

OSI Geospatial Inc.

**Interim Consolidated Financial Statements (Unaudited)
Three and Nine Months ended August 31, 2010 and 2009
(expressed in Canadian dollars)**

(Prepared in accordance with Canadian Generally Accepted Accounting Principles)

OSI Geospatial Inc.

(Incorporated under the laws of the Province of British Columbia, Canada)

Consolidated Balance Sheets (unaudited)

In thousands of Canadian dollars	August 31, 2010	November 30, 2009
Assets		
Current assets		
Cash	\$ 1,020	\$ 315
Restricted cash	266	-
Accounts receivable and unbilled revenue	4,527	5,880
Income taxes recoverable	196	-
Inventories (note 5)	959	1,139
Prepaid expenses and deposits	781	375
Current portion of future income tax asset	263	1,041
	<hr/> 8,012	<hr/> 8,750
Restricted cash	326	-
Deferred development costs	579	653
Future income tax asset	-	113
Equipment and furnishings	1,315	1,473
Intangibles and other assets	451	446
Goodwill (note 6)	4,351	4,324
	<hr/> \$ 15,034	<hr/> \$ 15,759
Liabilities		
Current liabilities		
Bank indebtedness	\$ -	\$ 599
Factored advances payable	28	240
Accounts payable and accrued liabilities	3,240	3,806
Unearned revenue	403	550
Current portion of deferred rent	41	41
Current portion of capital lease obligations	25	68
	<hr/> 3,737	<hr/> 5,304
Deferred rent	229	260
Capital lease obligations	35	54
Unearned revenue	93	178
Future income tax liability	409	-
	<hr/> 4,503	<hr/> 5,796
Shareholders' Equity		
Issued and outstanding		
Class A, Series A preference shares	30	30
Class B, Series 2 preference shares (note 7a)	2,457	5,383
Common shares (note 7a)	31,112	29,876
	<hr/> 33,599	<hr/> 35,289
Warrants (note 7b)	-	4,546
Contributed surplus	9,722	3,322
Accumulated deficit	(31,520)	(31,838)
Accumulated other comprehensive loss	(1,270)	(1,356)
	<hr/> 10,531	<hr/> 9,963
	<hr/> \$ 15,034	<hr/> \$ 15,759

The accompanying notes are an integral part of the interim consolidated financial statements.

OSI Geospatial Inc.

Consolidated Statements of Operations and Deficit (unaudited)

In thousands of Canadian dollars, except share related data	Three months ended		Nine months ended	
	August 31,		August 31,	
	2010	2009	2010	2009
Revenue				
Maritime navigation and tactical solutions	\$ 995	\$ 2,354	\$ 3,494	\$ 7,850
Advanced technology research and development	1,836	2,539	5,420	7,394
Mapping	471	1,319	2,944	3,008
	3,302	6,212	11,858	18,252
Cost of sales	2,548	3,850	8,292	12,236
Gross profit	754	2,362	3,566	6,016
Expenses (income)				
General and administrative	1,154	1,379	4,316	4,164
Sales and marketing	581	867	1,931	2,494
Engineering	150	175	351	813
Amortization	88	106	259	329
Interest expense	4	23	49	74
Interest income	(10)	-	(11)	(3)
Foreign exchange loss (gain)	-	1	19	(15)
Technology Partnerships Canada royalty	43	104	155	313
	2,010	2,655	7,069	8,169
Net loss before other items	(1,256)	(293)	(3,503)	(2,153)
Gain on sale of intellectual property (note 11)	-	-	5,227	-
Net income (loss) before income taxes	(1,256)	(293)	1,724	(2,153)
Future income tax expense (recovery)	306	(11)	1,295	(151)
Current income tax expense (recovery)	(553)	(19)	106	(4)
Income tax expense (recovery)	(247)	(30)	1,401	(155)
Net income (loss)	(1,009)	(263)	323	(1,998)
Accumulated deficit, beginning of period	(30,511)	(25,859)	(31,838)	(24,121)
Dividends on Class B, Series 2 preference shares	-	(3)	(5)	(6)
Accumulated deficit, end of period	\$ (31,520)	\$ (26,125)	\$ (31,520)	\$ (26,125)
Net income (loss) attributable to common shareholders (note 7d)				
Basic and diluted	\$ (1,082)	\$ (410)	32	\$ (2,455)
Loss per share (note 7d)				
Basic and diluted	\$ (0.02)	\$ (0.01)	\$ 0.00	\$ (0.05)
Weighted average number of common shares outstanding (note 7d)				
Basic and diluted	52,643,067	47,416,118	51,009,463	47,129,032

The accompanying notes are an integral part of the interim consolidated financial statements.

OSI Geospatial Inc.

Consolidated Statements of Comprehensive Income (Loss) (unaudited)

In thousands of Canadian dollars	Three months ended		Nine months ended	
	August 31, 2010	2009	August 31, 2010	2009
Net income (loss)	\$ (1,009)	\$ (263)	\$ 323	\$ (1,998)
Other comprehensive loss, net of taxes				
Unrealized gain (loss) on translation of self-sustaining foreign operations	107	(103)	86	(1,645)
Comprehensive income (loss)	\$ (902)	\$ (366)	\$ 409	\$ (3,643)

OSI Geospatial Inc.

Consolidated Statements of Accumulated Other Comprehensive Loss (unaudited)

In thousands of Canadian dollars	Three months ended		Nine months ended	
	August 31, 2010	2009	August 31, 2010	2009
Accumulated other comprehensive income (loss), beginning of the period	\$ (1,377)	\$ (911)	\$ (1,356)	\$ 631
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	107	(103)	86	(1,645)
Accumulated other comprehensive loss, end of the period	\$ (1,270)	\$ (1,014)	\$ (1,270)	\$ (1,014)

The accompanying notes are an integral part of the interim consolidated financial statements.

OSI Geospatial Inc.

Consolidated Statements of Cash Flows (unaudited)

In thousands of Canadian dollars	Three months ended		Nine months ended	
	August 31, 2010	2009	August 31, 2010	2009
Cash flows from (used in) operating activities				
Net income (loss) for the period	\$ (1,009)	\$ (263)	\$ 323	\$ (1,998)
Items not affecting cash				
Amortization	122	157	361	477
Gain on disposal of intellectual property	-	-	(5,227)	-
Stock-based compensation	40	10	165	58
Future income tax expense (recovery)	306	(11)	1,295	(151)
	(541)	(107)	(3,083)	(1,614)
Changes in non-cash working capital items				
Accounts receivable	1,315	(634)	1,378	3,746
Inventories	53	(276)	180	37
Prepaid expenses and deposits	(51)	126	(403)	(61)
Accounts payable and accrued liabilities	(977)	16	(581)	(606)
Income taxes payable	(571)	6	(190)	(85)
Deferred rent	(11)	(11)	(31)	(31)
Unearned revenue	151	350	(231)	182
	(91)	(423)	122	3,182
	(632)	(530)	(2,961)	1,568
Cash flows from (used in) investing activities				
Decrease (increase) in restricted cash	49	-	(589)	-
Deferred development costs	(2)	(143)	(57)	(196)
Additions to equipment and furnishings	(81)	(47)	(136)	(141)
Additions to intangible and other assets	(32)	(3)	(160)	(19)
Proceeds from disposal of intellectual property and related tangible assets, net of costs to dispose	-	-	5,444	-
	(66)	(193)	4,502	(356)
Cash flows from (used in) financing activities				
Advances from (repayment) of bank indebtedness	-	762	(599)	(647)
Factored advances payable	27	-	(210)	-
Repayment of capital lease obligations	(21)	(41)	(61)	(76)
Class B preference share dividends declared and paid	(2)	(3)	(5)	(6)
	4	718	(875)	(729)
Effect of foreign exchange on cash balances				
	4	20	39	45
Increase (decrease) in cash	(690)	15	705	528
Cash – beginning of period	1,710	513	315	-
Cash – end of period	\$ 1,020	\$ 528	\$ 1,020	\$ 528
Supplemental cash flow information:				
Interest paid	\$ 4	\$ 21	\$ 54	\$ 72
Income taxes paid	31	-	311	(3)

The accompanying notes are an integral part of the interim consolidated financial statements.

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

1 Basis of presentation

These unaudited interim consolidated financial statements have been prepared by management and include the accounts of OSI Geospatial Inc. and its subsidiaries, collectively referred to as OSI Geospatial or the Company. These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and all amounts have been expressed in thousands of Canadian dollars unless otherwise noted.

These unaudited interim consolidated financial statements have been prepared using the same accounting policies used in the preparation of the audited annual consolidated financial statements for the year ended November 30, 2009.

These unaudited interim consolidated financial statements do not include all the information and footnote disclosures required by Canadian GAAP for annual audited consolidated financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended November 30, 2009.

The preparation of these unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported. Actual results could vary from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

These unaudited interim consolidated financial statements are prepared on a going-concern basis, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Certain conditions and uncertainties cast doubt about the validity of this assumption. The Company has a history of recurring losses and has an accumulated deficit of \$31.5 million. In October 2009, the Company replaced its U.S. line of credit with an accounts receivable factoring arrangement to support its U.S. working capital requirements. In January 2010, the Company replaced its Canadian line of credit with an accounts receivable factoring arrangement to support its Canadian working capital requirements. As per note 11, on February 1, 2010, the Company sold its soldier systems intellectual property for U.S. \$6.5 million. The net proceeds after corporate income taxes are approximately U.S. \$5.5 million with approximately U.S. \$5.0 million received in February 2010 and the balance to be received in fiscal 2011. The net proceeds provided additional working capital for the Company. The Company expects that its level of working capital should be sufficient to fund future operations for a period greater than twelve months.

The ability of the Company to continue as a going concern and meet its commitments and ongoing operating expenses is dependent on achieving profitable operations, and/or obtaining necessary levels of financing. There is no assurance that the Company will be successful in achieving these goals.

These unaudited interim consolidated financial statements do not include any adjustments to the carrying value of assets and liabilities, and changes to balance sheet classifications that might be necessary should the Company not continue as a going concern and these adjustments and reclassifications could be material.

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

2 Accounting changes

Recent pronouncements

The following recent pronouncements issued by the Canadian Institute of Chartered Accountants (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 plans to 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 plans to 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 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 plans to adopt the new Section 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.

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.

3 Nature of operations

OSI Geospatial delivers integrated navigation 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 (TACTS), Integrated Navigation and Tactical System (INTS) and security risk assessment consulting services. In addition, OSI Geospatial 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. OSI Geospatial conducts its operations through three business units – International Systems, U.S. Systems and Mapping.

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

4 Credit facilities

In January 2010, the Company moved its Canadian credit facilities to another Canadian financial institution. The financing agreement consists of accounts receivable factoring arrangements.

At August 31, 2010, the Company had total borrowing capacity under its Canadian accounts receivable factoring arrangement of \$2.0 million. Under the terms of the factoring agreement, the Company may be requested to repay any amounts owing plus applicable interest. The fees charged under this agreement are: a) discount equal to discount percentage as set forth in the applicable schedule; b) 18.25% interest on any receivables that are required to be repurchased, payable from the designated due date until payment is made; and c) per diem equal to discount factor as set forth in the applicable schedule for any receivable not collected, payable from the designated due date until full payment of receivable is received. The financial institution is not entitled to both the interest and the per diem on any given day in respect of the same receivable. The credit facility is secured by a general assignment of accounts covering substantially all of the Company's present and future Canadian accounts receivable, claims and interests. This arrangement is being recorded as a financing from the factoring company and factoring costs are being charged to operations as incurred. At August 31, 2010, the amount advanced under this facility was \$nil (November 30, 2009 – \$nil).

In October 2009, the Company's subsidiary, CHI Systems Inc. (CHI), entered into accounts receivable factoring arrangements with a U.S. financial institution. Under the terms of the factoring agreement, CHI shall repurchase the accounts that remain unpaid because of certain events as specified in the agreement. Fees charged under this agreement are a servicing fee of 0.275% for the first 15 days, 0.293% after 15 days and a daily discount fee of 0.0132%. The daily discount fee is the prime rate as published in *The Wall Street Journal* on the purchase date plus 1.5% per annum. This arrangement is being recorded as a financing from the factoring company and factoring costs are being charged to operations as incurred. The facility is secured by a security agreement covering substantially all of CHI's present and future property and interests. At August 31, 2010, the amount advanced under this facility was \$28,000 (November 30, 2009 – \$240,000).

The Company has a foreign exchange facility with a Canadian chartered bank whereby it can enter into forward foreign exchange contracts. The maximum facility is based on a bank formula for deemed risk and is calculated using recent volatility in the currency of the contract as well as the length of the contract. At August 31, 2010, the foreign exchange facility would enable the Company to enter into U.S. dollar denominated forward foreign exchange contracts for approximately \$7 million (November 30, 2009 - \$9 million). This facility is insured through insurance solutions provided by Export Development Canada. As at August 31, 2010, the Company has drawn on its forward foreign exchange contract facility in the amount of \$74,000 (November 30, 2009 - \$918,000). A foreign exchange loss on these contracts of \$6,000 and \$8,000 was recognized at August 31, 2010 and November 30, 2009, respectively.

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

5 Inventories

Materials and components are stated at the lower of cost and net realizable value as determined by the first-in first-out method. Work-in-process and manufactured parts are stated at the cost of materials and direct labour applied to the product and the applicable share of overhead. Finished goods are stated at the lower of cost and net realizable value. The Company assesses the need for inventory write-downs based on its assessment of estimated replacement or net realizable value using assumptions about future demand and market conditions. If market conditions differ from those originally estimated by the Company, an additional inventory write-down may be required.

In thousands of Canadian dollars

	August 31, 2010	November 30, 2009
Materials and components	\$ 723	\$ 806
Work-in-process	53	150
Finished goods	183	183
	\$ 959	\$ 1,139

The cost of finished goods and components inventories recognized as expense and included in cost of sales for the three and nine months ended August 31, 2010 were \$77,000 and \$275,000, respectively (three and nine months ended August 31, 2009 - \$555,000 and \$ 1,702,000, respectively).

6 Goodwill

In thousands of Canadian dollars

	For the nine months ended August 31, 2010	For the year ended November 30, 2009
Balance, beginning of the period	\$ 4,324	\$ 10,269
Impairment charge	-	(4,453)
Unrealized gain (loss) in translation of self-sustaining foreign operations	27	(1,492)
Balance, end of the period	\$ 4,351	\$ 4,324

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

7 Capital stock

a) Class B, Series 2 preference shares and Common shares

During the three months ended August 31, 2010, 24,300 (2009 – 8,340) Class B, Series 2 preference shares were converted into 1,429,411 common shares (2009 – 490,587). Accordingly, the Class B, Series 2 preference shares were reduced by \$780,000 (2009 – \$268,000), the carrying value of the shares converted. The common shares were increased by \$343,000 (2009 – 34,000) and the contributed surplus was increased by \$437,000 (2009 – 234,000).

During the nine months ended August 31, 2010, 91,161 (2009 – 10,840) Class B, Series 2 preference shares were converted into 5,362,410 common shares (2009 – 637,645). Accordingly, the Class B, Series 2 preference shares were reduced by 2,926,000 (2009 – \$348,000), the carrying value of the shares converted. The common shares were increased by \$1,237,000 (2009 – 114,000) and the contributed surplus was increased by \$1,690,000 (2009 – 234,000).

b) Warrants

On April 10, 2010, 12,395,067 common share purchase warrants, which were valued at \$4,546,000 using the Black-Scholes model, expired. Accordingly, the Company has reduced warrants by \$4,546,000 with a corresponding increase to contributed surplus.

c) Stock option plans

A summary of the outstanding and exercisable options of the Company's stock option plans at August 31, 2010 is as follows:

In Canadian dollars

	Number of options	Weighted average exercise price
Outstanding at November 30, 2009	4,153,166	\$ 0.65
Granted	1,990,000	0.23
Forfeited	(877,500)	0.68
Expired	(782,000)	0.94
Surrendered	(510,333)	0.91
Outstanding at August 31, 2010	3,973,333	\$ 0.34
Exercisable at August 31, 2010	2,446,648	\$ 0.41

Stock-based compensation

For the three and nine months ended August 31, 2010, the Company incurred non-cash stock-based compensation expense of \$40,000 and \$165,000, respectively, (three and nine months ended August 31, 2009 - \$10,000 and \$58,000) related to 1,990,000 stock options granted during the nine months ended August 31, 2010 and 1,275,000 stock options granted during the year ended November 30, 2009. Of the stock options granted during the nine months ended August 31, 2010, 663,000 vested immediately, 663,000 will vest over one year and 664,000 will vest over two years from the grant date. Of the stock options granted during the year ended November 30, 2009, 809,000 vested immediately, 233,000 will vest over one year and 233,000 will vest over two years from the grant date. The expense was included in general and administrative costs and the offsetting amount was recorded in contributed surplus. The weighted average fair value of the stock options at grant date is \$0.15 per stock option (2009 - \$0.07).

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

The fair value of stock options was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	<u>2010</u>	<u>2009</u>
Risk-free interest rate	2.62%	2.45%
Expected volatility	71%	66%
Estimated average option lives	5 years	5 years
Dividend yield	0.0%	0.0%

Stock Option Plan

The Company has adopted a rolling stock option plan under the rules of the TSX Exchange to replace the existing three stock option plans. The plan was approved by the Company's shareholders at the annual general meeting that was held on May 28, 2009. Under the plan, the Company is authorized to grant options to directors, officers, employees and consultants, enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The exercise price of each option is set by the Board of Directors at the time such option is allocated under the plan, and cannot be less than the volume weighted average trading price for the five trading days immediately prior to the date of grant. The options can be exercisable for a maximum term of 10 years with a vesting schedule to be determined by the Board of Directors.

d) Loss per share

	For the three months ended August 31,	
In thousands of Canadian dollars, except share related data	<u>2010</u>	<u>2009</u>
Loss per share – basic and diluted		
Net loss for the period	\$ (1,009)	\$ (263)
Less:		
Class B, Series 2 preference share dividends (*A)	(73)	(147)
Net loss attributable to common shareholders	\$ (1,082)	\$ (410)
Weighted average number of common shares outstanding – basic and diluted	52,643,067	47,416,118
Loss per share – basic and diluted	\$ (0.02)	\$ (0.01)

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

In thousands of Canadian dollars, except share related data	For the nine months ended August 31,	
Earnings (loss) per share – basic and diluted	2010	2009
Net income (loss) for the period	\$ 323	\$ (1,998)
Less:		
Class B, Series 2 preference share dividends (*A)	(291)	(457)
Net income (loss) attributable to common shareholders	\$ 32	\$ (2,455)
Weighted average number of common shares outstanding – basic	51,009,463	47,129,032
Earnings (loss) per share – basic and diluted	\$ 0.00	\$ (0.05)

(*A) Dividends for three and nine months ended August 31, 2010 of \$73,000 and \$291,000, respectively (three and nine months ended August 31, 2009 - \$147,000 and \$457,000, respectively) are included which represent the dividends earned by the shareholders of the Class B Series 2 cumulative preference shares. As at August 31, 2010, there were \$1,509,000 (November 30, 2009 - \$1,219,000) of dividends in arrears for the Class B, Series 2 cumulative preference shares.

The outstanding preferred shares and stock options were anti-dilutive for the purposes of calculating diluted loss per share for the three and nine months ended August 31, 2010 and 2009.

If all preferred shares were converted and options were exercised, there would be a total of 61,536,795 common shares outstanding at August 31, 2010 (November 30, 2009 – 76,093,696). As a result of the exercise of all options, the Company would receive cash of \$1.4 million (November 30, 2009 - \$13.2 million).

8 Financial instruments

The Company has exposure to the following risks from its use of financial instruments: credit, market, and liquidity risks. The Company reviews its risk management framework on a quarterly basis and makes adjustments as necessary.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's cash, accounts receivable and its foreign exchange contracts. The Company provides credit to its customers in the normal course of its operations. The Company's credit risk review includes performing credit evaluations of the financial condition of significant customers. The Company's customers are for the most part national and international government clients and large public customers. A significant portion of the Company's accounts receivable is from long-time customers and at August 31, 2010, 63% (November 30, 2009 – 62%) of its accounts receivable was with national and international government clients and 18% (November 30, 2009 – 20%) of its accounts receivable was from large international public companies. Due to the low risk nature of the government clients and a history of excellent collections, provisions for doubtful accounts are made on a customer by customer basis, based on ongoing customer discussions.

The Company is exposed to non-performance by counterparties to foreign currency forward contracts. These counterparties are major financial institutions and to date, no such counterparty has failed to meet its financial

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

obligations to the Company. Management does not believe there is a significant risk of non-performance by these counterparties because the positions with and the credit rating of these counterparties are monitored.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In thousands of Canadian dollars

	August 31, 2010	November 30, 2009
Cash	\$ 1,020	\$ 315
Restricted cash	592	-
Trade accounts receivable	1,743	2,607
Unbilled revenue	2,683	3,164
Other	111	119
Allowance for doubtful accounts	(10)	(10)
	<u>\$ 6,139</u>	<u>\$ 6,195</u>

The aging of the trade accounts receivable at the reporting date was:

In thousands of Canadian dollars

	August 31, 2010	November 30, 2009
Current	\$ 1,362	\$ 2,401
Past due (61 - 90 days)	252	33
Past due greater than 90 days	129	173
	<u>\$ 1,743</u>	<u>\$ 2,607</u>

Based on historic default rates, the Company believes that there are minimal requirements for an allowance for doubtful accounts.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holding of financial instruments.

Foreign exchange risk

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates. The Company is exposed to foreign currency fluctuations mainly on its accounts receivable and future cash flows related to contracts denominated in a foreign currency. The Company's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures. The Company's objective is to manage and control exposures and secure the Company's profitability on existing contracts and, therefore, the Company's policy is to hedge the majority of its foreign currency exposure. The Company does not utilize derivative financial instruments for trading or speculative purposes. The Company formally documents all relationships between derivative financial instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm contractually related commitments on projects.

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

The Company did not designate its foreign exchange forward contracts as a hedge of underlying assets, liabilities, firm commitments or anticipated transactions in accordance with CICA Handbook Section 3865, *Hedges*, and accordingly did not use hedge accounting. As a result of this, the foreign exchange forward contracts are recorded on the consolidated balance sheet at fair value in other receivables when the contracts are in a gain position and in other accrued liabilities when the contracts are in a loss position. The fair value of the foreign exchange forward contracts was a recorded liability in accounts payable and accrued liabilities of \$6,000 at August 31, 2010 (November 30, 2009 - \$8,000). Changes in fair value of these contracts are recognized as gains or losses in the consolidated statement of operations.

The forward foreign exchange contracts primarily require the Company to sell certain foreign currencies for Canadian dollars at contractual rates. The Company had the following forward foreign exchange contracts:

In thousands of dollars						August 31, 2010	
Type	Notional	Currency	Maturity	Equivalent to Canadian Dollars		Fair Value	
Sell	49	GBP	November 2010	74	\$	<u>(6)</u>	
					\$	<u>(6)</u>	

In thousands of dollars						November 30, 2009	
Type	Notional	Currency	Maturity	Equivalent to Canadian Dollars		Fair Value	
Sell	200	GBP	April 2010	350	\$	-	
Sell	120	USD	April 2010	127		-	
Sell	163	EURO	February 2010	253		(6)	
Sell	120	EURO	April 2010	188		<u>(2)</u>	
					\$	<u>(8)</u>	

A 10% strengthening (weakening) of the Canadian dollar against each of the Great Britain pound, the United States dollar, and the Euro would have decreased (increased) earnings from operations at August 31, 2010 by a total of \$4,000 (November 30, 2009 - \$5,000). A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would have decreased (increased) the reporting currency earnings of U.S. operations for the nine months ended August 31, 2010 by a total of \$290,000 (the year ended November 30, 2009 - \$51,000). A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would also impact the reporting currency balance sheet values at August 31, 2009 with an offsetting adjustment of approximately \$678,000 (November 30, 2009 - \$1,183,000) to other comprehensive income.

Interest rate risk

The Company is exposed to interest rate risk on its variable interest operating line of credit. A 1% increase (decrease) in the interest rate would have resulted in \$nil and \$4,000 increase (decrease) in the loss of the Company for the three and nine months ended August 31, 2010 (three and nine months ended August 31, 2009 - \$3,000 and \$15,000, respectively).

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet liabilities when due. The Company has an accounts receivable factoring credit facility of \$2.0 million in Canada and a variable limit in the U.S. that is based on the outstanding accounts receivable of the U.S. operations. At August 31, 2010, the Company utilized \$nil (November 30, 2009 - \$nil) and U.S. \$26,000 (November 30, 2009 - U.S. \$227,000). As at November 30, 2009, the Company has an operating line of credit facility of \$1 million in Canada and utilized \$860,000. All of the Company's financial liabilities, other than capital lease obligations, have contractual maturities of less than 45 days.

The table below analyzes the following liabilities which will settle as indicated based on the remaining periods at August 31, 2010 to the contractual maturity date. The amounts disclosed in this table are the contractual undiscounted cash flows. Balances within twelve months equal the carrying balance as the impact of discounting is not significant.

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	\$ 2,532	\$ 681	\$ 976	\$ 447	\$ 428
Capital equipment leases	68	30	38	-	-
Operating equipment leases	27	19	8	-	-
Total contractual obligations	<u>\$ 2,627</u>	<u>\$ 730</u>	<u>\$ 1,022</u>	<u>\$ 447</u>	<u>\$ 428</u>

Fair values

a) Establishing fair value

The Company's financial instruments consist of cash, bank indebtedness, accounts receivable, accounts payable and accrued liabilities, capital lease obligations and foreign exchange contracts. The carrying value of bank indebtedness, accounts receivable and accounts payable and accrued liabilities approximates their fair value due to the immediate or short-term maturity of these financial instruments.

The fair values of the Company's forward foreign exchange contracts are based on the current market values of similar contracts with the same remaining duration as if the contracts had been entered into on August 31, 2010 and November 30, 2009.

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

The carrying amounts of each of the financial instruments are:

In thousands of Canadian dollars

	August 31, 2010	November 30, 2009
Held-for-trading		
Cash	\$ 1,020	\$ 315
Restricted cash	592	-
Forward contracts	(6)	(8)
Loans and receivables		
Trade accounts receivable	1,743	2,607
Other liabilities		
Bank indebtedness	-	(599)
Factored advances payable	(28)	(240)
Accounts payable and accrued liabilities	(3,240)	(3,806)
Capital lease obligation	(60)	(122)

b) Fair-value hierarchy

Financial instruments recorded at fair value on the consolidated balance sheet are classified using the fair-value hierarchy that reflects the significance of the inputs used in making the measurements. The fair-value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset and liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair-value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the fair value of the financial instruments that are carried at fair value classified using the fair-value hierarchy described above:

In thousands of Canadian dollars

	August 31, 2010			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Forward foreign exchange contracts	\$ -	\$ (6)	\$ -	\$ (6)
Total financial liabilities	\$ -	\$ (6)	\$ -	\$ (6)

In thousands of Canadian dollars

	November 30, 2009			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Forward foreign exchange contracts	\$ -	\$ (8)	\$ -	\$ (8)
Total financial liabilities	\$ -	\$ (8)	\$ -	\$ (8)

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

9 Capital structure management

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company reviews on a semi-annual basis whether any dividends should be paid.

The Company monitors capital on a basis consistent with others in the industry based on total debt to shareholders' equity. Management defines capital as the Company's total shareholders' equity excluding accumulated other comprehensive income and total debt is defined as bank indebtedness, factored advances payable and capital lease obligations.

There were no changes in the Company's approach to capital management during the period. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements other than disclosed in note 4.

In thousands of Canadian dollars

	August 31, 2010	November 30, 2009
Bank indebtedness	\$ -	\$ 599
Factored advances payable	28	240
Capital lease obligation	60	122
Total debt	<u>\$ 88</u>	<u>\$ 961</u>
Total equity	\$ 10,531	\$ 9,963
Less accumulated other comprehensive loss	1,270	1,356
Net equity	<u>\$ 11,801</u>	<u>\$ 11,319</u>

10 Segmented information

The Company operates in four segments: International Systems Operations, U.S. Systems Operations, Mapping Operations and Corporate and public company costs. Operating segments are identified as components of the Company for which separate discrete financial information is available for evaluation by the chief operating decision maker regarding how to allocate resources and assess performance. The Company's chief operating decision maker is the Chief Executive Officer.

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

The Company's reportable segments are as outlined below which are defined by their primary type of service offerings. Information about the Company's reportable segments is as follows:

In thousands of Canadian dollars

Three Months Ended August 31, 2010

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 758	\$ 2,073	\$ 471	\$ -	\$ 3,302
Gross profit	166	500	88	-	754
Technology Partnerships Canada	43	-	-	-	43
Interest expense	2	2	-	-	4
Income tax recovery	-	(234)	-	(13)	(247)
Amortization	46	44	26	6	122
Net income (loss)	(563)	302	(126)	(622)	(1,009)
Equipment and furnishings expenditures	-	10	71	-	81
Intangible expenditures	32	-	-	-	32

In thousands of Canadian dollars

Nine Months Ended August 31, 2010

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 2,823	\$ 6,091	\$ 2,944	\$ -	\$ 11,858
Gross profit	1,229	1,708	629	-	3,566
Technology Partnerships Canada	155	-	-	-	155
Interest expense	9	11	-	29	49
Income tax expense (recovery)	-	1,424	-	(23)	1,401
Amortization	137	132	74	18	361
Net income (loss)	(1,042)	3,282	(48)	(1,869)	323
Equipment and furnishings expenditures	16	49	71	-	136
Intangible expenditures	147	11	2	-	160

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

In thousands of Canadian dollars

Three Months Ended August 31, 2009

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 1,810	\$ 3,083	\$ 1,319	\$ -	\$ 6,212
Gross profit	838	985	539	-	2,362
Technology Partnerships Canada	104	-	-	-	104
Interest expense	4	16	-	3	23
Income tax recovery	-	(11)	-	(19)	(30)
Amortization	55	63	31	8	157
Net income (loss)	(141)	399	283	(804)	(263)
Equipment and furnishings expenditures	13	18	14	2	47
Intangible expenditures	-	3	-	-	3

In thousands of Canadian dollars

Nine Months Ended August 31, 2009

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 5,422	\$ 9,822	\$ 3,008	\$ -	\$ 18,252
Gross profit	2,770	2,343	903	-	6,016
Technology Partnerships Canada - net	313	-	-	-	313
Interest expense	9	47	-	18	74
Income tax recovery	-	(151)	-	(4)	(155)
Amortization	163	191	100	23	477
Net income (loss)	(569)	729	77	(2,235)	(1,998)
Equipment and furnishings expenditures	20	96	16	9	141
Intangible expenditures	-	19	-	-	19

In thousands of Canadian dollars

Total assets employed	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
As at August 31, 2010	\$ 4,437	\$ 8,047	\$ 2,244	\$ 306	\$ 15,034
As at November 30, 2009	\$ 4,636	\$ 8,448	\$ 2,439	\$ 236	\$ 15,759

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

Geographically, revenues reported are based on the location of the Company's customers as follows:

In thousands of Canadian dollars	Three months ended		Nine months ended	
	August 31,		August 31,	
	2010	2009	2010	2009
United States	\$ 2,401	\$ 3,511	\$ 7,138	\$ 11,043
Canada	267	1,036	2,245	2,508
United Kingdom	381	386	1,083	1,411
Australia	150	205	554	1,863
Netherlands	14	928	173	928
New Zealand	62	63	185	188
Other	27	83	480	311
Total	\$ 3,302	\$ 6,212	\$ 11,858	\$ 18,252

Geographically, equipment and furnishings and intangible and other assets are reported based on location. At August 31, 2010 and November 30, 2009, all of the Company's equipment and furnishings and intangible and other assets were located in Canada and the U.S. as follows:

In thousands of Canadian dollars	August 31, 2010		
	Canada	U.S.	Total
Equipment and furnishings	\$ 1,142	\$ 173	\$ 1,315
Intangible and other assets	278	173	451
Goodwill	-	4,351	4,351
Total	\$ 1,420	\$ 4,697	\$ 6,117

In thousands of Canadian dollars	November 30, 2009		
	Canada	U.S.	Total
Equipment and furnishings	\$ 1,215	\$ 258	\$ 1,473
Intangible and other assets	168	278	446
Goodwill	-	4,324	4,324
Total	\$ 1,383	\$ 4,860	\$ 6,243

11 Sale of soldier systems intellectual property

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.

Pursuant to the terms of the contract with Harris, U.S. \$500,000 was held in escrow on behalf of the Company for the purposes of, among other things, funding the payment of any indemnification obligations of the Company. 50% of the escrow fund will be released on the first year anniversary of the closing date and the other 50% will be released upon the expiration of the escrow period in September 2011. The escrow fund is included in restricted cash in the interim consolidated balance sheet.

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2010 and 2009

12 Contingency

In January 2010, a claim for breach of contract and wrongful dismissal was filed against the Company by a former employee of the Company. The Company believed the claim was without merit and the Company filed a counterclaim for breach of fiduciary obligations as an officer of the Company and contractual obligations under the former employee's Employment Agreement. In April 2010, a settlement was reached and this lawsuit was dismissed.