



MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three and six months ended May 31, 2010

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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 and six months ended May 31, 2010 in comparison with those for the three and six months ended May 31, 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 and six months ended May 31, 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 the 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 July 8, 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 and civil unrest 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).

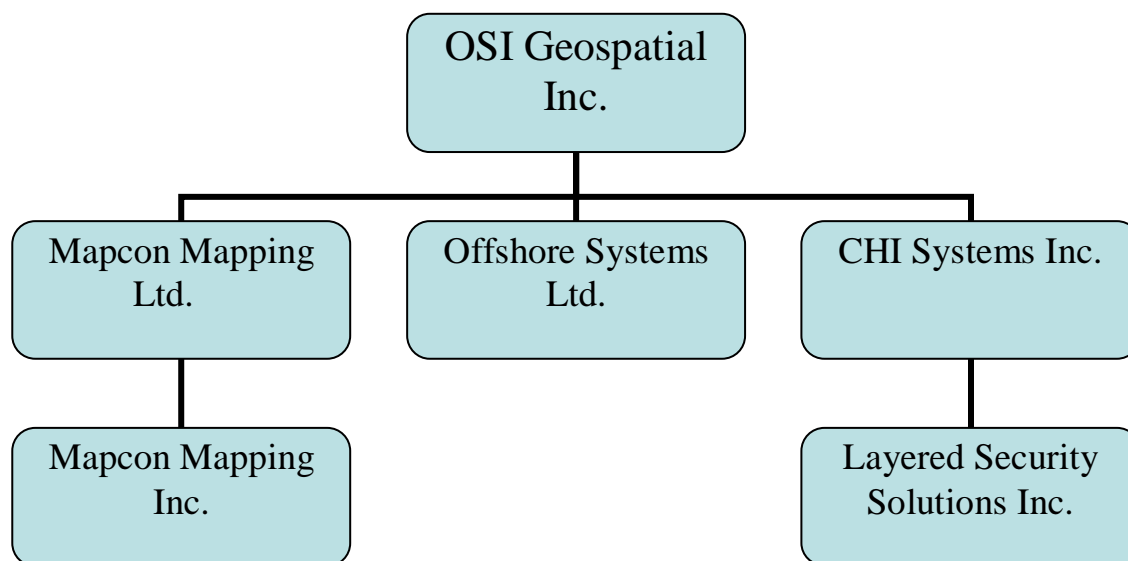
In April 2005, the Company completed the acquisition of all the outstanding shares of Mapcon Mapping Consultants Inc. ("Mapcon") of Salt Lake City, Utah. Mapcon is a land mapping company in the U.S. geospatial mapping market.

In December 2005, the Company completed the acquisition of CHI Systems Inc. ("CHI"), a United States defence contractor. CHI has four offices in the United States, 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 division, Layered Security Solutions ("LSS"). The Company's LSS division in Virginia Beach, Virginia is primarily focused on developing the U.S. homeland security and naval marine markets.

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



Our mission is to provide our customers in the military and security markets with quality geospatial products and services that will enhance operational performance and security through real-time situational awareness.

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Our clients include the United States Navy, Army, 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 our world leading technologies, such as ECPINS® and iGEN™ to grow our market share, expand our 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, L-3 Communications, General Dynamics and Raytheon. As we successfully integrate our technology into the solutions provided by the large defence systems integrators, we expect to 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 six months ended May 31, 2010 and 2009.

Operations:	For the six months ended May 31,	
In thousands of Canadian dollars except share related data	2010	2009
	\$	\$
Revenue	8,555	12,039
Gross profit	2,812	3,653
Gross profit percentage	33%	30%
Net income (loss)	1,332	(1,735)
Net income (loss) attributable to common shareholders:		
Basic and diluted	1,113	(2,045)
Earnings (loss) per share:		
Basic and diluted	0.02	(0.04)
Weighted average common shares outstanding:		
Basic	50,183,685	46,983,911
Diluted	50,294,988	46,983,911
<u>Dividends declared per share</u>		
Class A Preference Shares – Series A	–	–
Class B Preference Shares – Series 2	\$0.04	\$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 six months ended May 31, 2010 as compared to the six months ended May 31, 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 six months ended May 31, 2010 as compared to the six months ended May 31, 2009 is due to the decrease in revenue in International Systems operations and U.S. Systems operations; and the mix of revenue and the level of fixed costs included in cost of sales across all operating units.

The higher gross profit percentage in the six months ended May 31, 2010 as compared to the six months ended May 31, 2009 is the result of less revenue derived from projects that included third party systems and labour. Projects that included 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 focuses on markets such as military command and control, homeland security, and maritime defence that do 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 requests for proposals; and reductions in the values of some sales opportunities which the Company has been pursuing.

Financial Position:	At May 31, 2010	At November 30, 2009
In thousands of Canadian dollars		
	\$	\$
Working capital ⁽¹⁾	4,875	3,446
Current assets	9,745	8,750
Long term assets	6,995	7,009
Total assets	16,740	15,759
Current liabilities	4,870	5,304
Long term liabilities	477	492
Total liabilities	5,347	5,796
Shareholders' equity	11,393	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, the Company 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 and six months ended May 31, 2010 as compared to three and six months ended May 31, 2009

Overall Performance

Three months ended	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Net loss before income taxes	\$ (1,061)	\$ (1,018)	\$ (43)
Net loss	\$ (750)	\$ (1,038)	\$ 288
Net loss attributable to common shareholders	\$ (838)	\$ (1,192)	\$ 354
Loss per share – basic and diluted	(0.02)	(0.02)	-

Six months ended	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Net income (loss) before income taxes	\$ 2,980	\$ (1,860)	\$ 4,840
Net income (loss)	\$ 1,332	\$ (1,735)	\$ 3,067
Net income (loss) attributable to common shareholders	\$ 1,113	\$ (2,045)	\$ 3,158
Earnings (loss) per share – basic and diluted	0.02	(0.04)	0.06

The lower net loss for the three months ended May 31, 2010 was mainly due to higher income tax recovery. The higher net income reported for the six months ended May 31, 2010 was largely driven by gain on sale of intellectual property, offset by lower gross profit and higher income tax expense.

Backlog

Firm backlog consists of firm fixed signed orders issued and executable subsequent to the balance sheet date. Firm backlog as at May 31, 2010 was at \$36 million compared to \$49 million at May 31, 2009. Of the \$36 million firm backlog, \$7 million is expected to be executed in fiscal 2010 and \$29 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 May 31, 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.

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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. We have included the full value of multi-year government contracts in backlog having a termination-for-convenience clause in firm backlog.

Revenue

Three months ended	May 31, 2010	% of total revenue	May 31, 2009	% of total revenue	2010 to 2009
In thousands of Canadian dollars					
Maritime navigation and tactical solutions	\$ 1,093	21%	\$ 1,974	31%	\$ (881)
Advanced technology research and development	1,660	33%	2,911	46%	(1,251)
Mapping	2,359	46%	1,430	23%	929
	<u>\$ 5,112</u>	<u>100%</u>	<u>\$ 6,315</u>	<u>100%</u>	<u>\$ (1,203)</u>

Six months ended	May 31, 2010	% of total revenue	May 31, 2009	% of total revenue	2010 to 2009
In thousands of Canadian dollars					
Maritime navigation and tactical solutions	\$ 2,498	29%	\$ 5,496	46%	\$ (2,998)
Advanced technology research and development	3,584	42%	4,854	40%	(1,270)
Mapping	2,473	29%	1,689	14%	784
	<u>\$ 8,555</u>	<u>100%</u>	<u>\$ 12,039</u>	<u>100%</u>	<u>\$ (3,484)</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 21% and 31% of the revenue for the three months ended May 31, 2010 and 2009, respectively, and 29% and 46% of the revenue for the six months ended May 31, 2010 and May 31, 2009, respectively.

Advanced technology research and development through our U.S. Systems operations delivered 33% and 46% of the revenue for the three months ended May 31, 2010 and 2009, respectively. Advanced technology research and development delivered 42% and 40% of the revenue for the six months ended May 31, 2010 and 2009, respectively.

Mapping delivered 46% and 23% of the revenue for the three months ended May 31, 2010 and 2009, respectively. Mapping delivered 29% and 14% of the revenue for the six months ended May 31, 2010 and 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 six months ended May 31, 2010 were the Ontario Ministry of Natural Resources, the U.S. Army, and the U.S. Defence Advanced Research Projects Agency (DARPA). Revenue from these customers accounted for 46% of the consolidated revenue. The main customers for our products and services in the six months ended May 31, 2009 were the Royal Australian Navy, the U.S Coast Guard, U.S. Army and the Royal Navy of the U.K. Revenue from these customers accounted for 40% of the consolidated revenue.

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Revenue by Segment

Three months ended	May 31, 2010	% of total revenue	May 31, 2009	% of total revenue	2010 to 2009
In thousands of Canadian dollars					
International Systems operations	\$ 851	17%	\$ 1,615	25%	\$ (764)
U.S. Systems operations	1,902	37%	3,270	52%	(1,368)
Mapping operations	2,359	46%	1,430	23%	929
	<u>\$ 5,112</u>	<u>100%</u>	<u>\$ 6,315</u>	<u>100%</u>	<u>\$ (1,203)</u>

Six months ended	May 31, 2010	% of total revenue	May 31, 2009	% of total revenue	2010 to 2009
In thousands of Canadian dollars					
International Systems operations	\$ 2,065	24%	\$ 3,612	30%	\$ (1,547)
U.S. Systems operations	4,018	47%	6,738	56%	(2,720)
Mapping operations	2,472	29%	1,689	14%	783
	<u>\$ 8,555</u>	<u>100%</u>	<u>\$ 12,039</u>	<u>100%</u>	<u>\$ (3,484)</u>

Revenue from the International Systems operations for the three and six months ended May 31, 2010 decreased 47% and 43%, respectively, when compared to the same periods in the prior year due to the timing of new contracts awarded and the delivery schedules of existing contracts.

Revenue from the U.S. Systems operations for the three and six months ended May 31, 2010 decreased over the same periods from the prior year by 42% and 40%, respectively. 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 and six months ended May 31, 2010 increased over the same periods from the prior year by 65% and 46%, respectively, due to new contracts awarded and the delivery schedules of existing contracts.

Gross Profit

Three months ended	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Gross profit	\$ 1,706	\$ 1,934	\$ (228)
Gross profit percentage	34%	31%	3%
Six months ended			
In thousands of Canadian dollars			
Gross profit	\$ 2,812	\$ 3,653	\$ (841)
Gross profit percentage	33%	30%	3%

Gross profit decreased by 12% in the three months ended May 31, 2010 compared to the three months ended May 31, 2009 and the gross profit percentage is higher by 3% period-over-period.

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Gross profit decreased by 23% in the six months ended May 31, 2010 compared to the six months ended May 31, 2009 and the gross profit percentage increased 3% period-over-period.

The decreased gross profit for the three and six months ended May 31, 2010 compared to prior year's periods is mainly due to lower revenue during the current period.

The increase in gross profit percentage for the three and six months ended May 31, 2010 compared to the prior year's periods 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	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Gross profit:			
International Systems operations	\$ 419	\$ 791	\$ (372)
U.S. Systems operations	660	773	(113)
Mapping operations	627	370	257
Consolidated operations	<u>\$ 1,706</u>	<u>\$ 1,934</u>	<u>\$ (228)</u>
Gross profit percentage:			
International Systems operations	49%	49%	-
U.S. Systems operations	35%	24%	11%
Mapping operations	27%	26%	1%
Consolidated operations	<u>33%</u>	<u>31%</u>	<u>2%</u>
<hr/>			
Six months ended	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Gross profit:			
International Systems operations	\$ 1,063	\$ 1,933	\$ (870)
U.S. Systems operations	1,208	1,356	(148)
Mapping operations	541	364	177
Consolidated operations	<u>\$ 2,812</u>	<u>\$ 3,653</u>	<u>\$ (841)</u>
Gross profit percentage:			
International Systems operations	51%	54%	(3%)
U.S. Systems operations	30%	20%	10%
Mapping operations	22%	22%	-
Consolidated operations	<u>33%</u>	<u>30%</u>	<u>3%</u>

Gross profit from the International Systems operations decreased 47% and 45% for the three and six months ended May 31, 2010, respectively, and gross profit percentages were the same for the three months ended May 31, 2010 and 3% lower for the six months ended May 31, 2010 when compared to the same periods in the prior years. The decreases in gross profit are the result of lower revenues in the International Systems operations. The lower gross profit percentage is the result of a decrease in high margin software sales and more revenues from lower margins on systems and services projects compared to the prior year's periods.

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Gross profit from the U.S. Systems operations decreased 15% and 11% for the three and six months ended May 31, 2010, respectively. Gross profit percentage was 11% and 10% higher for the three and six months ended May 31, 2010, respectively, when compared to the same periods in the prior year. The decrease in gross profit for the three and six months ended May 31, 2010 when compared to the same periods last year was primarily the result of decrease in current period's revenue. The increase in the gross profit percentage for the three and six months ended May 31, 2010, is primarily the result of a lower proportion of revenue derived from projects that included third-party labour when compared to the same periods last year.

Gross profit from the Mapping operations for the three and six months ended May 31, 2010 increased 69% and 49%, respectively, and gross profit percentage were approximately the same when compared to the same periods in the prior year. The increases in gross profit were impacted by higher revenues for the three and six months ended May 31, 2010 when compared to the same periods in the prior year. Gross profit is impacted by the level of the fixed costs included in cost of sales. It is also driven by season as the revenue 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

	May 31, 2010	% of total revenue	May 31, 2009	% of total revenue	2010 to 2009
Three months ended					
In thousands of Canadian dollars					
General and administrative	\$ 1,893	37%	\$ 1,575	25%	\$ 318
Sales and marketing	686	13%	813	13%	(127)
Engineering	25	-	337	5%	(312)
Six months ended					
In thousands of Canadian dollars					
General and administrative	\$ 3,161	37%	\$ 2,785	23%	\$ 376
Sales and marketing	1,350	16%	1,627	14%	(277)
Engineering	201	2%	638	5%	(437)

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 20% and 14% for three and six months ended May 31, 2010, respectively, compared to the previous year's periods. The increase was largely due to termination costs and stock-based compensation costs for stock options granted in May 2010.

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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 16% and 17% for three and six months ended May 31, 2010 compared to the three and six months ended May 31, 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, 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 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.

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 93% and 68% for the three and six months ended May 31, 2010, compared to the three and six months ended May 31, 2009. The decrease is mainly related to reduction in staff level and more related costs being charged to cost of sales and pre-contract costs to support specific customer orders during the three and six months ended May 31, 2010 when compared to the same periods last year. 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.

Amortization

Three months ended	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Amortization	\$ 84	\$ 110	\$ (26)
Six months ended	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Amortization	\$ 171	\$ 223	\$ (52)

Total amortization decreased by 24% and 23% for the three and six months ended May 31, 2010 as compared to the same periods in the prior year. For the three and six months ended May 31, 2010, a portion of the amortization, \$31,000 and \$68,000, respectively, (2009 – \$49,000 and \$97,000, respectively) was included in cost of sales for equipment used in revenue-generating activities.

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Interest expense

Three months ended	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Interest expense	\$ 7	\$ 20	\$ (13)
Six months ended	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Interest expense	\$ 45	\$ 50	\$ (5)

Interest expense decreased by 65% and 10% in the three and six months ended May 31, 2010 as compared to the three and six months ended May 31, 2009, respectively. With the cash proceeds from the sale of intellectual property, the Company did not utilize its credit facilities for the entire three and six months ended May 31, 2010.

Foreign exchange

Three months ended	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Foreign exchange loss (gain)	\$ 29	\$ (16)	\$ (45)
Six months ended	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Foreign exchange loss (gain)	\$ 19	\$ (16)	\$ (35)

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 UK pound and the Euro. These fluctuations were not in the Company's favour for the three and six months ended May 31, 2010 and were in the Company's favour during the three and six months ended May 31, 2009.

Technology Partnerships Canada royalty

Three months ended	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Royalty	\$ 43	\$ 113	\$ (70)
Six months ended	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Royalty	\$ 112	\$ 208	\$ (96)

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

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completed on March 31, 2007. The contributions we received were based on the eligible expenditures incurred.

The Company is required to pay a royalty of 1.4% on annual gross revenue of its subsidiary, Offshore Systems Ltd., for the period January 1, 2006 to December 31, 2008; and a royalty of 2.5% on annual gross revenue in Offshore Systems Ltd. for the period January 1, 2009 to December 31, 2013. If the total royalties paid and payable as at December 31, 2013 does not equal or exceed \$6.1 million, the Company will continue to pay royalties on gross revenue generated after December 31, 2013 until total cumulative royalties paid or payable reach \$6.1 million or until December 31, 2017, whichever comes first. The Company commenced payment of these royalties effective February 2007.

In addition, the Company is required to pay a royalty of 3% on annual gross revenue of its subsidiary, Offshore Systems Ltd., for the period December 1, 1999 to November 30, 2008. If the total royalties paid and payable as at November 30, 2008 does not equal or exceed \$7.8 million, the Company will continue to pay royalties on gross revenue generated after November 30, 2008 until total cumulative royalties paid or payable reach \$7.8 million or until November 30, 2014, whichever comes first. The Company commenced payment of these royalties effective June 2001.

Although we believe that our submissions for TPC funding met 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	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Gain on sale of intellectual property	\$ -	\$ -	\$ -
Six months ended	May 31, 2010	May 31, 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	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Future income tax expense	\$ 101	\$ 12	\$ 89
Current income tax expense (recovery)	(412)	8	(420)
	<u>(311)</u>	<u>20</u>	<u>(331)</u>
Six months ended	May 31, 2010	May 31, 2009	2010 to 2009
In thousands of Canadian dollars			
Future income tax expense (recovery)	\$ 989	\$ (140)	\$ 1,129
Current income tax expense	659	15	644

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<u>1,648</u>	<u>(125)</u>	<u>1,773</u>
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Based on the information available at the time of the issue of the interim financial statements for the six months ended May 31, 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 six months ended May 31, 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 period resulting from the sale of intellectual property. At May 31, 2010, we have current future tax asset of \$233,000 and non-current future tax liability of \$75,000 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 six months ended May 31, 2010 mainly due to taxable income earned from the sale of intellectual property.

LIQUIDITY AND CAPITAL RESOURCES - May 31, 2010 compared to November 30, 2009

In thousands of Canadian dollars	May 31, 2010	November 30, 2009	2010 to 2009
Current assets	\$ 9,745	\$ 8,750	\$ 995
Current liabilities	4,870	5,304	(434)
Working capital ⁽¹⁾	4,875	3,446	1,429

⁽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 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 May 31, 2010, our current assets increased primarily due to an increase in cash as a result of the sale of intellectual property during the period. Our working capital has increased mainly due to the increase in cash, and decrease in current liabilities, offset by a decrease in current portion of future tax asset. Current liabilities decreased because of payment of bank indebtedness and factored advances payable, lower unearned revenue, offset by the accrual of income taxes payable. Current portion of future tax asset decreased due to utilization of future tax asset 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 May 31, 2010, we had no borrowings 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 and six months ended May 31, 2010, we did not utilize these facilities during the entire period. We utilize our forward exchange contract facility to reduce our exposure to exchange rate movements.

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The Company declared semi-annual dividends to the Class B, Series 2 preference shareholders as follows:

<u>Date declared</u>	<u>Period covered</u>	<u>Dividends per share</u>
December 2008	June 2008 – November 2008	\$ 0.0175
July 2009	December 2008 – May 2009	0.0175
January 2010	June 2009 – November 2009	0.0175
May 2010	December 2009 – May 2010	0.0175

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.

Cash Flows

<u>Three months ended</u>	<u>May 31, 2010</u>	<u>May 31, 2009</u>	<u>2010 to 2009</u>
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In thousands of Canadian dollars

Cash flows provided by (used in):

Operating activities	\$ (841)	\$ 1,963	\$ (2,804)
Investing activities	(202)	(113)	(89)
Financing activities	(92)	(1,364)	1,272
Effect of foreign exchange on cash	(7)	27	(34)

<u>Six months ended</u>	<u>May 31, 2010</u>	<u>May 31, 2009</u>	<u>2010 to 2009</u>
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In thousands of Canadian dollars

Cash flows provided by (used in):

Operating activities	\$ (2,329)	\$ 2,099	\$ (4,428)
Investing activities	4,568	(163)	4,731
Financing activities	(879)	(1,447)	568
Effect of foreign exchange on cash	35	24	11

Cash flows used in operating activities for the three months ended May 31, 2010 were the result of net loss for the period, increase in accounts receivable, increase in income taxes payable, and increase in prepaid expenses and deposits, reduced by amortization, future tax expense, and decrease in accounts payable and accrued liabilities.

Cash flows used in operating activities for the six months ended May 31, 2010 were the result of net income for the period increased by amortization, stock-based compensation, future tax expense, increase in accounts payable and accrued liabilities, and increase in income taxes payable, offset by the gain on disposal of intellectual property.

Cash flows used in investing activities for the three months ended May 31, 2010 were primarily reflective of the acquisitions of equipment, furnishings and intangibles.

Cash flows provided by investing activities for the six months ended May 31, 2010 were mainly due to disposal of intellectual property.

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Cash flows used in financing activities for the three and six months ended May 31, 2010 were the result of repayments of credit facilities.

As a result of the above mentioned changes, the credit facilities utilization decreased by \$72,000 for the three months ended May 31, 2010 and \$836,000 for the six months ended May 31, 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 May 31, 2010 we had entered into forward exchange contracts in the amount of £210,000 and €71,000.

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	\$ 2,820	\$ 674	\$ 1,152	\$ 510	\$ 484
Capital equipment leases	90	45	45		
Operating equipment leases	35	25	10		
Total contractual obligations	\$ 2,945	\$ 744	\$ 1,207	\$ 510	\$ 484

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 May 31, 2010, the carrying amount of CHI's factored advances payable was U.S. \$nil (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.

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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 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.

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SELECTED QUARTERLY DATA (UNAUDITED)

In thousands of Canadian dollars

For the three months ended	May 31, 2010	February 28, 2010	November 30, 2009	August 31, 2009
Revenue	\$ 5,112	\$ 3,444	\$ 4,743	\$ 6,212
Gross profit	1,706	1,155	1,435	2,362
Gross profit percentage	33%	34%	30%	38%
Net income (loss)	(750)	2,082	(5,713)	(263)
Net income (loss) attributable to common shareholders				
Basic	(838)	1,951	(5,860)	(410)
Diluted	(838)	2,082	(5,860)	(410)
Earnings (loss) per share:				
Basic	(0.02)	0.04	(0.12)	(0.01)
Diluted	(0.02)	0.04	(0.12)	(0.01)

For the three months ended	May 31, 2009	February 28, 2009	November 30, 2008	August 31, 2008
Revenue	\$ 6,315	\$ 5,724	\$ 8,146	\$ 6,327
Gross profit	1,934	1,719	3,332	2,243
Gross profit percentage	31%	30%	41%	36%
Net income (loss)	(1,038)	(697)	1,029	(682)
Net income (loss) attributable to common shareholders				
Basic	(1,192)	(853)	873	(838)
Diluted	(1,192)	(853)	873	(838)
Earnings (loss) per share:				
Basic	(0.02)	(0.02)	0.02	(0.02)
Diluted	(0.02)	(0.02)	0.02	(0.02)

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,

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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 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.

International Financial Reporting Standards

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 prepare its interim and annual consolidated financial statements in accordance with IFRS for the periods beginning on or after December 1, 2011 and will be required to provide information that conforms to IFRS for the comparative periods presented.

The Company commenced the process to transition from current Canadian GAAP to IFRS in 2009. We have engaged third-party consultants to assist us in this process. Progress reports are provided to the audit committee on the status of the IFRS implementation project on a quarterly basis.

A preliminary diagnostic review and preliminary assessment of accounting impact was completed by the third-party consultants. The diagnostic review and preliminary assessment included the determination, at a high level, of the financial reporting differences under IFRS and the key areas that may be impacted. The major areas of focus identified by the assessment include first year implementation decisions, impairment, share-based payments, government assistance, and financial statement presentation and disclosure. The final impact of the conversion on the Company's financial statements cannot be reasonably determined at this time.

The Company will continue to monitor results from the existing conversion plan, as well as ongoing changes to IFRS, and adjust its transition and implementation plans accordingly.

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 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

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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 May 31, 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>
EURO 71,000	1.3252	July 2010 to October 2010
GBP 210,000	1.5142 to 1.5313	October 2010 to November 2010

DISCLOSURE OF OUTSTANDING SHARE DATA

As at July 8, 2010, we had 51,602,083 issued and outstanding common shares and 4,703,333 outstanding stock options. As at July 8, 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.

INTERNAL CONTROLS 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

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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 CONTROLS OVER FINANCIAL REPORTING

There were no material changes in the Company's internal controls 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 controls 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.