remaining useful lives using growth rates determined by management. The growth rates range from 7% to 9%. The present value of the expected cash flows is determined by applying a suitable discount rate. The discount rate for 2012 is 16.5%.

The growth rates reflect the long-term average growth rates for the product lines and industry of the segment.

The discount rate reflects appropriate adjustments relating to market risk and specific risk factors of the segment.

Management's key assumptions to cash flow forecasting include moderately increasing profit margins, based on past experience and current trends in the markets that the segment operates. The Company believes that this is the best available input for forecasting cash flows.

In 2012, based on the Company's assessment, it did not record any impairment against goodwill as the recoverable amount exceeded its carrying value (2011- Nil).

Apart from the considerations in determining the value in use of the segment described above, the Company is not aware of any other probable changes that would necessitate changes in its key estimates. If the discount rate used is increased by 1 %, the recoverable amount of goodwill would reduce by approximately \$1.7 million, which is approximately \$4.6 million above its carrying value.

Discontinued Operations

On July 17, 2012, the Company sold Norsat Italia S.r.l., a wholly owned subsidiary of the Company for cash consideration of Euro 70,000 (\$85,764). Norsat Italia S.r.l operated the Company's vessel monitoring unit which formed part of our Maritime segment. The unit was not considered a discontinued operation or classified as held for sale at June 30, 2012 or December 31, 2011. The Company committed to a plan to sell the unit following June 30, 2012. The Consolidated Statements of Earnings and Comprehensive Income have been re-presented to show the discontinued operation separately from continued operations.

Expenses (\$000's)	Year Ended Dec 31		
	2012	2011	2010
Results of discontinued operation	\$	\$	\$
Revenue	278	564	415
Expenses	291	624	519
Results from operating activities	(13)	(60)	(104)
Gain on sales of discontinued operation	94	-	-
Net earnings (loss) for the period – from discontinued operations	81	(60)	(104)
Net earnings (loss) per share – basic	0.00	(0.00)	(0.00)
Net earnings (loss) per share - diluted	0.00	(0.00)	(0.00)
Weighted average number of shares outstanding			
Basic	58,183	58,046	53,567
Diluted	58,185	58,165	53,651
Cash flows provided by (used in) discontinued operation			
Net cash provided by (used in) operating activities	84	31	(66)
Net cash provided by investing activities	25	-	-
Net cash provided by financing activities	-	-	-
Net cash flows for the period	109	31	(66)

B. Liquidity and capital resources

Liquidity

Our principal cash requirements are for working capital, loan repayment and capital expenditures.

Our balance sheet remains strong. As at December, 2012, we had \$5.1 million in cash and cash equivalents, an increase of \$0.9 million from \$4.2 million as at December 31, 2011. Cash and cash equivalents increased by \$0.7 million from the third quarter of 2012. To meet our working capital requirements and to provide additional short-term liquidity each period, we may draw on our \$4.7 million operating line of credit. As at December 31, 2012 there were no amounts drawn under our operating line of credit.

Cash generated from operating activities was approximately \$0.6 million and \$2.3 million, respectively, for the three months and year ended December 31, 2012, compared to \$0.5 million and \$2.3 million for the comparable periods in 2011.

For the three months and year ended December 31, 2012, \$14,117 and \$0.1 million of cash was used in investing activities, respectively, compared to approximately \$0.1 million and \$15.5 million during the same periods in 2011. Investing activities for the year ended December 31, 2011 were comprised of the \$15.2 million of cash used to acquire Sinclair.

For the three months and year ended December 31, 2012 we used \$77,210 and \$1.4 million in financing activities, respectively, compared to approximately \$0.6 million and \$11.2 million cash over the comparable periods in 2011. In 2012, we purchased \$0.1 million of treasury shares, which is equivalent to 279,800 common shares at a weighted average share price of \$0.46. We also repaid \$2.8 million of the acquisition loan and received \$1.5 million in government funding in 2012. Financing activities in 2011 included \$12.0 million in loan proceeds related to the Sinclair acquisition loan.

Our working capital requirements are mainly for materials, production and selling, operations and general administrative expenses. Our working capital may be improved by increasing sales, shortening collection cycles and monetizing inventory.

Working capital as at December 31, 2012 was \$7.5 million, compared to \$5.1 million at December 31, 2011. The current ratio¹ for the 2012 year was at 1.5 times as compared to 1.3 times for the 2010 year.

Trade and other receivables were \$7.1 million as at December 31, 2012, down from \$7.9 million as at December 31, 2011. Government funding receivables were \$0.6 million as at December 31, 2012, lower by \$0.7 million, compared to \$1.3 million in 2011 as we utilized all of the remaining SADI funding in 2012. The balance of \$0.1 million reflects the timing of collections of trade and other trade receivables.

Trade and other payables and accrued liabilities decreased to \$5.8 million as of December 31, 2012 compared to \$7.1 million in 2011. The \$1.3 million reduction reflects improvement in cash flow that enabled us to reduce our payables with suppliers and differences in timing of payables and settlement.

Inventory as at December 31, 2012 was \$9.0 million, compared to \$10.2 million as at December 31, 2011, a decrease of \$1.2 million. The reduction in inventory reflects our focused efforts to reduce inventory levels, as well as the impact of the \$0.3 million increase to our provision for excess and slow-moving inventory.

As of December 31, 2012, shareholders' equity increased to \$24.2 million, from \$18.7 million at December 31, 2011. This increase reflects \$5.1 million in 2012 earnings, a \$0.2 million increase in contributed surplus from stock-based compensation on options and restricted share units, and a \$0.3 million increase in accumulated other comprehensive income due to foreign exchange movement, partially offset by \$0.1 million of treasury shares for future settlement of restricted share units granted during the second quarter.

Going forward, we may deploy cash for any suitable investments consistent with our long-term strategy of entering new geographic markets, broadening our customer base, and expanding into new market verticals. In addition to utilizing some or all of our current cash resources, we may also raise additional capital from equity markets or utilize debt to complete investment and financing transactions that would accelerate our growth in the areas outlined above.

Capital Resources

The Company's objectives and policies for managing capital are to maintain a strong capital base so as to maintain investor, creditor and market confidence, sustain future development of the

¹ Current ratio is defined as current assets divided by current liabilities and is a non-IFRS measure.

business and to safeguard the Company's ability to support the Company's normal operating requirements on an ongoing basis.

The capital of the Company consists of the items included in the Consolidated Statements of Financial Position in the shareholders' equity section, the promissory note and the operating line of credit (if drawn). The Company manages its capital structure and makes changes based on economic conditions and the risk characteristics of the Company's assets. As at December 31, 2012 shareholder's equity was \$24.2 million (2011 - \$18.7 million).

To manage the Company's capital requirements, the Company has in place a planning and budgeting process which helps determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company plans to continue to fund its short-term cash requirements through operations, and if required, the Company has an operating line of credit in place that can be drawn upon.

During September 2008, the Company entered into an agreement with the Canadian Federal Minister of Industry (the Minister) through the Strategic Aerospace & Defense Initiative (SADI) whereby the Minister will provide funding of 35% of eligible spending related to the research and development of Aerospace & Defense (A&D) technology development projects to a maximum funding amount of Cdn\$5,975,200 for eligible costs starting from September 21, 2007 up to and including December 31, 2012. Please refer to Note 8 Government Contributions in the Audited Financial Statements Year Ended December 31, 2012, 2011 and 2010 filed as Exhibit 99.4 to this annual report. Our current SADI program ended December 31, 2012. The Company is in the process of applying for a new SADI program. However, we cannot be certain that an agreement will be signed.

For the year ended December 31, 2012, there were no changes in the Company's approach to capital management.

As at December 31, 2012 the Company had the following externally imposed capital requirements under its operating line of credit agreements and the acquisition loan agreement:

- Working capital ratio (current assets divided by current liabilities) cannot be less than 1.25:1.00 – calculated quarterly,
- Debt service coverage ratio cannot be less than 0.70:1.00 for the fiscal year ending December 31, 2012 and cannot to be less than 1.00 thereafter. Ratio is based on Earnings before Interest Depreciation and Amortization ("EBITDA") less cash taxes and unfunded capital expenditures divided by aggregate principal and interest payments made during the relevant fiscal year – calculated annually beginning December 31, 2012, and
- Funded debt to EBITDA, less unfunded capital expenditures ("Debt to EBITDA Ratio") cannot exceed
 - 3.50:1.00 for the three months ending September 30, 2012
 - 3.00:1.00 for the period ending December 31, 2012, and
 - 2.50:1.00 thereafter – calculated quarterly, on a rolling 12 month basis.

EBITDA is defined as earnings before interest, taxes, depreciation, and amortization and is a non-IFRS measure. Unfunded capital expenditures are defined as capital expenditures which are not financed by external sources, such as being financed by the Company's own cash and cash equivalents. Funded debt includes only the acquisition loan.

As at December 31, 2012, the Company was in compliance with our externally imposed covenants.

The Company's capital resources as at December 31, 2012 were in cash and cash equivalents. The Company plans to continue to fund cash requirements through operations. If required, the Company has credit facilities in place that can be drawn upon. As of December 31, 2012, the Company had cash and cash equivalents of \$5.1 million.

Credit Facilities

Operating Line of Credit

On September 17, 2012, HSBC Bank of Canada (the "Bank") amended the terms and conditions of the Company's credit facilities. The covenants were amended and reflected under Capital Resources above. In addition, the Company received a new non-revolving demand loan as outlined below.

The following summarizes the Company's credit facilities extended by HSBC Bank of Canada as at December 31, 2012:

The Company has a secured revolving operating line of credit with the Bank of Cdn\$3.5 million or US\$2.8 million (2011 - Cdn\$3.5 million or US\$2.8 million) subject to an interest rate at the Bank's prime rate plus 1.35% per annum for amounts outstanding in Canadian dollars and/or the bank's U.S. base rate plus 1.35% per annum for amounts outstanding in U.S. dollars. The operating line of credit is payable upon demand by the Bank. As at December 31, 2012 and 2011, the Company had no borrowings outstanding with respect to the operating line of credit.

On September 17, 2012, the Company secured a new non-revolving demand loan of US\$1.0 million to assist in financing the working capital requirements of the Company. The demand loan is subject to an interest rate at the Bank's US base rate plus an applicable spread and/or the Bank's LIBOR rate plus an applicable spread. The applicable spread ranges from 1% to 4% depending on the Company's funded debt to EBITDA ratio determined quarterly on a rolling 12 month basis based on its consolidated financial statements. As at December 31, 2012, the Company had no borrowings outstanding with respect to the non-revolving demand note.

The Company also has an additional revolving demand note with HSBC Bank USA in the principal amount of US\$0.9 million (2011- US\$0.95) subject to an interest rate of prime plus 1.5% per annum and payable upon demand. As at December 31, 2012 and 2011, the Company had no borrowing outstanding with respect to the revolving demand note.

Acquisition Loan

On December 22, 2010, the Company secured a non-revolving acquisition loan of Cdn\$13,200,000 or US\$12,000,000 with the Bank subject to an interest rate at the Bank's banker's acceptance rate plus an applicable spread for amounts outstanding in Canadian dollars and/or the Bank's LIBOR rate plus an applicable spread for amounts outstanding in U.S. dollars. The applicable spread ranges from 1% to 4% depending on the Company's funded debt to EBITDA ratio determined quarterly on a rolling 12 month basis based on its consolidated financial statements. A portion of the loan is repayable in Canadian dollars and the remaining loan is repayable in U.S. dollars.

EBITDA is defined as earnings before interest, taxes, depreciation, and amortization and is a non-IFRS measure.

The acquisition loan is repayable in monthly principal repayments of 1/60th of the original principal balance, together with interest payments.

Under the original terms and conditions of the acquisition loan from the Bank, the Company is also required to repay an amount equal to the greater of (a) 5% of the original balance, and (b)

30% of the Company's net income plus depreciation and amortization, less capital expenditures and less aggregate principal payments made during the relevant financial year. Pursuant to this formula, the Company was required to pay the Bank \$0.6 million related to the financial year ended December 31, 2011 no later than April 30, 2012.

On September 17, 2012, the Bank amended the terms and conditions of the acquisition loan by giving the Company the option to repay the calculated amount under option (b) over a 12 month consecutive period from the payment due date in monthly equal installments plus interest. Please refer to the Capital Resources section above for discussion of changes in covenants.

The acquisition loan is repayable in full within 48 months of the date of the initial advance, January 21, 2011. The loan is secured by all assets of the Company under a general security assignment.

For the year ended December 31, 2012, the Company made principal repayments totaling \$2.8 million (2011-\$2.2 million) against the acquisition loan. As at December 31, 2012, the Company's combined weighted average interest rate was 4.05% (2011 – 4.15%).

The Company incurred costs of \$0.1 million related to the cost of acquiring the loan. These costs were capitalized as part of the cost of the loan and are being amortized over the life of the loan. The unamortized balance of these capitalized costs as at December 31, 2012 was \$56,554 (2011-\$83,398).

The Company has externally imposed capital requirements under its acquisition loan agreement as explained under the Capital Resources section.

As at December 31, 2012, the Company is in compliance with its bank covenants.

C. Research and development, patents and licenses, etc.

In 2008, the Company's receipt of an award by the Canadian Ministry of Industry is an external validation of the Company's excellence in research & development activities. The Cdn\$5.97 million repayable contribution through the Ministry's Strategic Aerospace and Defense Initiative (SADI) program provides the Company with a significant contribution towards assisting R&D efforts and provides for continued investment in technological innovation.

In 2012, 2011 and 2010, the Company continues to develop products in all business lines. The Company's product development efforts continue to be performed through the support of the Canadian Federal Government through the SADI grant awarded in 2008.

The following table provides further details of the Company's research and development expenditures:

Product Development Costs (\$000's)	Three Months Ended 2012 (unaudited)				Year Ended Dec 31,		
	Mar 31	Jun 30	Sep 30	Dec 31	2012	2011	2010
	\$	\$	\$	\$	\$	\$	\$
Product Development	772	973	712	907	3,364	2,897	1,950
Less: Government Funding	(242)	(192)	(423)	(134)	(991)	(1,602)	(1,087)
Product Development, net	530	781	289	773	2,373	1,295	863

D. Trend information

Radio Frequency Based Communications - Trends

Communication networks, and in particular, mobile wireless communications systems, are widely used in public safety, national security, natural resource management, and other specialized applications.

- Limited availability of licensed and unlicensed frequencies is causing governments to re-assign spectrum for public safety networks. As an example, US Broadcasters were recently required to vacate the 700 MHz frequency band to allow spectrum for new public safety networks;
- Demand by mobile radio users for more radio channels is causing network operators to reduce channel spacing and increase demand for filter products;
- Large competitors are more focused on the larger cellular market and appear to be reducing investment in new product development for the PMR market; and

Original equipment manufacturers (OEMs) are driving greater efficiencies and increasing their bargaining power by favouring fewer vendors with a broad product portfolio

Satellite-Based Communications - Trends

- There is a growing expectation that organizations and individuals are always “connected” to some type of communications infrastructure, regardless of where they may be positioned geographically.
- As companies are increasingly required to look beyond traditional locations to meet the world’s demand for natural resources, there has been a proliferation of remote sites far removed from existing infrastructure. Demand for bandwidth is ever-expanding as users increasingly expect that video and audio files are capable of being transmitted, and that the transmissions will occur in real time.
- In the era of 24-hour news coverage, viewers have come to expect media to cover a breaking story nearly instantaneously, regardless of where it occurs around the world. Media outlets need to be able to deploy quickly to meet this expectation.
- Major media are experiencing competition from alternative news sources that typically make content available over the Internet. Partly in response, governments and non-governmental organizations are increasingly producing their own content relating to events they deem significant, and making this available to third parties or directly to the public.
- The nature of modern military operations is such that mobility and rapid establishment of communication links in the field are increasingly considered vital.
- Major organizations that have global operations are increasingly aware of, and plan for, natural or man-made crisis events. Their plans often include establishing communication capabilities that are not dependent on terrestrial infrastructure as part of their contingency or emergency action plans.
- A number of large-scale disasters in recent years have proven the critical importance of first responders being able to establish rapid communication links to coordinate recovery efforts.

- Experience with information technology and communication equipment in recent decades has conditioned users to expect that related hardware will become smaller and more portable over time, while offering improved functionality. Providers who are able to meet this expectation can realize competitive advantages.
- Applications for satellite technology are becoming ubiquitous. From their traditional role in the broadcast and telecommunications fields, communications satellites have more recently been extended to such applications as broadband services, cellular and Internet backhaul, location-based services and satellite imagery. As a result, a broader base of users has a need for ground-based satellite equipment.

E. Off-balance sheet arrangements

Not applicable.

F. Tabular disclosure of contractual obligations

The Company's known contractual obligations at December 31, 2012 are quantified in the following table:

Contractual Obligations ('000s)	Payments due by period				Total
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
	\$	\$	\$	\$	\$
Long term debt obligations	3,000	3,953	-	-	6,953
Promissory note payable	755	-	-	-	755
Capital lease obligations	-	-	-	-	-
Operating lease obligations	841	1,320	437	-	2,598
Purchase obligations	3,264	189	-	-	3,453
Total	7,860	5,462	437	-	13,759

The Company, in the normal course of business, enters into purchase commitments, including inventory purchase obligations as disclosed above. The Company has operating lease commitments that extend to June 2017. During 2012, the Company renewed the office leases for its Aurora, Ontario premise until December 31, 2014; Lincoln, England premise until June 30, 2017; and Hamburg, New York premise until November 30, 2013. In addition, the Company is required to make contingent repayment of SADl government contributions starting in the first quarter 2013 using 2012 financial results as the benchmark. As at December 31, 2012, the Company did not accrue any liability for repayment as the amount cannot yet be determined. The promissory note payable includes accumulated interest payment of \$30,248. Future interest payment of approximately \$370,000 on the acquisition loan, based on a weighted average interest rate of 4.32%, has not been included under long term debt obligations.

G. Safe harbor

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.

6. Directors, Senior Management and Employees

A. Directors and Senior Management

Directors

The following section sets forth certain information regarding the current directors, as of March 5, 2013:

Fabio Doninelli

Director and Chairman of the Board, member of the Audit Committee and Compensation Committee

Mr. Fabio Doninelli became a director and Chairman of the Board of Norsat on March 7, 2011. Mr. Doninelli is President and Board Member of Prismafin S.A., an international investment organization with offices in Chiasso and Zurich, Switzerland. Mr. Doninelli has extensive experience in strategic advisory, portfolio management, and structuring funds. From 1982 to 1986, Mr. Doninelli served as Vice President of Trading for the Zurich Stock Exchange. Mr. Doninelli also serves as Strategy Advisor to the Boards of several public and private companies around the world. Mr. Doninelli, who lives in Mendrisio Switzerland, exercises direction over the 1,985,575 Norsat common shares held by Prismafin S.A.

Joseph Caprio

Director, member of the Audit Committee and Compensation Committee

Mr. Caprio became a director of Norsat on April 30, 2005. Mr. Caprio has 35 years of experience as a recognized organizational development expert. Mr. Caprio is a former Associate Dean at Colgate University and has served as a management consultant and as the operating officer of entrepreneurial businesses. Mr. Caprio, who lives in New York, is a strong proponent of the participative management philosophy of the American Management Association and has counseled a number of successful organizations. Mr. Caprio holds a BS degree in management from the University of Rhode Island, Kingston, RI and an MA degree from Colgate University, Hamilton, NY.

James Topham

Director and Chair of the Audit Committee

Mr. Topham became director and Chair of Audit Committee of Norsat on May 12, 2011. Mr. Topham has 30 years of public practice experience as a Chartered Accountant and prior to his retirement in 2008, was a Technology Partner of KPMG's Vancouver office. Mr. Topham currently serves on the Board of two other public technology companies as well as working with several other private technology companies. Mr. Topham was also a founder and for the first nine years, board member of the BC Technology Industry Association ("BCTIA"). In 2003, Mr. Topham founded the predecessor to the BC Cleantech CEO Alliance, to promote the cleantech industry in BC. He is a founder of BC Social Venture Partners, which has raised several million dollars towards funding specific community projects. Mr. Topham has a computer science major and a Bachelor of Commerce degree with Honours, and was the most distinguished graduate, from the Commerce Faculty of the University of Saskatchewan (1972).

Andrew Harries**Director and Chair of the Compensation Committee**

Mr. Harris became director of Norsat on November 29, 2011. Mr. Harries is a business advisor and corporate director, and has extensive experience in corporate strategy, financing, global alliances and business growth. Mr. Harries was President and CEO of Zeugma Systems, a developer of telecommunications systems for broadband service providers where he oversaw the company's evolution from initial funding in 2004, through development and commercialization to its sale to Tellabs, Inc. in 2010. Prior to co-founding Zeugma Mr. Harries co-founded Sierra Wireless, Inc. (TSX: SW) and during his 11 years with the company played a major role in positioning Sierra Wireless to secure TSX and NASDAQ public listings and grow its annual revenues to over US \$200 million. Currently Mr. Harries advises clients on growth strategies, Chairs the Board of Directors at Science World British Columbia, Chairs Simon Fraser University's Beedie School of Business Dean's External Advisory Board and is a member of the board of directors at Bsquare Corporation. Mr. Harries holds a Master of Business Administration degree from Simon Fraser University.

Dr. Amiee Chan**Director, President and Chief Executive Officer**

Dr. Chan became a director of Norsat on August 5, 2009. This appointment was in addition to her responsibilities as President and Chief Executive Officer of the Company. See *Senior Management* section below.

Senior Management

The following section sets forth certain information regarding the current senior management, as of March 5, 2013:

Dr. Amiee Chan, Executive Officer**President and Chief Executive Officer**

Dr. Chan was appointed as the President and CEO, on September 8, 2006. Dr. Chan has over 15 years of experience in executive management and research & development in the telecommunications industry. Offering a rare blend of technical and corporate strength, Dr. Chan's strategic vision has driven Norsat's innovative product development program and resulted in consistent revenue growth since her appointment as CEO in 2006. In 2012 Dr. Chan won a Women's Executive Network Top 100 Award, ranked third in PROFIT/Chatelaine's list of Top Female Entrepreneurs, and led Norsat to win a BC Export Award for Advancing Technology & Innovation. Dr. Chan was Product Manager at CREO from October 2002 to March 2004 and Director of Research and Development at Norsat from April 1998 to May 2002. Dr. Chan has been with the Company for fifteen years. She rejoined the Company in April 2004 as VP of Operations. Dr. Chan holds an Executive MBA from Simon Fraser University where she majored in Strategy and New Ventures and a Ph. D. in Satellite Communications from the University of British Columbia. An accomplished engineer, she has been published over a dozen times, holds three US patents, and has been involved in high level research teams such as the NASA ACTS Terminal Program. Dr. Chan is a member of the UBC Engineering Advisory Council and serves on the Dean's External Advisory Board for the Beedie School of Business at SFU.

Arthur Chin, Executive Officer**Chief Financial Officer**

Mr. Chin was appointed Chief Financial Officer on February 1, 2011, bringing 16 years of professional experience in both public practice and in public companies. Since leaving public practice in 2002, he has served in senior financial positions with several international companies, assisting

them in planning and analysis of their financial reporting, handling corporate accounting and tax, corporate communications efforts, and providing corporate development strategies. Mr. Chin was previously with Norsat between 2002 and 2005 and was the Company's Corporate Controller. Prior to rejoining Norsat, he held senior financial positions mostly in the high technology industry with DDS Wireless International Inc., a TSX listed company that provides wireless mobile data solutions and Ascalade Communications Inc., formerly a TSX listed company that designed, developed and manufactured digital wireless and communication products and also with the Canadian Tourism Commission. Prior to his corporate experiences he was in Big 4 public practice, most recently as a Manager in the assurance practice of Deloitte and originally with PricewaterhouseCoopers. Mr. Chin is a Chartered Accountant of the Institute of Chartered Accountants of British Columbia.

Ivan Gissing
General Manager, Sinclair Technologies

Mr. Gissing was appointed General Manager of the Company's Sinclair Technologies and Power Solutions Division on February 6, 2012. Mr. Gissing brings more than 20 years general management experience in the technology manufacturing industry. Most recently, he held the position of General Manager at Stored Energy Solutions, a manufacturer of high integrity battery systems for mission critical applications. Previously, he worked with Sterling Batteries and Varta Batteries. During the past two decades, Mr. Gissing has gained leadership experience in several key areas of the technology business, including product design and development, and manufacturing. He also played a critical role in market development, successfully driving market penetration and new sales with major utilities and commercial end users such as ABB, AT&T, Amazon, Denver International Airport, Digital Realty Trust, Hewlett Packard, Manitoba Hydro, Microsoft, NB Power, and Washington Mutual Bank. Mr. Gissing holds a B.Sc. in Electrical Engineering from Queens University and is a licensed Professional Engineer in Ontario.

B. Compensation

Compensation of Directors

As part of a Director's total compensation and to create a direct lineage with corporate performance as well as shareholder value, the Board believes that a meaningful portion of a Director's compensation shall be provided and held in stock options and Restricted Share Units ("RSUs").

Each non-executive Board member will receive stock options (at market value) upon joining the Board.

The following table is the directors' fee structure for the fiscal year ended December 31, 2012 in Canadian Dollars:

	2012
Chairman of Board of Directors	Cdn\$ 32,500
Chairman of Audit Committee	Cdn\$ 27,500
Chairman of Compensation Committee	Cdn\$ 27,500
Other Board Members	Cdn\$ 22,500

In addition each non-executive director will be paid Cdn\$1,000 for each Board meeting attended in person and Cdn\$250 for each Board meeting attended by conference call during the calendar year. Each non-executive Board member may also receive additional stock options and RSUs if the Company achieves certain annual financial targets. The number of stock options or RSUs will

be determined by the Board at the time of grant. The Company also reimburses its Directors for disbursements incurred on behalf of the Company. Fees of Cdn\$5,000 per year will also be paid to each director responsible for the Company's U.S. subsidiaries or CHF5,000 per year for the Swiss subsidiaries.

Changes in Board compensation, if any, will come with the full discussion and concurrence by the Board.

During the Company's fiscal year ended December 31, 2012, the aggregate compensation incurred by the Company or its subsidiaries to its directors, all of whose financial statements are consolidated with those of the Company, was \$131,504.

In addition, the Company issued a total of 63,332 RSUs in 2012 to the Board of Directors. The value of these RSUs was \$28,522 at grant date based on the closing price on the Toronto Stock Exchange of Cdn\$0.45.

All compensation awarded to, earned by, paid to or payable to the Board of Directors is reported below in US dollars. The following table sets forth all annual and long-term compensation earned from the Company and its subsidiaries for the year ended December 31, 2012 by each director:

Name and Principal Position	Fees earned (\$)	Share-based awards (\$)(1)	Option based awards (\$)	Non-Equity Incentive plan compensation (\$)	Pension Value (\$)	All Other Compensation (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Fabio Doninelli (Director and Chairman of the Board)	41,922	9,007	Nil	Nil	Nil	Nil	50,929
Joseph Caprio (Director)	31,525	6,005	Nil	Nil	Nil	Nil	37,530
James Topham (Director and Chair of the Audit Committee)	31,525	7,506	Nil	Nil	Nil	Nil	39,031
Andrew Harries (Director and Chair of Compensation Committee)	26,532	6,005	Nil	Nil	Nil	Nil	32,537

NOTES:

(1) Amounts represent the grant date fair value of Restricted Share Units based on the assumption of 100% vesting. The fair value is determined by multiplying the Company's share price by the number of RSUs granted and is amortized over the vesting period, adjusted to reflect the number of RSUs expected to vest.

There were no other arrangements under which independent directors were compensated during 2012. No independent directors earned any compensation for consultancy or other services provided to the Company.

Although Dr. Chan is a member of the Board of Directors, her compensation is summarized in the next section "Compensation of Officers".

Compensation of Officers

During the Company's fiscal year ended December 31, 2012, the aggregate compensation awarded to, earned by, paid or payable by the Company or its subsidiaries to its named executive officers, all of whose financial statements are consolidated with those of the Company, was \$1,338,606 (2011-\$2,580,074).

The following table reported in United States Dollars sets forth all annual and long term compensation accrued or paid by the Company and its subsidiaries for the years ended December 31, 2012, 2011 and 2010 to each member of senior management.

Name and Principal Position	Year	Salary (\$)	Share-based awards (\$)(1)	Option based awards (\$)(2)	Non-Equity Incentive plan compensation (\$)		Pension Value (\$)	All Other Compensation (\$)(8)	Total (\$)
					Annual Incentive Plans (3)	Long-term incentive plans			
(a)	(b)	(c)	(d)	(e)	(f1)	(f2)	(g)	(h)	(i)
Dr. Amiee Chan, President and CEO(4)	2012	280,224	48,038	N/A	275,917	N/A	27,807	5,431	637,378
	2011	242,736	N/A	48,064	Nil	N/A	22,251	207,973	521,024
	2010	185,382	N/A	15,509	Nil	N/A	18,064	N/A	218,955
Arthur Chin, CFO (5)	2012	240,192	34,861	N/A	180,144	N/A	21,017	N/A	476,214
	2011	176,152	N/A	39,817	Nil	N/A	8,831	N/A	224,800
Ivan Gissing, General Manager of Sinclair Technologies (6)	2012	152,237	N/A	N/A	66,688	N/A	6,089	N/A	225,014

NOTES:

- (1) Amounts represent the grant date fair value of Restricted Share Units based on the assumption of 100% vesting. The fair value is determined by multiplying the Company's share price by the number of RSUs granted and is amortized over the vesting period, adjusted to reflect the number of RSUs expected to vest.
- (2) Amounts for option based awards are valued under the Black-Scholes Options Pricing Model. For underlying assumptions of the inputs to the model please refer to note 16c under the heading "Share purchase option plan" set forth in the Audited Consolidated Financial Statements Years Ended December 31, 2012, 2011 and 2010 filed as Exhibit 99.4 to this annual report on Form 20-F.
- (3) Amounts paid in the fiscal year related to performance in the prior year.
- (4) Ms. Chan received in 2012 director's fee of \$5,431 for being a director of the Company's Swiss subsidiary. In 2011, Ms. Chan received a one-time payment of \$202,280 and director's fee of \$5,693 for being a director of the Company's Swiss subsidiary, for a total of \$207,973.
- (5) Mr. Chin joined the Company on February 1, 2011.
- (6) Mr. Gissing joined the Company on February 6, 2012.
- (7) Perquisites under All Other Compensation are not in excess of CDN\$50,000 or 10% of the total base salary paid to each Named Executive Officer for the years indicated and thus are not reported.

The bonus amounts (under Annual Incentives Plan) were paid pursuant to the Company's Employee Compensation Plan. The plan remunerates employees based on successful completion of both corporate and/or personal objectives and each employee is tiered to a level to match their responsibilities within the Company.

Reference is also made to item C immediately below – specifically "Board practices - Performance Bonus" under the heading "Annual Cash Incentive Compensation Plan".

D. Board practices

Mandate of the Board

The Board of Directors is responsible for the stewardship of the Company and endorses a system of corporate governance designed to effectively manage and supervise the management of the business and the affairs of the Company. The Board also provides considerable guidance to Management in pursuit of the Company's objectives.

The Board acknowledges that good corporate governance is important to the effective performance of the Company and plays a key role in protecting the interests of shareholders.

The Board continues to review the existing or proposed amendments to governance guidelines and practices in order to implement the most effective corporate governance policies and practices for the Company. The Board has adopted, and will continue to adopt changes to their governance guidelines and practices as necessary to comply with the United States Sarbanes-Oxley Act of 2002 and any new rules issued by the United States Securities and Exchange Commission, the Ontario Securities Commission, the Toronto Stock Exchange, and other applicable securities regulatory authorities.

Decisions Requiring Board Approval

In general, the Company's management operates the business on a day-to-day basis. The Board approves the annual budget and strategic plans and reviews the performance of senior management against those standards. In addition, the Board approves all major acquisitions, dispositions, financings, both debt and equity, and changes in the structure of the Company. The Board also determines the responsibility and compensation of the Chief Executive Officer. The Board appoints the officers of the Company. The Directors also determine the directors' compensation and consider the declaration of dividends.

Composition of the Board

The Board is currently composed of five directors, four of whom are considered "independent" to the Company. An "independent" director is a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to materially interfere with the director's ability to act with a view to the best interests of the Company, other than interests and relationships arising from shareholdings.

Recruiting of New Directors

When a Board vacancy occurs or an increase in the size of the Board is contemplated, the directors will recommend qualified individuals for nomination to the Board. The directors will take into account the mix of director characteristics and diverse experiences, perspectives and skills appropriate for the Company.

Because of the small size of the Board, the Board has not appointed a separate nominating committee to be responsible to propose and assess potential new directors. At present, a majority of the directors are independent of management of the Company, which will encourage an objective nomination process.

The Board meets at least quarterly to carry out its duties and meets on an informal basis throughout the year to discuss the Company's progress and management.

Measures for Receiving Shareholder Feedback

Management has been asked to make the Board aware on an ongoing basis of any significant shareholder concerns communicated to management. Currently the CEO and CFO respond to shareholder inquiries and direct appropriate matters to senior management. Senior management will meet with shareholders to discuss their concerns where appropriate.

The Board's Expectation of Management

The Board expects management to operate the Company in accordance with good, prudent business practices. Management is expected to report to the Board on financial and operating matters and to make the Board aware of all important issues and major business developments. The Board also expects management to find new business opportunities for business acquisitions and expansion and to make the appropriate reports to the Board regarding those opportunities.

Directors' and Officers' Liability Insurance

The Company has purchased, at its expense, Directors' and Officers' liability insurance. The Directors' and Officers' liability insurance coverage was Cdn\$10,000,000. Total premiums expensed during 2012 were \$36,079.

Director's Service Contracts

The term of office for each of the present directors expires at the Annual General Meeting. The current directors have served as such as follows: Mr. Doninelli since March 2011; Mr. Caprio since May 2005; Mr. Topham since May 2011, Mr. Harries since November 2011 and Dr. Chan since August 2009.

The Company does not provide benefits for its non-executive directors.

Board Committees

The Board currently has two standing committees being the Audit Committee and the Compensation Committee.

Audit Committee

The Company's Audit Committee was comprised of three directors of the Board namely: Mr. Topham (Chair), Mr. Caprio, and Mr. Doninelli, each of whom is independent and an "unrelated" director. Each member of the Audit Committee considers himself financially literate and capable of reading and understanding financial statements, and Mr. Topham has an accounting designation and related financial expertise. The board has adopted a formal written charter for the Audit Committee under which the committee is responsible for, among other things, reviewing the Company's annual and quarterly financial statements, financial reporting procedures, internal controls and performance and independence of the Company's external auditors. The Audit Committee is directly responsible for the appointment, compensation and oversight of the auditors including pre-approving all non-audit services provided by the audit firm.

During fiscal 2012, the Audit Committee met four times to carry out its responsibilities.

As part of its oversight of the Company's financial statements, the committee reviewed and discussed with both management and the Company's external auditors the annual financial statements, and with management the quarterly financial statements, prior to their issuance. Management advised the Audit Committee in each case that all financial statements were prepared in accordance with generally accepted accounting principles, and reviewed significant accounting issues with the committee.

On May 9, 2012, Grant Thornton LLP was appointed as the auditor of the Company for fiscal year ending December 31, 2012. Grant Thornton has been the auditor of the Company since March 29, 2010.

The Audit Committee discussed with the external auditors matters relating to its independence, including a review of audit and non-audit fees and the disclosures made to the Committee pursuant to Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees).

The Audit Committee reviewed and approved audit fees, audit related fees, tax fees and other services fees charged by Grant Thornton LLP.

Taking all of these reviews and discussions into account, on March 5, 2013, the Audit Committee recommended to the Board of Directors that the Board approve the Company's consolidated financial statements for the fiscal year ended December 31, 2012.

A copy of the Audit Committee's charter can be found on our website at www.norsat.com under Corporate Governance/ Board Mandate.

Compensation Committee

The Board dissolved the Compensation Committee by unanimous vote on November 9, 2006. All functions of the Compensation Committee were performed by the independent members of the Board.

On November 6, 2012, the Company reconstituted its Compensation Committee.

The Company's Compensation Committee comprised of three directors of the Board namely: Mr. Harries (Chair), Mr. Caprio, and Mr. Doninelli, each of whom is independent and an "unrelated" director.

It is the responsibility of the Compensation Committee to (a) review the Company's annual Information Circular prior to release to any shareholder, government body or the public, (b) review the performance and compensation package of the Chief Executive Officer and executive management, (c) review stock option grants and restricted share units and (d) perform such other duties and tasks as shall be requested by the Board.

During 2012, the Compensation Committee has met once and reviewed the Company's incentive compensation plan based on 2012 financial results; performance and compensation of the Chief Executive Officer and executive management.

A copy of the Compensation Committee's charter can be found on our website at www.norsat.com under Corporate Governance/ Board Mandate.

Compensation Discussion and Analysis

The Board reviews and gives final approvals with respect to the Company's Executive Compensation Plan, RSU and Stock Option Plans. The Board sets the compensation of the Chief Executive Officer, reviews and approves management's recommendations for compensation and bonuses for senior management and grants of RSUs and stock options. The Board is also responsible for reviewing executive management succession and development plans.

Compensation Objectives

The Company has established compensation policies to address the following objectives:

- To assist the Company to attract and retain highly qualified individuals.
- To reward employees annually for achieving financial results.
- To create among employees a sense of ownership in the Company and to align the interests of the employees with those of the shareholder.
- To create a variable component to compensation that is linked to the Company's business strategy, the Company's ability to pay and the employee's ability to influence results.
- To ensure competitive compensation that is also financially affordable for the Company.
- To provide a rational methodology for incentive compensation, RSU and stock option grants that employees understand and support.
- To attract and retain talented individuals to lead those functions important to the Company's success.

The Company has a "results oriented" compensation plan creating a significant variable component to compensation that is linked to key operating metrics. The Company's compensation plan is comprised of a combination of base salary, an annual incentive plan, an annual incentive stock option award, and benefits. To ensure competitiveness, the Company participates in annual compensation surveys, conducted by independent consultants, of salaries, benefits and other incentive programs in the high technology industry in Canada.

Base Salary and Benefits

Base salaries for the executives are targeted, on average at the 75th percentile of the comparator group and other relevant external market data as well as the individual's skill performance, and experience. In addition to the base salary, the Company offers a benefit package to all employees to cover group life insurance, health and dental and group retirement savings plans. Executives also receive a car allowance.

Annual Cash Incentive Compensation Plan

The Company's annual cash incentive compensation plan for executives is based on the Compensation Objectives discussed above. Payments under this plan are determined based on the Company's performance and success in achieving specific operating targets: 50% on annual revenue targets and 50% on annual EBITDA targets. However, no bonus shall be paid if the Company is not profitable.

The cash bonuses for executives are determined as a percentage of base salary and calculated at 75% of base salary for the CEO, 50% of base salary for the CFO and 30% of base salary for the General Manager.

Annual Long-Term Equity: Restricted Share Units Award

On May 9, 2012, the shareholders of the Company approved the adoption of the terms of a Restricted Share Unit Plan (the "RSU Plan").

Under the RSU Plan, restricted share units ("RSUs") are issued to directors, officers and employees of the Company, or its subsidiaries ("Eligible Persons"). The RSU Plan gives Eligible Persons the right to receive, at the discretion of the Board (or a committee thereof), Common Shares, which are not to be issued from treasury, without any monetary consideration payable to the Company. The Company has engaged a trustee to purchase the Common Shares on the public market, through the facilities of the TSX, in connection with the granting of RSUs to Eligible

Persons, which Common Shares are held by the trustee until such Eligible Person's RSUs vest. The vesting of RSUs will be subject to time-based vesting terms, conditions and restrictions, as determined by the Board (or a committee thereof) in its sole discretion. To the extent that such criteria are attained, each RSU would be converted into one Common Share held by the trustee. On termination of employment for any reason whatsoever, all unvested RSUs will be forfeited. Upon death or total disability all unvested RSUs will immediately vest.

The RSUs will be accounted for as a compensation expense under the fair value method of accounting.

In 2012, the Company has awarded a total of 247,405 RSUs to the Board of Directors and senior management. The RSU's vest ratably over 12, 24 and 34 month periods.

Annual Long-Term Equity: Stock Option Award

On May 9, 2012, the shareholders of the Company approved the adoption of a new stock option plan (the "New Stock Option Plan") in order to modernize and incorporate the changes to the Toronto Stock Exchange (the "TSX") policies and regulations. In addition, the New Stock Option Plan addressed amendments to applicable Canadian income tax regulations, whereby issuers are required to collect withholding taxes from optionees in connection with option exercises.

Under the New Stock Option Plan, any increase in the number of outstanding common shares of the Company results in an increase in the number of common shares that are available to be issued under the plan in the future, and any exercise of an option previously granted under the plan results in an additional grant being available under the plan. All validly outstanding options existing on May 9, 2012 were counted for the purposes of calculating what may be issued under the New Stock Option Plan.

In 2012, no stock options were awarded to the Board of Directors or senior management.

Long Service: Stock Option Award

In 2011, the Company amended its compensation plan such that employees are entitled to a loyalty/long service grant of options at each fifth year anniversary with the Company.

Pension Plan Benefits

Other than contributions to group retirement savings plans on behalf of the employee, the Company does not provide retirement benefits under defined benefit or defined contribution plans for its Named Executive Officers.

Termination and Change in Control Benefits

The Company has an employment agreement with each of the Named Executive Officers: Dr. Chan's contract may be terminated by her with six weeks' notice and by the Company by paying: a) salary, accrued vacation pay and pro-rated performance bonus to the date of termination; and b) a lump sum severance equal to twelve (12) months base salary (based on the Executive's base salary at the time of termination) plus performance bonus at the 1.0x level (based on the Executive's on-target reward level at the time of termination).

Mr. Chin's contract may be terminated by him with eight weeks' notice and by the Company by paying: a) salary, accrued vacation pay and pro-rated performance bonus to the date of termination; and b) a lump sum severance equal to twelve (12) months base salary (based on the Executive's base salary at the time of termination) plus performance bonus at the 1.0x level (based on the Executive's on-target reward level at the time of termination).

Mr. Gissing's contract may be terminated by him with ninety days' notice and by the Company with payment of two months' salary for each full year of employment with Company, but not less than twelve months.

Each agreement contains a twelve month Non-Competition and Non-Solicitation clause. The Company has no compensatory plan or arrangement to compensate the Named Executive Officers in the event of the termination of employment (resignation, retirement, or change of control) or in the event of a change in responsibilities following a change in control, except for usual notice or payment in lieu of notice requirements in the employment agreements of such Named Executive Officers in the event of termination without just cause. The vesting of RSUs and stock options is governed by the Company's respective Plans.

If the employment of the Named Executive Officer were terminated without just cause on December 31, 2012, the Named Executive Officer would be paid an incremental amount outlined in the table below:

		Payment (\$)
Dr. Amiee Chan		492,499
Mr. Arthur Chin		361,836
Mr. Ivan Gissing		29,275
Total		883,610

D. Employees

The chart below provides a breakdown of the number of employees (including full time equivalents) by function as at December 31:

	2012	2011	2010
Senior Management	3	3	2
Research and Development	27	29	13
Sales and Marketing	30	27	12
Production and Logistics	90	87	21
Finance and Administration	13	13	6
	163	159	61

In 2011, the Company added a total of 94 employees as a result of the Sinclair acquisition.

The following table shows the number of employees by geographical location as at December 31:

	2012	2011	2010
Canada	154	148	54
United States	5	5	3
Other	4	6	4
	163	159	61

The Company believes that its work force is reasonably skilled, capable and motivated and that the relations with the Company's employees are good. The Company's work force is not unionized or part of any collective labour agreement.

E. Share ownership

The following table sets forth securities owned or controlled by Directors and Officers of the Company as at December 31, 2012:

Name, Position, Country of residence	Number of common shares owned ⁽¹⁾	As a % of outstanding common shares	Number of common share purchase warrants owned
Fabio Doninelli (Director and Chair of the Board) Switzerland	2,130,575 (2)	3.65%	Nil
Joseph Caprio (Director and member of the Audit and Compensation Committee) USA	179,936 (3)	0.31%	Nil
James Topham (Director and Chair of the Audit Committee) Canada	Nil	0.00%	Nil
Andrew Harries (Director and Chair of the Compensation Committee) Canada	Nil	0.00%	Nil
Amiee Chan (Director, President and CEO) Canada	604,536	1.04%	Nil
Arthur Chin (Chief Financial Officer) Canada	Nil	0.00%	Nil
Ivan Gissing (General Manager of Sinclair) Canada	Nil	0.00%	Nil

NOTES:

- (1) The information as to common shares beneficially owned or over which a director or nominee exercises control or direction, not being within the knowledge of the Company, has been furnished by the respective directors or nominees individually.
- (2) Mr. Fabio Doninelli directly owns 145,000 shares of the Company. By virtue of his position as General Manager and Chief Executive Officer of Prismafin S.A., Mr. Fabio Doninelli also exercised direction over 1,985,575 common shares of the Company held by Prismafin S.A, bringing his total ownership to 2,130,575.
- (3) Mr. Caprio directly owns 155,386 shares of the Company. By virtue of Mr. Caprio's spouse, he exercises direction over an additional 24,550 shares of the Company, bringing his total ownership to 179,936.

Outstanding option-based awards and share-based awards

The following table sets forth details of the Directors and Executive Officers outstanding stock options and restricted share units as at December 31, 2012 and the fiscal year-end value of in-the-money unexercised options:

Name	Option - based awards				Share - based awards	
	No. of securities underlying unexercised options	Options exercise price (Cdn)	Options expiration date	Value of unexercised in the money options (Cdn)(1)	Number of shares not vested	Market value of share based awards that have not vested(Cdn\$(2)
Fabio Doninelli (Director and Chairman of the Board)	150,000	\$0.86	4-Mar-16	Nil	-	-
	-	-	-	-	20,000	\$10,200
James Topham (Director and Chair of the Audit Committee)	100,000	\$0.73	12-May-16	Nil	-	-
	-	-	-	-	16,666	\$8,500
Andrew Harries (Director and Chair of the Compensation Committee)	100,000	\$0.51	22-Nov-16	Nil	-	-
	-	-	-	-	13,333	\$6,800
Joseph Caprio (Director and member of the Audit and Compensation Committee)	20,000	\$1.37	1-Apr-13	Nil	-	-
	20,000	\$0.90	1-Apr-14	Nil	-	-
	20,000	\$0.70	1-Apr-15	Nil	-	-
	100,000	\$0.48	14-Dec-16	\$3,000	-	-
	-	-	-	-	13,333	\$6,800
Dr. Amiee Chan (President and Chief Executive Officer)	40,000	\$1.37	1-Apr-13	Nil	N/A	N/A
	40,000	\$0.90	1-Apr-14	Nil	N/A	N/A
	40,000	\$0.70	1-Apr-15	Nil	N/A	N/A
	200,000	\$0.48	14-Dec-16	\$6,000	N/A	N/A
	-	-	-	-	106,666	\$54,400
Arthur Chin (Chief Financial Officer)	100,000	\$0.70	1-Feb16	Nil	-	-
	-	-	-	-	77,407	\$39,478
Ivan Gissing (General Manager of Sinclair Technologies)	60,000	\$0.50	6-Feb-17	\$600	-	-

NOTES:

- (1) Calculated using the closing share price on the Toronto Stock Exchange on December 31, 2012, Cdn\$0.51, less the exercise price of the stock option(s).
- (2) Calculated using the closing share price on the Toronto Stock Exchange on December 31, 2012, Cdn\$0.51.

Incentive plan awards – value vested or earned during the year

The following table sets forth details of the aggregate dollar value that would have been realized if awards had been exercised on the vesting date and the value of non-equity compensation earned during the year ended December 31, 2012 for each Director and Executive of the Company:

Name	Option-based awards - Value vested during the year (\$)	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year(\$)
Fabio Doninelli (Director and Chairman of the Board)	Nil	Nil	N/A
James Topham (Director and Chair of the Audit Committee)	Nil	Nil	N/A
Andrew Harries (Director and Chair of the Compensation Committee)	Nil	Nil	N/A
Joe Caprio, (Director and member of the Audit and Compensation Committee)	Nil	Nil	N/A
Dr. Amiee Chan, (President and Chief Executive Officer)	Nil	Nil	N/A
Arthur Chin (Chief Financial Officer)	Nil	Nil	N/A

7. Major Shareholders and Related Party Transactions

A. Major shareholders

The Company's authorized capital consists of 100,000,000 common shares without par value, of which 58,316,532 common shares were issued and outstanding as at December 31, 2012.

To the knowledge of the directors and senior officers of the Company, there are no persons or companies who beneficially own, directly or indirectly, or exercise control or direction over shares carrying 5% or more of the voting rights attached to all outstanding common shares of the Company.

B. Related party transactions

Reference is made under exhibit 99.4 Audited Consolidated Financial Statements Years Ended and as at December 31, 2012, 2011 and 2010, specifically note 22 “Related Party Transaction”.

C. Interests of experts and counsel

Not Applicable.

8. FINANCIAL INFORMATION

A1 – A3. Consolidated Statements and Other Financial Information

Reference is made under exhibit 99.4 Audited Consolidated Financial Statements Years Ended and as at December 31, 2012, 2011 and 2010 to this Form 20-F.

A4. – A6.

Not applicable

A7. Litigation

From time to time the Company may enter into legal proceedings relating to certain potential claims. It is impossible at this time for the Company to predict with any certainty the outcome of any such claims. However, management is of the opinion, based on legal assessment and information available, that it is unlikely that any liability would be material in relation to the Company's consolidated financial position. As at March 5, 2013, we are not aware of any legal proceedings outstanding by or against us which may have a significant effect on the Company's financial position or profitability.

A8. Dividend Policy

Our Company has not paid any dividends during its history. The Company has no fixed dividend policy. Payment of dividends in the future will depend upon, among other factors, the Company's earnings, capital requirements and financial condition. The Company does not anticipate that dividends will be paid in the foreseeable future.

B. Significant Changes

None.

9. The Offer and Listing

Our common shares trade on the TSX under the symbol NII and on the OTC Bulletin Board under the symbol NSATF.

The high and low share prices (in Canadian dollars) for the Company's common shares on the Toronto Stock Exchange and the OTC Bulletin Board for a) the five most recent full financial years. b) the two most recent financial years by quarter and any subsequent full quarter, c) and the most recent six months are listed below:

			TSX			OTC BB	
			(CDN. Dollars)			(U.S. Dollars)	
			High	Low		High	Low
a)	2012		0.55	0.35		0.55	0.35
	2011		0.96	0.44		0.95	0.43
	2010		0.84	0.50		0.80	0.42
	2009		1.04	0.40		0.99	0.32
	2008		1.59	0.46		1.60	0.38
b)	2012						
	Fourth quarter		0.55	0.43		0.53	0.42
	Third quarter		0.51	0.35		0.51	0.35
	Second quarter		0.50	0.40		0.48	0.39
	First Quarter		0.54	0.46		0.55	0.47
	2011						
	Fourth quarter		0.53	0.44		0.53	0.43
	Third quarter		0.62	0.49		0.65	0.50
	Second quarter		0.77	0.60		0.78	0.60
	First Quarter		0.96	0.50		0.95	0.55
c)	Last 6 Months						
	February	2013	0.58	0.50		0.57	0.51
	January	2013	0.58	0.50		0.59	0.50
	December	2012	0.55	0.44		0.53	0.44
	November	2012	0.51	0.43		0.49	0.45
	October	2012	0.50	0.43		0.49	0.42
	September	2012	0.50	0.46		0.51	0.47

10. Additional Information

A. Share capital

Not applicable

B. Memorandum and Articles of Association

Incorporation

The Company was incorporated on October 15, 1982 under the *Company Act* of the Province of British Columbia under the name Norsat International Inc. Effective September 27, 1989, the name of the Company was changed to Nil Norsat International Inc., and on July 2, 1999 was further amended to its present name, Norsat International Inc. Our incorporation number is 255727. Our memorandum of incorporation (the “Memorandum”) and our articles (the “Articles”) were included as exhibits in Item 3.1 and 3.2 with our Annual Report filed in June 2000. Effective March 28, 2006, Norsat was registered under the BC *Business Corporation Act (the “Act”)*. On June 30, 2011, the Company filed a Notice of Change of Articles on EDGAR and filed its updated articles under the Business Corporations Act (British Columbia) (“BCA”). The amendments principally reflect the provisions of the BCA that modernized British Columbia corporate legislation. The New Articles do not include a number of provisions in the previous articles that are now covered by the BCA to avoid the possibility of conflict or the possibility of having to comply both with the statutory provision and a corresponding but different provision in the new articles and include the use of the new terminology adopted under the BCA.

Powers and Functions of the Directors

Our Articles state that it is the duty of any of our directors who are directly or indirectly interested in a contract or proposed contract with us to declare the nature of their interest in accordance with the provisions of the Act. Our Articles also state that a director shall not vote in respect of the approval of any contract or transaction with our Company in which he is interested and if he shall do so his vote shall not be counted, but shall be counted in the quorum present at the meeting at which the vote is taken.

Directors Power to Vote on Compensation for Themselves

Subject to the Act, our Articles provide that the directors may determine to be paid out of our funds or capital as remuneration for their service. The directors may also determine the proportions and manner that the remuneration will be divided among them.

Directors Borrowing Powers

Our Articles provide that the directors, on our behalf, may:

- a) borrow money in any manner or amounts, on any security from any source and upon any terms and conditions that they consider appropriate;
- b) issue bonds, debentures and other debt obligations either outright or as security for any liability or obligation of the Company or any other persons and at such discounts or premiums and on such other terms as the directors consider appropriate; and
- c) guarantee the repayment of money by any other person or the performance of any obligation of any other person; and
- d) mortgage, charge, whether by way of specific or floating charge, grant a security interest in, or give other security on the whole or any part of the present and future assets and undertaking of the Company.

Retirement of Directors Under an Age Limit Requirement

Our Articles do not require directors to retire pursuant to an age limit.

Number of Shares Required for a Director's Qualification

Our Articles do not provide for a requirement of shares for a director's qualification.

Share Capital

The authorized share capital of our Company consists of 100,000,000 Common Shares without par value, of which 58,316,532 common shares are issued and outstanding as at March 5, 2013.

Common Shares

The Holders of our Common Shares are entitled to dividends if, as and when declared by the Board of Directors, to one vote per Common Share and, upon dissolution of the Company, to receive the remaining property and the assets of the Company available for distribution.

Dividend Record

Our Company has not paid any dividends during its history. The Company has no fixed dividend policy. Payment of dividends in the future will depend upon, among other factors, the Company's earnings, capital requirements and financial condition. The Company does not anticipate that dividends will be paid in the foreseeable future.

Alteration of Share Rights

A special resolution is required to effect a change in the rights of shareholders. A special resolution is a resolution passed by a two-thirds majority of the votes cast by shareholders of the Company who being entitled to do so, vote in person or by proxy at a meeting of the shareholders of the Company, or a resolution in writing signed by every shareholder of the Company who would have been entitled to vote at a meeting of the shareholders of the Company.

Meetings of Shareholders: Annual Meetings

The annual general meeting of our shareholders is held at such time and on such day in each year as the directors of the Company may, from time to time, determine for the purpose of receiving the reports and statements required by the Act to be presented to the annual meeting, electing directors, appointing auditors and for the transaction of such other business as may properly be brought before the meeting. Annual general meetings are required to be held once in every calendar year at a time, not being more than 13 months after the holding of the last preceding annual general meeting.

General or Extraordinary Meetings

The directors of the Company may, at any time, call a general or extraordinary meeting of the shareholders of the Company, for the transaction of any business, which may properly be brought before such a meeting of shareholders.

Place of Meetings

Meetings of shareholders of the Company are to be held at such place within Canada as the directors of the Company, from time to time, determine.

Notice of Meetings

Notice of the time and place of each meeting of shareholders of the Company is required to be sent to our shareholders not less than 21 days before the date of the meeting.

A shareholder of the Company and any other person entitled to attend a meeting of shareholders of the Company may, in any manner and at any time, waive notice of or otherwise consent to a meeting of shareholders of the Company.

Quorum

No business will be transacted at any general meeting unless the requisite quorum is present at the commencement of the business. Subject to the Act, the quorum for the transaction of business at a meeting of shareholders is at least one person, or who represents by proxy, one or more shareholders who, in aggregate, hold at least 5% of the issued shares entitled to be voted at the meeting.

Foreign Ownership Limitations

Neither the Act nor the incorporation documents of the Company impose limitations on the rights, including the right of non-resident or foreign shareholders, to hold or exercise voting rights attached to the Common Shares.

Change of Control

No provisions of the Company's Articles exist that would have the effect of delaying, deferring or preventing a change in control of the Company or that would operate with respect to any proposed merger, acquisition or corporate restructuring of the Company.

Share Ownership Reporting Obligations

No provision of the Company's Articles imposes any requirements on shareholders requiring share ownership to be disclosed. The securities laws of the Company's home jurisdiction require disclosure of shareholdings by: (a) persons who are directors or senior officers of the Company; and (b) a person who has direct or indirect beneficial ownership of, control or direction over, or a combination of direct or indirect beneficial ownership of and control over securities of the Company carrying more than 10% of the voting rights attached to all of the Company's outstanding voting securities.

Securities legislation in Canada requires that shareholder ownership must be disclosed once a person owns beneficially or has control or direction over greater than 10% of the issued shares of the Company. This threshold is higher than the 5% threshold under U.S. securities legislation at which shareholders must report their share ownership.

C. Material Contracts

The only material contracts entered into by the Company, other than contracts entered into in the normal course of business, are as follows for the last two years:

On January 21, 2011, the Company entered into an agreement with the shareholders of Sinclair Technologies Holdings Inc. ("Sinclair"), a leading provider of antenna and radio frequency conditioning products, to purchase all the shares of Sinclair. The Company appended the related purchase and sale agreement as an exhibit in the Company's 2010 Annual Report.

D. Exchange controls

To the best of the Company's knowledge, there are no governmental laws, decrees or regulations in Canada relating to restrictions on the export or import of capital, or affecting the remittance of interest, dividends or other payments to non-resident holders of the Company's Common Shares. Any remittances of dividends to United States residents are, however, subject to a 15% withholding tax (10% if the shareholder is a corporation owning at least 10% of the outstanding common shares of the Company) pursuant to Article X of the reciprocal tax treaty between Canada and the United States.

Except as provided in the Investment Canada Act, there are no limitations under the laws of Canada, the Province of British Columbia or in the charter or any other constituent documents of the Company on the right of foreigners to hold or vote the Common Shares of the Company.

E. Taxation

United States Federal Income Tax Consequences

The following summary describes certain of the material U.S. federal income tax consequences to U.S. Holders (as defined below) arising from the purchase, ownership and disposition of Common Shares. This summary is based on the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), final, temporary and proposed U.S. Treasury Regulations promulgated thereunder, and administrative and judicial interpretations thereof, all as in effect as of the date hereof, and all of which are subject to change, possibly with retroactive effect.

This summary does not deal with all aspects of U.S. federal income taxation that may be relevant to particular U.S. Holders in light of their particular circumstances, or to U.S. Holders subject to special rules, including, without limitation, certain retirement plans, insurance companies, U.S. Holders of securities held as part of a "straddle," "synthetic security," "hedge," "conversion transaction" or other integrated investment, persons that enter into "constructive sales" involving Common Shares or substantially identical property with other investments, U.S. Holders whose functional currency is not the United States dollar, certain expatriates or former long-term residents of the United States, financial institutions, broker-dealers, tax-exempt organizations and U.S. Holders who own (directly, indirectly or through attribution) 10% or more of the Company's outstanding voting stock. The following discussion does not address the effect of any applicable state, local or foreign tax laws. This summary does not consider the tax treatment of persons who own Common Shares through a partnership or other pass-through entity, and deals only with Common Shares held as "capital assets" as defined in Section 1221 of the Code.

This discussion is addressed only to "U.S. Holders." A U.S. Holder is a holder of Common Shares that is a U.S. citizen, an individual resident in the United States for U.S. federal income tax purposes, a domestic corporation, an estate the income of which is includible in its gross income for U.S. federal income tax purposes without regard to its source, or a trust if either: (i) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all the substantial decisions of the trust or (ii) the trust was in existence on August 20, 1996 and, in general, would have been treated as a U.S. Holder under rules applicable prior to such time, provided the trust elects to continue such treatment thereafter.

U.S. holders of Common Shares are advised to consult with their own Tax advisors with respect to the U.S. federal, state and local tax consequences, as well as the tax consequences in other jurisdictions, of the purchase, ownership and sale of Common Shares applicable in their particular Tax situations.

Sale or Exchange of Common Shares

Subject to the passive foreign investment company (PFIC) rules, upon the sale, exchange or other disposition of common shares, a United States Holder will recognize capital gain or loss in an amount equal to the difference between his or her adjusted tax basis in his or her shares and the amount realized on the disposition. A United States Holder's adjusted tax basis in the common shares will generally be the initial cost, but may be adjusted for various reasons including the receipt by such United States Holder of a distribution that was not made up wholly of earnings and profits as described above under the heading "Treatment of Dividend Distributions". A United States Holder that uses the cash method of accounting calculates the dollar value of the proceeds received on the sale date as of the date that the sale settles, while a United States Holder who uses the accrual method of accounting is required to calculate the value of the proceeds of the sale as of the "trade date," unless he or she has elected to use the settlement date to determine his or her proceeds of sale. Capital gain from the sale, exchange or other disposition of shares held more than one year is long-term capital gain and is eligible for a maximum 15% rate of taxation for non-corporate taxpayers. Absent legislative action to extend the current rates, such maximum rate will increase to 20% for long-term capital gain that is recognized after 2012. A reduced rate does not apply to capital gains realized by a United States Holder that is a corporation. Capital losses are generally deductible only against capital gains and not against ordinary income. In the case of an individual, however, unused capital losses in excess of capital gains may offset up to \$3,000 annually of ordinary income. Gain or loss recognized by a United States Holder on a sale, exchange or other disposition of common shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. A United States Holder who receives foreign currency upon disposition of common shares and converts the foreign currency into U.S. dollars subsequent to receipt will have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the U.S. dollar. United States Holders should consult their own tax advisors regarding the treatment of a foreign currency gain or loss.

Treatment of Dividend Distributions

Subject to the passive foreign investment company (PFIC) rules, in the event that we pay a dividend, a United States Holder will be required to include in gross income as ordinary income the amount of any distribution paid on common shares, including any Canadian taxes withheld from the amount paid, on the date the distribution is received, to the extent that the distribution is paid out of our current or accumulated earnings and profits as determined for U.S. federal income tax purposes. In addition, distributions of the Company's current or accumulated earnings and profits will be foreign source "passive category income" for U.S. foreign tax credit purposes and will not qualify for the dividends received deduction available to corporations. Distributions in excess of such earnings and profits will be applied against and will reduce the United States Holder's tax basis in the common shares and, to the extent in excess of such basis, will be treated as capital gain.

Distributions of current or accumulated earnings and profits paid in Canadian dollars to a United States Holder will be includible in the income of the United States Holder in a dollar amount calculated by reference to the exchange rate on the date the distribution is received. A United States Holder who receives a distribution of Canadian dollars and converts the Canadian dollars into U.S. dollars subsequent to receipt will have foreign exchange gain or loss based on any appreciation or depreciation in the value of the Canadian dollar against the U.S. dollar. Such gain or loss will generally be ordinary income and loss and will generally be U.S. source gain or loss for U.S. foreign tax credit purposes. United States Holders should consult their own tax advisors regarding the treatment of a foreign currency gain or loss.

United States Holders will generally have the option of claiming the amount of any Canadian income taxes withheld either as a deduction from gross income or as a dollar-for-dollar credit

against their U.S. federal income tax liability, subject to specified conditions and limitations. Individuals who do not claim itemized deductions, but instead utilize the standard deduction, may not claim a deduction for the amount of the Canadian income taxes withheld, but these individuals generally may still claim a credit against their U.S. federal income tax liability. The amount of foreign income taxes that may be claimed as a credit in any year is subject to complex limitations and restrictions, which must be determined on an individual basis by each shareholder. The total amount of allowable foreign tax credits in any year cannot exceed the pre-credit U.S. tax liability for the year attributable to foreign source taxable income and further limitations may apply under the alternative minimum tax. A United States Holder will be denied a foreign tax credit with respect to Canadian income tax withheld from dividends received on common shares to the extent that he or she has not held the common shares for at least 15 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date or to the extent that he or she is under an obligation to make related payments with respect to substantially similar or related property. Instead, a deduction may be allowed. Any days during which a United States Holder has substantially diminished his or her risk of loss on his or her common shares are not counted toward meeting the 16-day holding period.

Subject to possible future changes in U.S. tax law, individuals, estates or trusts who receive "qualified dividend income" (excluding dividends from a PFIC) in taxable years beginning after December 31, 2002 and before January 1, 2013 generally will be taxed at a maximum U.S. federal rate of 15% (rather than the higher tax rates generally applicable to items of ordinary income) provided certain holding period requirements are met. Subject to the discussion of the PFIC rules below, the company believes that dividends paid by it with respect to its common shares should constitute "qualified dividend income" for United States federal income tax purposes and that holders who are individuals (as well as certain trusts and estates) should be entitled to the reduced rates of tax, as applicable. Qualified dividend income received after 2012 generally will be taxed at a maximum U.S. federal rate of 15%, except for individuals, (and certain estates and trusts) otherwise in the highest tax bracket of 39.6% in which qualified dividend income will be taxed at 20%. In addition to the applicable federal tax on qualified dividend income, taxpayers with substantial investment income will be subject to a 3.8% surtax on investment income. Taxpayers subject to this surtax and in the highest tax bracket will pay 23.8% on qualified dividend income. Holders are urged to consult their own tax advisors regarding the impact of the "qualified dividend income" provisions of the Internal Revenue Code on their particular situations, including related restrictions and special rules.

Information Reporting and Backup Withholding

Payments made within the United States, or by a U.S. payer or U.S. middleman, of dividends and proceeds arising from certain sales or other taxable dispositions of common shares will be subject to information reporting. Backup withholding tax, at the then applicable rate, will apply if a United States Holder (a) fails to furnish the United States Holder's correct U.S. taxpayer identification number (generally on Form W-9), (b) is notified by the IRS that the United States Holder has previously failed to properly report items subject to backup withholding tax, or (c) fails to certify, under penalty of perjury, that the United States Holder has furnished the United States Holder's correct U.S. taxpayer identification number and that the IRS has not notified the United States Holder that the United States Holder is subject to backup withholding tax. However, United States Holders that are corporations generally are excluded from these information reporting and backup withholding tax rules. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a credit against a United States Holder's U.S. federal income tax liability, if any, or will be refunded, if the United States Holder follows the requisite procedures and timely furnishes the required information to the IRS. United States Holders should consult their own tax advisors regarding the information reporting and backup withholding tax rules.

Recently enacted legislation requires U.S. individuals to report an interest in any "specified foreign financial asset" if the aggregate value of such assets owned by the U.S. individual

exceeds \$50,000 (or such higher amount as the IRS may prescribe in future guidance). Stock issued by a foreign corporation is treated as a specified foreign financial asset for this purpose.

Non-United States Holders generally are not subject to information reporting or back-up withholding with respect to dividends paid on or upon the disposition of shares, provided in some instances that the non-United States Holder provides a taxpayer identification number, certifies to his foreign status or otherwise establishes an exemption.

Canadian Federal Income Tax Considerations

The following discussion summarizes the material Canadian Federal income tax considerations relevant to an investment in the Common Shares by a holder who, for income tax purposes, is resident in the United States and not in Canada, holds the Common Shares as capital property, deals at arm's length with the Company, does not use or hold the Common Shares in carrying on a business through a permanent establishment or in connection with a fixed base in Canada and, in the case of an individual investor, is also a United States citizen. The tax consequences of an investment in the Common Shares by an investor who is not as described above may be expected to differ from the tax consequences discussed herein.

This discussion is based upon the provisions of the Income Tax Act (Canada) (the "Tax Act"), regulations under the Tax Act, specific proposals to amend the Tax Act publicly announced prior to the date hereof, the Canada-United States Income Tax Convention (1980), as amended (the "Convention"), and administrative practices published by Canada Revenue Agency, all of which are subject to change. Any such change, which may or may not be retroactive, could alter the tax consequences to a holder as otherwise described herein. The discussion does not take in account the tax laws of the various provinces or territories of Canada.

Taxation of Distributions from the Company

Dividends paid or credited on the Common Shares to U.S. residents will be subject to a Canadian withholding tax. Under the Convention, the rate of withholding tax generally applicable is 15% of the gross amount of the dividends, including stock dividends and payments deemed to be dividends upon the repurchase of Common Shares by the Company, as described below. The rate of withholding tax is reduced if the beneficial owner of the dividend is a company, which owns at least 10% of the voting stock of the Company at the time the dividend is paid. In this case, the rate is 5% of the gross amount of the dividends.

If Common Shares are purchased by the Company, a holder will be deemed to have received a dividend to the extent that the amount paid on the repurchase exceeds the paid-up capital, as defined in the Tax Act, of the Common Shares acquired. The portion, if any, of the acquisition proceeds that are deemed to be a dividend will be subject to Canadian withholding tax on dividends, as described above. Further, the holder will be deemed to have disposed of the Common Shares for the amount paid by the Company for the Common Shares less the amount deemed to have been received as a dividend. If this results in a capital gain to a holder, the tax consequences will be as described below.

Taxation of Capital Gains on Sale of Common Shares

A U.S. Holder will not be subject to tax under the Canadian Tax Act in respect of any capital gain realized on the disposition or deemed disposition of common shares unless the common shares constitute or are deemed to constitute "taxable Canadian property" other than "treaty-protected property", as defined in the Canadian Tax Act, at the time of such disposition. Generally, common shares will not be "taxable Canadian property" to a U.S. Holder at a particular time, where the common shares are listed on a designated stock exchange (which currently includes the TSX and NYSE) at that time, unless at any time during the 60-month period immediately preceding that

time: (A) the U.S. Holder, persons with whom the U.S. Holder did not deal at arm's length, or the U.S. Holder together with all such persons, owned 25% or more of the issued shares of any class or series of shares of the capital stock of Norsat; and (B) more than 50% of the fair market value of the common shares was derived directly or indirectly from one or any combination of (i) real or immoveable properties situated in Canada, (ii) "Canadian resource properties", (iii) "timber resource properties" and (iv) options in respect of, or interests in, property described in (i) to (iii), in each case as defined in the Canadian Tax Act. In certain circumstances set out in the Canadian Tax Act, the common shares of a particular U.S. Holder could be deemed to be "taxable Canadian property" to that holder. Even if the common shares are "taxable Canadian property" to a U.S. Holder, they generally will be "treaty-protected property" to such holder by virtue of the Convention if the value of such shares at the time of disposition is not derived principally from "real property situated in Canada" as defined for these purposes under the Convention and the Canadian Tax Act. Consequently, on the basis that the value of the common shares should not be considered to derive or to have derived their value principally from such "real property situated in Canada" at any relevant time, any gain realized by the U.S. Holder upon the disposition of the common shares generally will be exempt from tax under the Canadian Tax Act.

F. Dividends and paying agents

Not applicable.

G. Statement by experts

Not applicable.

H. Documents on display

Copies of the most recent annual report, financial statements for the year ended December 31, 2012 and subsequent interim financial statements of the Company may be obtained, upon request, from the Chief Financial Officer of the Company. The Company may require the payment of a reasonable fee in respect of a request made by a person who is not a security holder of the Company.

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and file reports and other information with the SEC. The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC 0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

We are required to file reports and other information with the securities commissions in British Columbia and Ontario. You are invited to read and copy any reports, statements or other information, other than confidential filings, that we file with those provincial securities commissions. These filings are also electronically available from the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) (<http://www.sedar.com>), the Canadian equivalent of the SEC's electronic document gathering and retrieval system. We "incorporate by reference" information that we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this report and more recent information automatically updates and supersedes more dated information contained or incorporated by reference in this report. Our SEC file number is 0-12600. As a foreign private issuer, we are exempt from the rules under the Securities Exchange act of 1934, as amended, prescribing the furnishing and content of proxy statements to shareholders. We have included in this report certain information disclosed in our

Proxy Statement (Information Circular) prepared under Canadian securities rules. We will provide without charge to each person, including any beneficial owner, on the written or oral request of such person, a copy of any or all documents referred to above which have been or may be incorporated by reference in this report (not including exhibits to such incorporated information that are not specifically incorporated by reference into such information). Requests for such copies should be directed to us at the following address: Norsat International Inc., 110 – 4020 Viking Way, Richmond, British Columbia, Canada V6V 2L4 Attention: Chief Financial Officer.

I. Subsidiary Information

Reference is made under “Item 4C. Organization Structure”.

11. Quantitative and Qualitative Disclosures About Market Risk

Risks Associated with Foreign Exchange

The Company's financial assets include cash and cash equivalents, short term investments, trade and other receivables, and contract work-in-progress. The Company's financial liabilities include trade and other accounts payable, accrued liabilities, interest bearing loans and borrowings, and promissory note payable.

The Company has classified its cash and cash equivalents, short-term investments, trade and other receivables, and contract work-in-progress as loans and receivables, measured at amortized cost using the effective interest rate method. Accounts payable, interest bearing loans and borrowings, promissory note payable and accrued liabilities are classified as other financial liabilities, measured at amortized cost using the effective interest rate method.

The carrying value of the Company's financial assets and liabilities is considered to be a reasonable approximation of fair value due to their immediate or short term maturity, or their ability for liquidation at comparable amounts.

The Company is exposed to foreign currency exchange risk as a result of its operating expenses being predominately denominated in Canadian Dollars. A stronger Canadian dollar increases expenses when translated into United States Dollars. The Company does not engage in any formal hedging transactions.

Foreign Exchange Effect on the Consolidated Statement of Earnings and Comprehensive Income: The Company's revenues and cost of sales are predominately denominated in U.S. dollars and the Company's expenses are predominately denominated in Canadian dollars. Foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions, with the impact being reflected immediately in the Consolidated Statement of Earnings and Comprehensive Income.

Foreign Exchange Effect on the Consolidated Statement of Financial Position: Non -U.S. dollar denominated balance sheet accounts are translated into U.S. dollars at the year-end exchange rate for monetary items such as accounts receivable, accounts payable, and cash and cash equivalents, and at historical exchange rates for non-monetary items. Unrealized gains and losses arising from the translation of the monetary items are included in income immediately as foreign exchange gains/(losses) in the Consolidated Statement of Earnings and Comprehensive Income.

We have not entered into any foreign currency contracts to hedge foreign currency risk during 2012.

Risks Associated with Current Market Conditions

Management believes that there is minimal impact on the Company from the current economic conditions. The majority of the Company's trade accounts receivables is generated from various

government and military customers and is not believed to be at risk of default. The balance of the amounts owing are spread over a fairly large range of customers. While the risk of default from commercial customers is higher than government accounts, management feels that the likelihood of default is very low. Management is cognizant of the extent of the current financial global recovery and will remain vigilant in the Company's credit granting practices.

The current recessionary trends coupled with the Company's strong financial position represent an opportunity for accelerating growth through strategic acquisitions that may be immediately accretive to shareholders. In addition, management continues to seek ways to grow the Company organically in a controlled and steady manner.

The Company's capital resources as at December 31, 2012, included cash. Cash flows are funded primarily through operations and, where necessary, liquidity requirements may be funded through the use of a standby line of credit, issuance of debt, and/or equity.

The Company has a secured revolving operating line of credit with HSBC Canada (the "Bank") of Cdn\$3.5 million or \$2.8 million (2011 - Cdn\$3.5 million or \$2.8 million) subject to an interest rate at the Bank's prime rate plus 1.35% per annum for amounts outstanding in Canadian dollars and/or the Bank's U.S. base rate plus 1.35% per annum for amounts outstanding in U.S. dollars. The operating line of credit is payable upon demand by the Bank. As at December 31, 2012 and 2011, the Company had no borrowings outstanding with respect to the operating line of credit.

On September 17, 2012, the Company secured a new non-revolving demand loan of \$1.0 million to assist in financing the working capital requirements of the Company. The demand loan is subject to an interest rate at the Bank's US base rate plus an applicable spread and/or the Bank's LIBOR rate plus an applicable spread. The applicable spread ranges from 1% to 4% depending on the Company's funded debt to EBITDA ratio determined quarterly on a rolling 12 month basis based on its consolidated financial statements. As at December 31, 2012, the Company had no borrowings outstanding with respect to the non-revolving demand note.

The Company also has an additional revolving demand note with HSBC Bank USA in the principal amount of \$0.9 million (2011- \$0.95) subject to an interest rate of prime plus 1.5% per annum and payable upon demand. As at December 31, 2012 and 2011, the Company had no borrowing outstanding with respect to the revolving demand note.

Risks Associated with Interest Rates

Borrowings under our operating line of credit bear interest at LIBOR or Prime rate plus a margin. If we borrow under this facility, we are exposed to interest rate risks due to fluctuations in these rates. A one-percentage increase in these rates would increase interest expense by approximately \$47,000 annually, assuming we borrow a maximum of \$4.7 million under our undrawn credit facilities.

In addition, borrowings under our acquisition loan bear interest at LIBOR or Prime rate plus a margin. We are exposed to interest rate risks due to fluctuations in these rates. A one-percentage increase in these rates would increase interest expense by approximately \$70,000, based on a principal amount of \$7.0 million, which is the balance outstanding as at December 31, 2012.

12. Description of Securities Other than Equity Securities

Not applicable.

PART II

13. Defaults, Dividend Arrearages and Delinquencies

None.

14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable.

15. Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the issuer in the reports that it files under the Act is recorded, processed, summarized and reported, within the time limits specified in the Commission's rules and forms and that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer (CEO) and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure. The CEO and the CFO have evaluated the effectiveness of the Company's disclosure controls and procedures. They have concluded that our disclosure controls and procedures were effective as at December 31, 2012, at a reasonable assurance level.

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards and the requirements of the Securities and Exchange Commission in the United States, as applicable. Management is responsible for establishing and maintaining adequate internal controls over financial reporting for the Company. Norsat's CEO and CFO have assessed the effectiveness of our internal control over financial reporting as at December 31, 2012 in accordance with Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of Treadway Commission (COSO). Based on this assessment, Norsat's CEO and CFO have determined that our internal control over financial reporting is effective to meet the requirements of Rules 13a-15(f) as at December 31, 2012.

While the Company's CEO and CFO believe that the Company's internal controls over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that the Company's disclosure controls and procedures or internal control over financial reporting will

prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in Internal Controls over Financial Reporting

During 2012, there were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

16. [Reserved]

16A. Audit Committee Financial Expert

Reference is made to "Item 6-C – Board Practices". Norsat's Board of Directors has determined that it has at least one audit committee financial expert serving on its Audit Committee. Mr. James Topham has been determined to be such audit committee financial expert. The Commission has indicated that the designation of Mr. Topham as an audit committee financial expert does not make Mr. Topham an "expert" for any other purpose, impose any duties, obligations or liability on Mr. Topham that are greater than those imposed on members of the Audit Committee and board of directors who do not carry this designation or affect the duties, obligations or liability of any other member of the Audit Committee. Mr. Topham is "independent" as that term is defined in the listing standards of the NASDAQ Stock Market. As a result, Mr. Topham serves as the chair of the audit committee of Norsat.

16B. Code of Ethics

Norsat's Code of Ethics, which provides guidelines for the behaviour of all directors, officers and employees, including Norsat's principal executive officer, principal financial officer, in carrying out their responsibilities is posted on the Company web site at www.norsat.com under the heading Investors, Corporate Governance, Corporate Policies.

16C. Principal Accountant Fees and Services

The following table sets forth fees paid by the Company to Grant Thornton LLP in 2012 and 2011:

	Audit Fees	Audit Related Fees	All Other Fees	Total
	\$	\$	\$	\$
2012	\$232,026	\$-	\$-	\$232,026
2011	\$338,678	\$-	\$-	\$338,678

Audit fees are for services rendered for the audit of the annual consolidated financial statements and for the reviews of our quarterly financial statements. **Audit related fees** are primarily for assurance and related services reasonably related to the performance of the audit of the annual statements and are not reported under "Audit Fees" above.

16D. Exemptions from the listing standards for Audit Committees

Not applicable

16E. Purchases of Equity Securities by the Issuer

During 2012, the Company purchased voting shares in the open market to settle awards to employees vesting under our Restricted Share Unit Plan. We purchased a total of 279,800 common shares at an average share price of Cdn\$0.47, for approximately Cdn129,954 (\$131,474). The amount was recorded under treasury shares, reducing shareholders' equity. These shares were held by a third party trustee to be released to participants at vesting of the RSUs.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
May 2012	279,800	Cdn\$0.47	279,800	N/A

16F. Change in Registrant's Certifying Accountant

Not applicable.

16G. Corporate Governance

The Company does not have any significant ways in which its corporate governance practices differ from those followed by domestic listed companies in the United States following SEC listing standards.

16H. Mine Safety Disclosure

Not applicable.

PART III

17. Financial Statements

Not applicable.

18. Financial Statements

Not applicable.

19. Exhibits

Exhibit No.	Description	Form	Filing Date	Film No.	Filed as	
					Exhibit No.	exhibits to this Form 20-F
1.1	Articles of Incorporation	6K	June 30, 2011	11941737	99.1	
1.2	Notice of Change of Articles	6K	June 30, 2011	11941737	99.2	
4.1	Share Purchase Agreement dated January 18, 2011 for the acquisition of Sinclair Technologies Holdings Inc.	6K	February 3, 2011	11570932		
4.2	Letter on Change in Registrant's Certifying Accountant	6K	April 13, 2010	10746721	99.2	
99.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, CEO and CFO					X
99.2	Certification required by Rule 13(a) or 15(d) of the Exchange Act, CEO					X
99.3	Certification required by Rule 13(a) or 15(d) of the Exchange Act, CFO					X
99.4	Audited Consolidated Financial Statements Years Ended December 31, 2012, 2011, and 2010					X

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Norsat International Inc.

(Registrant)

“Arthur Chin”

Date: March 5, 2013

Arthur Chin, Chief Financial Officer