



MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three months ended February 28, 2010

OSI Geospatial Inc.
300-340 March Road
Ottawa, ON K2K 2E4
Tel: 613.287.0462
Fax: 613.287.0466
www.osigeospatial.com

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides a review of activities, results of operations, and financial condition of OSI Geospatial Inc. for the three months ended February 28, 2010 in comparison with those for the three months ended February 28, 2009. References to "OSI Geospatial", "the Company", "we", "us", and "our" refer to OSI Geospatial Inc. and its subsidiaries, as applicable. The following discussion should be read in conjunction with our unaudited consolidated interim financial statements, including the notes thereto, for the three months ended February 28, 2010, and the audited annual consolidated financial statements for the year ended November 30, 2009 prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The following discussion should also be read in conjunction with Management's Discussion and Analysis prepared for the year ended November 30, 2009.

All references in this report to financial information, excluding backlog and working capital, concerning OSI Geospatial Inc. are in accordance with Canadian GAAP and all dollar amounts are in Canadian dollars unless otherwise indicated.

This report contains forward-looking statements within the meaning of the Ontario Securities Act including Section 138.4(9) and includes statements regarding the future achievement of corporate objectives, advancement of additional project interests, analysis and development of acquisition opportunities, various project interests and other matters. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these forward-looking statements. These risks include risks related to the effects of general economic conditions, changing foreign exchange rates, actions by government authorities, uncertainties associated with contract negotiations, and industry supply, as well as other factors discussed below and those risks which are discussed under the heading "Risks and Uncertainties". Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

ECPINS® and COP-IDS are registered trademarks of Offshore Systems Ltd., an OSI Geospatial company. iGEN™ is a registered trademark of CHI Systems Inc., an OSI Geospatial company. Other Company brand, product and service names are for identification purposes only and may be either trademarks, service marks or registered trademarks of their respective owners. Data subject to change without notice.

Additional information relating to OSI Geospatial, including our Annual Information Form, is filed on SEDAR at www.sedar.com and is also available on the Company's investor web site at www.osigeospatial.com.

This management's discussion and analysis is dated April 13, 2010.

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OVERVIEW

Founded in 1977, the Company is a leader in providing real-time situational awareness solutions. The Company delivers products and services to the large and fast-growing defence and security markets. Our systems address critical issues - namely the need for enhanced real-time situational awareness and network-enabled operations. In the changing face of war where interoperability between forces and allies is critical, OSI Geospatial provides essential tactical, strategic, and operational information to help aid decision making, improve efficiency, and provide real-time access to all available information.

Headquartered in Ottawa, the Company is a globally-focused organization with offices across North America and a sales office in the United Kingdom. The Company became a public company in 1990, and is currently listed on the Toronto Stock Exchange (symbol: OSI).

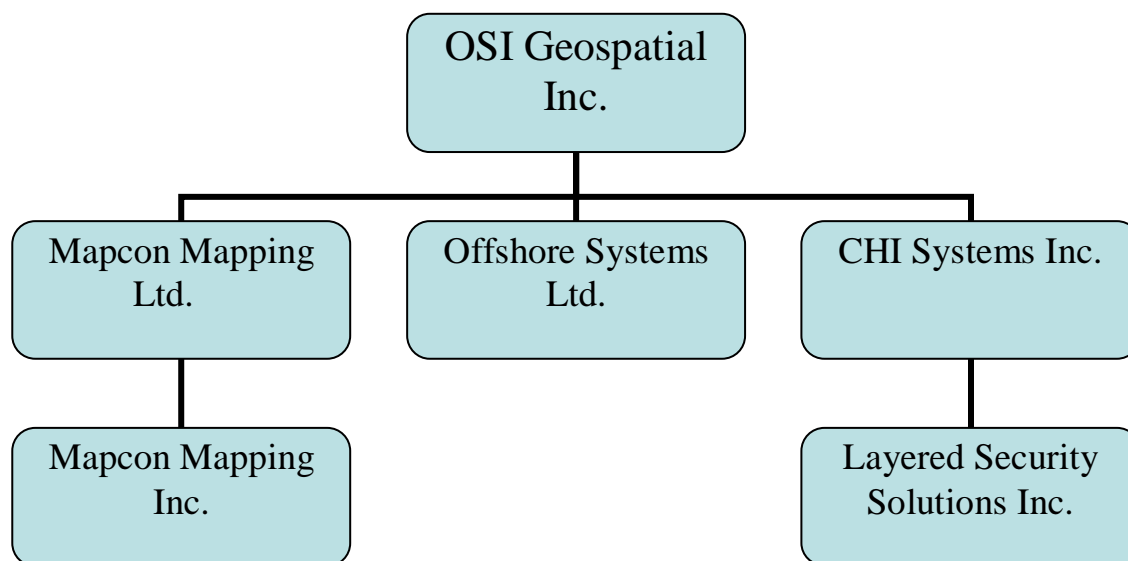
In April 2005, the Company completed the acquisition of all of the outstanding shares of Mapcon Mapping Consultants Inc. ("Mapcon") of Salt Lake City, Utah. Mapcon is a land-mapping company in the U.S. geospatial mapping market.

In December 2005, the Company completed the acquisition of CHI Systems Inc. ("CHI"), a United States defence contractor. CHI had four offices in the United States, and is a supplier of technology and services to the U.S. Department of Defense and key defence prime contractors. With the sale of the Company's rights to its soldier systems intellectual property in February 2010, its San Diego office was transferred to the buyer, Harris Corporation.

CHI has developed C2, training simulation, and cognitive agent applications to support its customers in multiple U.S. military agencies.

In April 2007, the Company, through its subsidiary CHI Systems Inc., acquired the assets of Liddy International Inc. ("Liddy"), a United States defence and security consultancy company, and has established a new subsidiary, Layered Security Solutions Inc. ("LSS"). The Company's LSS subsidiary is primarily focused on developing the U.S. homeland security market.

The Company's current corporate structure is presented in the chart below.



Our mission is to provide integrated navigational and tactical solutions that enhance the operational capabilities, security, and safety for our customers. Our customers include the United States Navy, Army,

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Coast Guard, and Department of Homeland Security; the Canadian Navy and Coast Guard; the UK Royal Navy; and other NATO allies around the world. The Company is leveraging its world-leading technologies, such as ECPINS® and iGEN™, to grow its market share, expand its customer base, and enter into adjacent markets. We will also continue to partner with the world's largest defence and security contractors, such as Lockheed Martin, BAE Systems, Northrop Grumman, L-3 Communications, General Dynamics, and Raytheon. As we successfully integrate our technology into the solution provided by the large defence systems integrators, we will significantly increase our reach into the defence and security markets around the world.

Our Company delivers integrated navigational and tactical solutions that meet naval and maritime security operational requirements. These solutions include our Warship Electronic Chart Display and Information System (ECPINS®-W/S), Tactical Asset Control and Tracking System (T-ACT), Integrated Navigation and Tactical System (INTS), and security risk assessment consulting services. In addition, the Company provides advanced technology research and development engineering services in support of the military and security requirements and mapping services that provide geospatial data production and consulting services.

Real-time situational awareness solutions are critical to mission execution. With the new face of war and the continuing threat of terror, OSI Geospatial's systems and services can provide the solutions that military and security organizations need, including the essential tactical, strategic, and operational information that can be securely shared between forces, allies, and civilians to help ensure interoperability and mission success.

SELECTED DATA

The following tables contain financial information that is derived from the unaudited interim consolidated financial statements for the three months ended February 28, 2010 and 2009.

Operations:	For the three months ended February 28,	
In thousands of Canadian dollars except share related data	2010	2009
	\$	\$
Revenue	3,444	5,724
Gross profit	1,106	1,719
Gross profit percentage	32%	30%
Net income (loss)	2,082	(697)
Net income (loss) attributable to common shareholders:		
Basic	1,951	(853)
Diluted	2,082	(853)
Earnings (loss) per share:		
Basic	0.04	(0.02)
Diluted	0.04	(0.02)
Weighted average common shares outstanding:		
Basic	48,733,766	46,956,439
Diluted	57,659,553	46,956,439
<u>Dividends declared per share</u>		
Class A Preference Shares – Series A	–	–
Class B Preference Shares – Series 2	\$0.02	\$0.02
Common Shares	–	–

The Company's annual and quarterly operating results are primarily affected by the level, timing and duration of customer orders, relative mix of value added products and services, and fluctuations in material costs. The Company's operating results are also affected by factors such as price competition, manufacturing effectiveness and efficiency, the ability to manage inventory and capital assets effectively, the timing of expenditures in anticipation of increased sales, customer product delivery requirements and shortages of components or labour. Economic factors such as foreign exchange fluctuations, government and corporate spending patterns and regulatory developments may also affect our operating results.

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We depend heavily on government contracts and derive a significant amount of revenue from a few customers, which may result in varying revenue, gross profit, and earnings. Some of our government customers have cyclical purchasing patterns which can also impact our quarterly and annual results.

The decrease in revenue for the three months ended February 28, 2010 as compared to the three months ended February 28, 2009 is largely due to the timing of new contracts that are awarded and the delivery schedules of existing contracts.

The lower gross profit in the three months ended February 28, 2010 as compared to the three months ended February 28, 2009 is due to the decrease in revenue in all operating units, the mix of revenue and the level of fixed costs included in cost of sales across all operating units.

The higher gross profit percentage is the result of less revenue derived from projects that included third party systems and labour. Projects that include third party systems and labour have less favourable margins than those that do not.

Fluctuations in gross profit are influenced by the proportion of engineering labour, third-party systems or third-party labour or portions of all three required for a project, and a high proportion of these factors can result in increased cost of sales and therefore lower gross profit. Certain contracts awarded may require the inclusion of engineering labour, third-party systems or third-party labour. In order to maintain competitiveness on these contracts, we may elect to reduce our usual margins on the third-party components.

The Company's sales strategy's focuses on markets such as military command and control, homeland security, and maritime defence that to date experienced curtailments in budgets and delays in spending. These changes have impacted the Company's customers and as a result, the Company experienced delays in the execution of current projects, awarding of new contracts and releasing of competitive request for proposals; and reductions in the values of some sales opportunities which the Company has been pursuing.

Financial Position:	At February 28, 2010	At November 30, 2009
In thousands of Canadian dollars		
	\$	\$
Working capital ⁽¹⁾	5,508	3,446
Current assets	9,661	8,750
Long-term assets	7,018	7,009
Total assets	16,679	15,759
Current liabilities	4,153	5,304
Long-term liabilities	447	492
Total liabilities	4,600	5,796
Shareholders' equity	12,079	9,963

(1) Working capital is defined as current assets less current liabilities. Working capital does not have a standardized meaning or comparable measure under generally accepted accounting principles and may not be comparable to similar measures presented by other companies.

On February 1, 2010, the Company's U.S. Systems Operations signed a contract valued at U.S. \$6.5 million with Harris Corporation ("Harris"). Under the terms of this contract, OSI Geospatial sold all of its rights to its soldier systems intellectual property and transferred its San Diego-based employees, office and associated equipment, furniture and fixtures to Harris. This intellectual property is a non-core asset that is not aligned with the Company's maritime strategy. The net proceeds after corporate income taxes were approximately U.S. \$5.5 million. The net proceeds provided additional working capital for the Company.

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RESULTS OF OPERATIONS – Three months ended February 28, 2010 as compared to three months ended February 28, 2009

Overall Performance

Three months ended	February 28, 2010	February 28, 2009	2010 to 2009
In thousands of Canadian dollars, except for share related data			
Net income (loss) before income taxes	\$ 4,041	\$ (844)	\$ 4,885
Net income (loss)	\$ 2,082	\$ (697)	\$ 4,632
Net income (loss) attributable to common shareholders:			
Basic	\$ 1,951	\$ (853)	\$ 4,657
Diluted	\$ 2,082	\$ (853)	\$ 2,935
Earnings (loss) per share:			
Basic	\$ 0.04	\$ (0.02)	\$ 0.06
Diluted	\$ 0.04	\$ (0.02)	\$ 0.06

The higher net income reported for the three months ended February 28, 2010 compared to February 28, 2009 was largely driven by the gain on sale of intellectual property.

Backlog

Firm backlog consists of firm, fixed, or signed orders issued and executable subsequent to the balance sheet date. Firm backlog as at February 28, 2010 was at \$40 million compared to \$53 million at February 28, 2009. Of the \$40 million firm backlog, \$8 million is expected to be executed in fiscal 2010 and \$32 million is expected to be executed in fiscal year 2011 and beyond.

Firm backlog is a non-GAAP measure. This measure does not have a standardized meaning or comparable GAAP measure and is likely not comparable to similar measures presented by other companies and cannot be reconciled to any GAAP measurements. The Company discloses this non-GAAP measure as we believe it provides more insight into our performance specifically regarding revenue available for periods subsequent to February 28, 2010.

The timing of major contracts awarded can significantly impact our firm backlog position and revenue. Historically, major contracts awarded have taken up to three years to finalize. The contracting process involves lengthy discussions and negotiations with several groups of people within the prospective customer's organization. We have continually pursued, and will continue to pursue, major contracts with lengthy sales cycles, and as a result, there could be large variations in backlog and revenue from quarter to quarter.

Multi-year contracts with government agencies have a termination-for-convenience clause because governments approve budget expenditures on an annual basis. This allows contracts to be terminated by the contracting government agency should future budget funding not be approved. In International Systems operations and U.S. Systems operations, the termination-for-convenience clause has not been exercised by any of our customers.

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Revenue

Three months ended	February 28, 2010	% of total revenue	February 28, 2009	% of total revenue	2010 to 2009
In thousands of Canadian dollars					
Maritime navigation and tactical solutions	\$ 1,406	41	\$ 3,522	62	\$ (2,116)
Advanced technology research and development	1,924	56	1,943	34	(19)
Mapping	114	3	259	4	(145)
	<u>\$ 3,444</u>	<u>100</u>	<u>\$ 5,724</u>	<u>100</u>	<u>\$ (2,280)</u>

Our core revenue stream is derived from three sources: maritime navigation and tactical solutions, advanced technology research and development, and mapping. In maritime navigation and tactical solutions, our principal developed product, ECPINS®, delivers the majority of the maritime navigation and tactical solutions revenue. We also derive revenue from the delivery of the ECPINS® software component of our system product. Maritime navigation and tactical solutions delivered 41% and 62% of the revenue for the three months ended February 28, 2010 and February 28, 2009, respectively. Advanced technology research and development through our U.S. Systems operations delivered 56% and 34% of the revenue for the three months ended February 28, 2010 and February 29, 2009, respectively.

Our results are primarily affected by the level, timing, and duration of customer orders and customer product delivery requirements. The main customers for our products and services in the three months ended February 28, 2010 were the U.S. Army, Royal Navy of the U.K., and the U.S. Defense Advanced Research Projects Agency (DARPA). Revenue from these customers accounted for 47% of the consolidated revenue. The main customers for our products and services in the three months ended February 28, 2009 were the Royal Australian Navy, the U.S. Coast Guard, the U.S. Army and the Royal Navy of the U.K. Revenue from these customers accounted for 55% of the consolidated revenue.

Revenue by Segment

Three months ended	February 28, 2010	% of total revenue	February 28, 2009	% of total revenue	2010 to 2009
In thousands of Canadian dollars					
International Systems operations	\$ 1,215	35	\$ 1,997	35	\$ (782)
U.S. Systems operations	2,115	62	3,468	61	(1,353)
Mapping operations	114	3	259	4	(145)
	<u>\$ 3,444</u>	<u>100</u>	<u>\$ 5,724</u>	<u>100</u>	<u>\$ (2,280)</u>

Revenue from the International Systems operations for the three months ended February 28, 2010 decreased 39% due to delays in the project execution of signed contracts and in the signing of new contracts and contract options.

Revenue from the U.S. Systems operations for the three months ended February 28, 2010 decreased over the same period from the prior year by 39%. The decrease is mainly due to the timing of new contracts awarded and the delivery schedules of existing contracts.

Revenue from the Mapping operations for the three months ended February 28, 2010 decreased over the same period from the prior year by 56% due to the timing of new contracts awarded and the delivery schedules of existing contracts. Revenue from Mapping operations is normally low during the first quarter as the revenue generating activities are largely influenced by weather.

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We continue to invest significant corporate, sales, and marketing resources in identifying and pursuing new opportunities and contracts, both in our existing customer base and with new prospective customers.

Gross Profit

Three months ended	February 28, 2010	February 28, 2009	2010 to 2009
In thousands of Canadian dollars			
Gross profit	\$ 1,106	\$ 1,719	\$ (613)
Gross profit percentage	32%	30%	2%

Gross profit decreased by 36% in the three months ended February 28, 2010 compared to the three months ended February 28, 2009 and the gross profit percentage was 2% higher period-over-period. The decreased gross profit compared to the prior period is mainly due to lower revenues in the current quarter.

The increase in gross profit percentage compared to the prior period is the result of less revenue derived from projects that included third party system and labour. Projects that include third party systems and labour have less favourable margins than those that do not.

Gross Profit by Segment

Three months ended	February 28, 2010	February 28, 2009	2010 to 2009
In thousands of Canadian dollars			
Gross profit:			
International Systems operations	\$ 644	\$ 1,141	\$ (497)
U.S. Systems operations	549	584	(35)
Mapping operations	(87)	(6)	(81)
Consolidated operations	\$ 1,106	\$ 1,719	\$ (613)
Gross profit percentage:			
International Systems operations	53%	57%	(4%)
U.S. Systems operations	26%	17%	9%
Mapping operations	(76%)	-%	(76%)
Consolidated operations	32%	30%	2%

Gross profit from the International Systems operations decreased 44% and gross profit percentage was 4% lower when compared to the prior period. The decrease in gross profit for the first quarter of 2010 is the result of lower revenues in the International Systems operations. The lower gross profit margin is the result of lower software sales and higher systems and services sales compared to the prior period.

Gross profit from the U.S. Systems operations for the three months ended February 28, 2010 decreased 6% and gross profit percentage was 9% higher when compared to February 28, 2009. The increase in gross profit rate is due to a lesser proportion of low margin equipment revenues when compared to the same period last year.

Gross profit from the Mapping operations for the three months ended February 28, 2010 decreased 135% and gross profit percentage dropped 76% when compared to the prior period. Gross profit was negatively impacted by the level of fixed costs included in cost of sales. It is also driven by season as the revenue

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generating activities are mostly influenced by weather. The gross profit percentage of any given mapping project is largely influenced by two factors:

1. the proportion of production services that are performed in-house versus subcontracted to either specialized production service companies in North America or offshore production companies in India or China; and
2. the customer's primary driver, being either price or quality.

Projects where the Company can rely heavily on offshore production will typically have higher gross margin percentages than those that include a large component of specialized or in-house services. Projects where the primary customer driver is quality will generally have higher margins than projects where the primary driver is price.

Operating Expenses

Three months ended	February 28, 2010	% of total revenue	February 28, 2009	% of total revenue	2010 to 2009
In thousands of Canadian dollars					
General and administrative	\$ 1,267	37%	\$ 1,209	21%	\$ 58
Engineering	176	5%	301	5%	(125)
Sales and marketing	665	19%	813	14%	(148)

General and administrative ("G&A") expenses consist mainly of salaries and benefits of management and administrative personnel, professional fees, public company expenses, related facility costs, and other general administrative expenses.

G&A increased 5% for three months ended February 28, 2010 compared to the previous year's first quarter. The slight increase was because of stock-based compensation expense recognized for stock options granted in the current period.

Engineering expenses consist mainly of salaries and benefits of software and hardware engineering personnel, facilities expenses, and related expenses. The Company expenses research and development-related costs in the period incurred unless, in the opinion of management, certain development costs meet the deferral criteria under Canadian GAAP, in which case development expenditures are capitalized and amortized over the estimated lives of the related products.

Engineering costs decreased 42% for the three months ended February 28, 2010, compared to the three months ended February 28, 2009. The decrease is mainly related to reduction in staff levels. We believe that in order to maintain our technological leadership, we must continue to develop existing products and introduce innovative new products that challenge and redefine the industry standards.

Sales and marketing ("S&M") expenses consist primarily of compensation of sales and marketing personnel, as well as expenses associated with advertising, trade shows, facilities, and other expenses related to the sales and marketing of our products and services.

S&M expenses decreased by 18% for three months ended February 28, 2010 compared to the three months ended February 28, 2009. The decrease is primarily due to staff reduction, lower commissions and a reduction in discretionary spending. We believe our current level of S&M staff continues to allow us to pursue business development activities relating to our expansion efforts targeting new and existing customers in the military agencies of Canada, the U.S., European NATO, and other allies of Canada, and national and international commercial marine transportation companies. To increase our profile and our products, and to broaden our customer base in international markets, we have established marketing agreements with

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companies local to the targeted regions. Some of these activities will not result in closing orders during the current year but may yield orders in subsequent fiscal years.

Amortization

Three months ended	February 28, 2010	February 28, 2009	2010 to 2009
In thousands of Canadian dollars			
Amortization	\$ 87	\$ 113	\$ (26)

Total amortization decreased by 23% on the three months ended February 28, 2010 as compared to the three months ended February 28, 2009. For the three months ended February 28, 2010 and February 28, 2009, a portion of the amortization, \$37,000 and \$48,000, respectively, was included in cost of sales for equipment used in revenue-generating activities.

Interest expense

Three months ended	February 28, 2010	February 28, 2009	2010 to 2009
In thousands of Canadian dollars			
Interest expense	\$ 38	\$ 31	\$ 7

Interest expense increased by 23% in the three months ended February 28, 2010 as compared to the three months ended February 28, 2009. The increase is mainly due to higher interest rates for the new credit facilities. With the cash proceeds from the sale of intellectual property, the Company did not utilize its credit facilities for the entire quarter ended February 28, 2010.

Foreign exchange

Three months ended	February 28, 2010	February 28, 2009	2010 to 2009
In thousands of Canadian dollars			
Foreign exchange loss (gain)	\$ (10)	\$ -	\$ 10

The Company's Canadian subsidiaries, whose functional currency is the Canadian dollar, are exposed to foreign exchange gain and loss due to exchange rate movements of the U.S. dollar, the Australian dollar, the Euro and the UK pound. The Company minimized the exposure to foreign exchange fluctuations through the use of foreign exchange forward contracts.

Technology Partnerships Canada royalty

Three months ended	February 28, 2010	February 28, 2009	2010 to 2009
In thousands of Canadian dollars			
Royalty	\$ 69	\$ 96	\$ (27)

The Company entered into two agreements with Technology Partnerships Canada ("TPC") whereby TPC granted financial assistance for the purpose of funding research and development activities which were completed on March 31, 2007. The contributions we received were based on the eligible expenditures incurred.

As part of the agreement entered into on November 15, 1999 with TPC, we are required to pay a royalty of 3% on annual gross revenue in our subsidiary Offshore Systems Ltd. for the period December 1, 1999 to November 30, 2008. In addition, as part of the agreement entered into on April 26, 2004, we are required to

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pay a royalty of 1.4% on annual gross revenue in our subsidiary Offshore Systems for the period from January 1, 2006 to December 31, 2008 and a royalty of 2.5% on annual gross revenue for the period from January 1, 2009 to December 31, 2013.

Although we believe that our submissions for TPC funding meet the terms and conditions of the TPC agreements, the final determination is subject to audit by government authorities in the ordinary course of business.

Gain on sale of intellectual property

Three months ended	February 28, 2010	February 28, 2009	2010 to 2009
In thousands of Canadian dollars			
Gain on sale of intellectual property	\$ 5,227	\$ -	\$ 5,227

On February 1, 2010, the Company's U.S. Systems Operations signed a contract valued at U.S. \$6.5 million with Harris Corporation ("Harris"). Under the terms of this contract, OSI Geospatial sold all of its rights to its soldier systems intellectual property and transferred its San Diego-based employees, office and associated equipment, furniture and fixtures to Harris. This intellectual property is a non-core asset that is not aligned with the Company's maritime strategy. The net proceeds after corporate income taxes were approximately U.S. \$5.5 million.

Income Taxes

Three months ended	February 28, 2010	February 28, 2009	2010 to 2009
In thousands of Canadian dollars			
Future income tax expense (recovery)	\$ 888	\$ (152)	\$ 1,040
Current income tax expense	1,071	5	1,066
	<u>1,959</u>	<u>(147)</u>	<u>2,106</u>

Based on the information available at the time of the issue of the interim financial statements for the three months ended February 28, 2010, we estimated that we would not have sufficient taxable earnings in Canada in future periods to utilize a portion of our \$4.8 million Canadian non-capital losses carried forward, \$13.2 million scientific research and experimental development costs, and other Canadian tax balances.

We have recognized a future tax expense for the three months ended February 28, 2010 related to temporary timing differences between accounting income and income for tax purposes in our U.S. subsidiaries. The future tax expense is mainly a result of reversal of future tax assets recognized in prior period for timing differences as these differences were utilized in the current quarter resulting from the sale of intellectual property. At February 28, 2010, we have current future tax asset of \$180,000 and non-current future tax asset of \$80,000 as we believe that it is more likely than not that these differences will be realized in future fiscal years. In accordance with Canadian GAAP, we have provided a valuation allowance against future tax assets where realization did not meet the requirements of "more likely than not" under the liability method of tax allocation. We continue to evaluate our taxable position quarterly and consider factors such as estimated taxable income, the history of losses for tax purposes, and the growth of the Company, among others.

We recognized current income tax expense for the three months ended February 28, 2010 mainly due to taxable income earned from the sale of intellectual property.

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LIQUIDITY AND CAPITAL RESOURCES - February 28, 2010 compared to November 30, 2009

In thousands of Canadian dollars	February 28, 2010	November 30, 2009	2010 to 2009
Current assets	\$ 9,661	\$ 8,750	\$ 911
Current liabilities	4,153	5,304	(1,151)
Working capital ⁽¹⁾	5,508	3,446	2,062

⁽¹⁾ Working capital is defined as current assets less current liabilities. Working capital does not have a standardized meaning or comparable measure under generally accepted accounting principles and may not be comparable to similar measures presented by other companies.

We strive to maintain cash-contributing profitable operations that provide an adequate liquidity and capital resource base for growth. We believe that cash flow from operating activities, together with lines of credit borrowings available under our credit facilities, will be sufficient to fund currently anticipated working capital, planned capital spending, and debt service requirements for the next 12 months.

At February 28, 2010, our current assets increased primarily due to an increase in cash as a result of the sale of intellectual property during the quarter. Our working capital has increased mainly due to the increase in cash, decrease in accounts payable and accrued liabilities offset by a decrease in accounts receivable and the current portion of future tax assets. Accounts receivable decreased due to lower revenues in the first quarter of 2010 compared to the fourth quarter of 2009 and due to collection of significant receivables. Accounts payable and accrued liabilities decreased due to payment of specific project costs related to receivable that were collected during the same period. Current portion of future tax assets decreased due to utilization of future tax assets to offset the taxable income generated mainly from the sale of intellectual property.

We have credit facilities consisting of accounts receivable factoring arrangements and forward exchange contract facilities. The credit facilities permit us to borrow funds directly for general corporate purposes. At February 28, 2010, we had borrowings of \$74,000 against our U.S. accounts receivable factoring facility. We have an accounts receivable factoring facility with a Canadian financial institution with a maximum limit of \$2.0 million and a variable limit with a U.S. financial institution that is based on the outstanding accounts receivable of the U.S. operations. During the three months ended February 28, 2010, we utilized these facilities which increased interest expense for the period. We utilize our forward exchange contract facility to reduce our exposure to exchange rate movements.

In December 2008, we declared and paid the semi-annual dividends earned from June to November 2008 in the amount of Canadian \$0.0175 per share to the Class B Series 2 preference shareholders. In July 2009, we declared and paid the partial semi-annual dividends earned from December 2008 to May 2009 in the amount of Canadian \$0.0175 per share to the Class B Series 2 preference shareholders. In January 2010, we declared and paid a partial semi-annual dividend earned from June to November 2009 in the amount of Canadian \$0.0175 per share on the Class B Series 2 preference shareholders. The partial dividends were paid in accordance with the Company's Articles of Incorporation and to preserve our financial resources in light of the current market conditions. The Company will be assessing its financial resources on a regular basis to determine when we can increase or reinstate the dividends.

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Cash Flows

Three months ended	February 28, 2010	February 28, 2009	2010 to 2009
In thousands of Canadian dollars			
Cash flows provided by (used in):			
Operating activities	\$ (1,489)	\$ 136	\$ (1,625)
Investing activities	4,771	(50)	4,821
Financing activities	(787)	(83)	(704)
Effect of foreign exchange on cash	42	3	39

Cash flows used in operating activities for the three months ended February 28, 2010 were the result of the net income for the three months ended February 28, 2010 which was increased by amortization, stock-based compensation and a decrease in accounts receivable offset by a decrease in accounts payable and accrued liabilities and the gain on disposal of intellectual property.

Cash flows provided by investing activities for the three months ended February 28, 2010 were primarily due to disposal of intellectual property.

Cash flows used in financing activities for the three months ended February 28, 2010 were the result of a repayment of bank indebtedness, factored advance payable and capital lease obligations.

As a result of the above mentioned changes, the credit facilities utilization decreased by \$764,000 for the three months ended February 28, 2010.

In order to reduce the impact of exchange rate fluctuations, we use the forward exchange contract facility to mitigate any foreign exchange gain or loss that might occur. We use the forward exchange contract facility only for known or reasonably certain future foreign currency transactions. At February 28, 2010 we had entered into forward exchange contracts in the amount of U.S. \$51,000, £292,000 and €220,000.

There can be no assurance that we will have adequate financial resources, financing, or cash flows to support the Company into the future.

CONTRACTUAL OBLIGATIONS

The following table provides a summary of the contractual obligations and the payments due for each of the next five years and thereafter.

Payments due by period	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
In thousands of Canadian dollars					
Facility leases	\$ 2,967	\$ 761	\$ 1,156	\$ 510	\$ 540
Capital equipment leases	113	61	52	-	-
Operating equipment leases	43	31	12	-	-
Total contractual obligations	\$ 3,123	\$ 853	\$ 1,220	\$ 510	\$ 540

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OFF BALANCE SHEET ARRANGEMENTS

Guarantees

The Company has entered into a guarantee agreement for one of the Company's subsidiaries, CHI. The Company has guaranteed CHI's accounts receivable factoring facility with a U.S. financial institution. At February 28, 2010, the carrying amount of CHI's factored advances payable was U.S. \$71,000 (November 30, 2009 – U.S. \$227,000).

We warrant that our software and hardware products will operate substantially in conformity with product documentation and that the physical media will be free from defect. The specific terms and conditions of the warranties are generally one year but may vary depending on the country in which the products are sold. We accrue for known warranty issues if a loss is probable and can be reasonably estimated, and accrue for estimated incurred but unidentified warranty issues based on historical activity. To date, we have had no material warranty claims.

TRANSACTIONS WITH RELATED PARTIES

The Company had no related party transactions during the periods reported.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian GAAP requires the Company's management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the years reported. Significant areas requiring the use of estimates include valuation of goodwill and intangible assets, future income tax assets, and revenue recognition. Management reviews its estimates based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates.

The Company's critical accounting policies are those that it believes are the most important in determining its financial condition and results, and requires significant subjective judgement by management. The Company considers an accounting estimate to be critical if the estimate requires management to make assumptions about matters that were highly uncertain at the time the estimate was made, if different estimates could have been reasonably used or if changes in the estimate would have a material impact on the Company's financial condition or results of operations are likely to occur from period to period.

Valuation of goodwill and intangible assets impairment

In November 2009, the Company performed impairment tests for goodwill and intangible assets with indefinite useful lives, and determined that goodwill was impaired. This resulted in a non-cash impairment charge of \$4.5 million that was recorded in the consolidated financial statements for the year ended November 30, 2009. In November 2008, the Company determined that these assets were not impaired. The impairment test involves considerable use of judgment, and requires management to make estimates and assumptions. The fair values of the reporting units are derived from certain valuation models, which consider various factors such as cost of capital, discount rates, the Company's stock price, future earnings, and earnings multiples. Changes in estimates and assumptions can affect the reported value of goodwill and intangible assets with indefinite useful lives.

Future income tax assets

The Company is required to determine if the "more likely than not" test under the liability method of accounting for income taxes is met in order to include in income the potential tax benefits relating to increases in future income tax assets. The valuation of income tax assets involves considerable use of judgment and

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requires management to make estimates and assumptions. Estimates and assumptions include projected earnings, projected growth, projected taxable income and tax planning strategies. Changes in estimates and assumptions can affect the reported value of net future tax assets.

Revenue recognition

The Company generates a portion of International Systems revenues from long-term fixed fee contracts to render specific consulting and software modification services. Revenues from long-term contracts are recognized using the percentage of completion method based on labour costs incurred relative to total estimated labour costs. The long-term nature of contracts involves considerable use of judgment and estimates in determining total revenues, total labour costs and percentage of completion. There are numerous factors to consider, including variances in the contract deliverables, scheduling, labour costs and productivity. The Company has developed methods and systems to provide dependable expenditure estimates for its long-term contracts.

PROPOSED TRANSACTIONS

We are not currently engaged in any proposed transactions.

SELECTED QUARTERLY DATA (UNAUDITED)

In thousands of Canadian dollars

For the three months ended	February 28, 2010	November 30, 2009	August 31, 2009	May 31, 2009
Revenue	\$ 3,444	\$ 4,743	\$ 6,212	\$ 6,315
Gross profit	1,155	1,435	2,362	1,934
Gross profit percentage	34%	30%	38%	31%
Net income (loss)	2,082	(5,713)	(263)	(1,038)
Net income (loss) attributable to common shareholders				
Basic	1,951	(5,860)	(410)	(1,192)
Diluted	2,082	(5,860)	(410)	(1,192)
Earnings (loss) per share:				
Basic	0.04	(0.12)	(0.01)	(0.02)
Diluted	0.04	(0.12)	(0.01)	(0.02)

For the three months ended	February 28, 2009	November 30, 2008	August 31, 2008	May 31, 2008
Revenue	\$ 5,724	\$ 8,146	\$ 6,327	\$ 6,574
Gross profit	1,719	3,332	2,243	2,025
Gross profit percentage	30%	41%	36%	31%
Net income (loss)	(697)	1,029	(682)	(1,174)
Net income (loss) attributable to common shareholders				
Basic	(853)	873	(838)	(1,330)
Diluted	(853)	873	(838)	(1,330)
Earnings (loss) per share:				
Basic	(0.02)	0.02	(0.02)	(0.03)
Diluted	(0.02)	0.02	(0.02)	(0.03)

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CRITICAL ACCOUNTING POLICIES

These items are substantially unchanged as discussed in the Company's MD&A for the year ended November 30, 2009 as contained in our 2009 Annual Report filed on SEDAR at www.sedar.com.

RECENT ACCOUNTING PRONOUNCEMENTS

The following recent pronouncements issued by the CICA will be monitored by the Company:

The CICA has issued CICA Handbook Section 1582, *Business Combinations*, which replaces CICA Handbook Section 1581, *Business Combinations*. This Section establishes standards for the recognition, measurement, presentation, and disclosure of business combinations. This Section applies to annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will adopt the new section for its fiscal year beginning December 1, 2011. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

The CICA has issued CICA Handbook Section 1601, *Consolidated Financial Statements*, and CICA Handbook Section 1602, *Non-controlling Interests*, which replace CICA Handbook Section 1600, *Consolidated Financial Statements*. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements, and CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements. These sections apply to annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will adopt the new Sections for its fiscal year beginning December 1, 2011. The Company does not expect that the adoption of these new Sections will have a material impact on its consolidated financial statements.

The Canadian Accounting Standards Board has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required commencing 2011 for publicly-accountable, profit-oriented enterprises. IFRS will be replacing current Canadian GAAP followed by the Company. The Company will be required to begin reporting under IFRS for its fiscal year ended November 30, 2012, and will be required to provide information that conforms to IFRS for the comparative periods presented. The Company is currently evaluating the impact of adopting IFRS.

The CICA has issued EIC 175, *Multiple Deliverable Revenue Arrangements*, which addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. This abstract also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. EIC 175 applies to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. Accordingly, the Company will adopt the new sections for its fiscal year beginning December 1, 2011. The Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Foreign Exchange Forward Contracts

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposure to reduce its exposure to fluctuations in foreign exchange on certain committed and anticipated transactions. The Company formally documents the relationships between derivative financial instruments and hedged items, as well as the risk management objective and strategy. The Company assesses, on an

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ongoing basis, whether the derivative financial instruments continue to be effective in offsetting changes in fair values or cash flows of the hedged transactions.

Changes in fair value of foreign currency denominated derivative financial instruments used to hedge anticipated or committed foreign currency exposures are recognized as an adjustment to the related operating costs or revenue when the hedged transaction is recorded. Derivatives are not subject to hedge accounting and are recorded on the consolidated balance sheets with the changes in fair value being recorded in the consolidated statement of operations each period.

The Company purchases foreign exchange forward contracts to mitigate the exposure to sales and the related accounts receivable to customers denominated in U.S. dollars, UK pounds, Australian dollars and Euros.

At February 28, 2010, we had entered into the following foreign exchange forward contracts, which were not treated as hedges in accordance with CICA Section 3865:

<i>Sell</i>	<i>Exchange rate in relation to CAD</i>	<i>Value date</i>
GBP 292,000	1.6849 to 1.7503	April 5, 2010 to May 28, 2010
EURO 220,000	1.4713 to 1.5704	April 5, 2010 to May 28, 2010
USD 51,000	1.0600	April 5, 2010

DISCLOSURE OF OUTSTANDING SHARE DATA

As at April 13, 2010, we had 51,602,083 issued and outstanding common shares and 3,384,083 outstanding stock options. As at April 13, 2010, we also had 30,262 issued and outstanding class A preference shares and 100,829 issued and outstanding class B preference shares series 2 convertible into common shares at conversion ratios of 1:1 and 1:58.82353, respectively, which represents 5,961,380 common shares.

DISCLOSURE CONTROLS AND PROCEDURES

Management, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining disclosure controls and procedures as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. Management, as at the end of the period covered by this interim filing, designed disclosure controls and procedures to provide reasonable, but not absolute, assurance that (i) material information relating to the issuer is made known to management by others, particularly during the period in which the interim filings were being prepared; and (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Disclosure controls and procedures provide only a reasonable level of assurance that they are effective. Accordingly, they may not detect that all disclosure requirements have not been met. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

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INTERNAL CONTROL OVER FINANCIAL REPORTING

Management, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining internal control over financial reporting as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. Management, as at the end of the period covered by this interim filing, designed internal control over financial reporting to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The control framework management used to design the issuer's internal control over financial reporting is that established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management did not identify material weaknesses relating to the design of internal controls over financial reporting existing at the end of the period covered by this interim filing.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the design of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's internal control over financial reporting and have determined that the Company's internal control over financial reporting was effective as of November 30, 2009.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting that occurred since the beginning of the Company's first quarter to the date of this document that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

RISKS AND UNCERTAINTIES

The primary risks and uncertainties that affect and may affect us and our business, financial condition and results of operations are substantially unchanged as discussed in the Company's MD&A for the year ended November 30, 2009 as contained in our 2009 Annual Report filed on SEDAR at www.sedar.com.