

OSI Geospatial Inc.

**Interim Consolidated Financial Statements (Unaudited)
Three and Nine Months ended August 31, 2009 and 2008
(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 – (note 2a)	August 31, 2009	November 30, 2008
Assets		
Current assets		
Cash	\$ 528	\$ -
Accounts receivable and unbilled revenue	6,986	11,183
Inventory (note 6)	1,367	1,407
Prepaid expenses and deposits	417	388
Income taxes recoverable	71	-
Current portion of future income tax asset	385	338
	<hr/>	<hr/>
	9,754	13,316
Deferred development costs	615	437
Future income tax asset	765	823
Equipment and furnishings	1,557	1,735
Intangible and other assets	509	732
Goodwill (note 7)	9,030	10,269
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	\$ 22,230	\$ 27,312
Liabilities		
Current liabilities		
Bank indebtedness	\$ 1,312	\$ 2,015
Accounts payable and accrued liabilities	3,734	4,519
Income taxes payable	-	9
Unearned revenue	521	256
Current portion of deferred rent	41	41
Current portion of capital lease obligations	84	88
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	5,692	6,928
Deferred rent	270	347
Capital lease obligations	62	156
Unearned revenue	206	290
	<hr/>	<hr/>
	6,230	7,721
Shareholders' Equity		
Issued and outstanding		
Class A, Series A preference shares	30	30
Class B, Series 2 preference shares (note 8a)	5,383	5,731
Common shares (note 8a)	29,862	29,748
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	35,275	35,509
Warrants (note 8b)	4,545	4,898
Contributed surplus (note 8a)	3,319	2,674
Accumulated deficit	(26,125)	(24,121)
Accumulated other comprehensive (loss) income	(1,014)	631
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	16,000	19,591
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	\$ 22,230	\$ 27,312

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

OSI Geospatial Inc.

Consolidated Statements of Operations (unaudited)

In thousands of Canadian dollars, except share related data – (note 2a)	Three months ended August 31,		Nine months ended August 31,	
	2009	2008	2009	2008
Revenue				
Marine systems	\$ 2,003	\$ 3,176	\$ 6,642	\$ 8,015
Land and air systems	2,890	2,209	8,602	7,501
Mapping	1,319	942	3,008	3,200
	<u>6,212</u>	<u>6,327</u>	<u>18,252</u>	<u>18,716</u>
Cost of sales	<u>3,850</u>	<u>4,081</u>	<u>12,236</u>	<u>12,263</u>
Gross profit	<u>2,362</u>	<u>2,246</u>	<u>6,016</u>	<u>6,453</u>
Expenses (income)				
General and administrative	1,379	1,415	4,164	4,364
Sales and marketing	867	909	2,494	3,012
Engineering	175	300	813	874
Amortization	106	113	329	378
Interest expense	23	32	74	87
Interest income	-	(4)	(3)	(8)
Foreign exchange loss (gain)	1	35	(15)	88
Loss on disposal of intangible and other assets	-	-	-	28
Technology Partnerships Canada royalty	104	138	313	384
	<u>2,655</u>	<u>2,938</u>	<u>8,169</u>	<u>9,207</u>
Net loss before income taxes	<u>(293)</u>	<u>(692)</u>	<u>(2,153)</u>	<u>(2,754)</u>
Future income tax recovery	(11)	-	(151)	(38)
Current income tax recovery	(19)	(9)	(4)	(318)
Income tax recovery	<u>(30)</u>	<u>(9)</u>	<u>(155)</u>	<u>(356)</u>
Net loss	<u>\$ (263)</u>	<u>(683)</u>	<u>\$ (1,998)</u>	<u>\$ (2,398)</u>
Accumulated deficit, beginning of period	\$ (25,859)	\$ (24,506)	\$ (24,121)	\$ (22,420)
Dividends on Class B, Series 2 preference shares	(3)	-	(6)	(332)
Tax expense on dividends	-	39	-	-
Accumulated deficit, end of period	<u>\$ (26,125)</u>	<u>\$ (25,150)</u>	<u>\$ (26,125)</u>	<u>\$ (25,150)</u>
Net loss attributable to common shareholders (note 8d)	<u>\$ (410)</u>	<u>\$ (839)</u>	<u>(2,455)</u>	<u>\$ (2,867)</u>
Loss per share (note 8d) - basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>	<u>\$ (0.06)</u>
Weighted average number of common shares outstanding (note 8d) – basic and diluted	47,416,118	46,956,439	47,129,032	46,956,439

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

OSI Geospatial Inc.

Consolidated Statements of Comprehensive Loss (unaudited)

In thousands of Canadian dollars – (note 2a)	Three months ended August 31,		Nine months ended August 31,	
	2009	2008	2009	2008
Net loss	\$ (263)	\$ (683)	\$ (1,998)	\$ (2,398)
Other comprehensive income (loss), net of taxes				
Unrealized gain (loss) on translation of self-sustaining foreign operations	(103)	816	(1,645)	829
Comprehensive income (loss)	<u>\$ (366)</u>	<u>\$ 133</u>	<u>\$ (3,643)</u>	<u>\$ (1,569)</u>

OSI Geospatial Inc.

Consolidated Statements of Accumulated Other Comprehensive Loss (unaudited)

In thousands of Canadian dollars – (note 2a)	Three months ended August 31,		Nine months ended August 31,	
	2009	2008	2009	2008
Accumulated other comprehensive income (loss), beginning of the period	\$ (911)	\$ (1,996)	\$ 631	\$ (2,009)
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	(103)	816	(1,645)	829
Accumulated other comprehensive loss, end of the period	<u>\$ (1,014)</u>	<u>\$ (1,180)</u>	<u>\$ (1,014)</u>	<u>\$ (1,180)</u>

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 – (note 2a)	Three months ended August 31,		Nine months ended August 31,	
	2009	2008	2009	2008
Cash flows (used in) from operating activities				
Net loss for the period	\$ (263)	\$ (683)	\$ (1,998)	\$ (2,398)
Items not affecting cash				
Amortization	157	167	477	536
Loss on disposal of equipment and furnishings	-	-	-	28
Stock-based compensation	10	24	58	34
Future income tax recovery	(11)	-	(151)	(38)
	(107)	(492)	(1,614)	(1,838)
Changes in non-cash working capital items				
Accounts receivable	(634)	325	3,746	3,986
Inventory	(276)	369	37	114
Prepaid expenses and deposits	126	129	(61)	3
Accounts payable and accrued liabilities	16	(582)	(606)	(1,630)
Income taxes payable	6	(37)	(85)	(343)
Deferred rent	(11)	(10)	(31)	(32)
Unearned revenue	350	519	182	224
	(423)	713	3,182	2,322
	(530)	221	1,568	484
Cash flows used in investing activities				
Deferred development costs	(143)	(140)	(196)	(386)
Additions to equipment and furnishings	(47)	(45)	(141)	(151)
Additions to intangible and other assets	(3)	(2)	(19)	(97)
	(193)	(187)	(356)	(634)
Cash flows from (used in) financing activities				
Advances from (repayment of) operating line of credit	762	(37)	(647)	463
Repayment of capital lease obligations	(41)	(17)	(76)	(31)
Class B preference share dividends declared and paid	(3)	-	(6)	(332)
Tax on dividends	-	39	-	-
	718	(15)	(729)	100
Effect of foreign exchange on cash balances	20	(19)	45	50
Change in cash	15	-	528	-
Cash – beginning of period	513	-	-	-
Cash – end of period	\$ 528	\$ -	\$ 528	\$ -
Supplemental cash flow information:				
Cash interest paid	\$ 21	\$ 42	\$ 72	\$ 101
Cash income taxes paid	-	-	3	-

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

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2009 and 2008

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, 2008 with the exception of the application of the accounting policies described in Note 2a and Note 4.

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, 2008.

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 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 \$26.1 million. The Company is also in breach of two banking covenants in the lending agreement with its Canadian bank and its lines of credit have been reduced by both its Canadian and U.S. banks. The Company's current level of working capital and revenues are not considered sufficient to fund future operations.

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 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 OSI Geospatial not continue as a going concern and these adjustments and reclassifications could be material.

2 Accounting Changes

a) Change in reporting currency

Effective December 1, 2008, the Company adopted the Canadian dollar as its reporting currency. The change was made as a result of the Company's de-registration with the United States Securities Exchange Commission and to adopt a currency that is more appropriate for the Company's investors and other users of the financial statements.

Under Canadian GAAP, the Company's foreign operations are considered self-sustaining. Therefore, their assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenue, expense and cash flow items are translated at the exchange rate in effect on the transaction dates. Exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations are recognized in accumulated other comprehensive income.

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2009 and 2008

The financial information for all prior periods is presented in Canadian dollars as if the Canadian dollar had been used as the reporting currency during those periods. For the period March 1, 2006 to November 30, 2008, the reporting currency of the Company was U.S. dollars. Prior to March 1, 2006, the reporting currency of the Company was Canadian dollars.

The change in reporting currency impacted the reported results in the consolidated statements of operations, and the consolidated statements of cash flows as follows:

Consolidated Statements of Operations	Three months ended August 31, 2008		Nine months ended August 31, 2008	
	As currently reported	As previously reported	As currently reported	As previously reported
In thousands of dollars	CAD	USD	CAD	USD
Revenue	\$ 6,327	\$ 6,243	\$ 18,716	\$ 18,580
Gross profit	2,246	2,204	6,453	6,411
Gross profit percentage	35%	35%	34%	34%
Net loss	(683)	(691)	(2,398)	(2,365)
Net loss attributable to common shareholders	(839)	(847)	(2,867)	(3,162)
Accumulated deficit, end of period	(25,150)	(19,267)	(25,150)	(19,267)

Consolidated Statements of Cash Flows	Three months ended August 31, 2008		Nine months ended August 31, 2008	
	As currently reported	As previously reported	As currently reported	As previously reported
In thousands of dollars	CAD	USD	CAD	USD
Cash flows provided by (used in):				
Operating activities	\$ 221	\$ 220	\$ 484	\$ 556
Investing activities	(187)	(186)	(634)	(627)
Financing activities	(15)	(46)	100	102
Effect of foreign exchange on cash	(19)	12	50	(31)

b) Changes in accounting policy

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.

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2009 and 2008

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 starting December 1, 2011 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 Inc. delivers systems and services that provide situational awareness solutions that meet maritime and land command and control requirements. These include our Warship Electronic Chart Display and Information System (ECPINS®-W), Warship Automated Identification Systems (W-AIS), Asset Control and Tracking systems (ACT) and Dismounted Close Combat Command and Control System (DC4S). OSI Geospatial conducts its operations through three business units: International Systems Operations, U.S. Systems Operations and Mapping Operations. The Company's International and U.S. Systems business units develop and produce geographic information display systems and software for the marine navigation, and command and control markets, and situational awareness products for land-based and aeronautical command and control markets. The Company's Mapping business unit provides digital land map and electronic nautical chart production services, and produces and distributes electronic nautical chart data.

4 Adoption of new accounting standards

Effective December 1, 2008, the Company adopted the following new accounting standards:

Inventories

The CICA has issued CICA Handbook section 3031, *Inventories*, which replaces CICA Handbook section 3030, *Inventories*. This section resulted in changes from past practice, including the elimination of the Last-In-First-Out method, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories and more extensive disclosure. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversals of write-downs are required to be disclosed. The section is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008 and, accordingly, the Company adopted this new standard for its fiscal year beginning December 1, 2008. The adoption of this new Section did not have a material impact on the Company's consolidated financial statements.

Goodwill and intangible assets

The CICA has issued CICA Handbook section 3064, *Goodwill and Intangible Assets*, which replaces CICA Handbook section 3062, *Goodwill and Other Intangibles*, and CICA Handbook section 3450, *Research and Development Costs*. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including the development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licenses, intellectual property, market knowledge and trademarks. This section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company has adopted the new section for its fiscal year beginning December 1, 2008. The adoption of this new Section did not have a material impact on the Company's consolidated financial statements.

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2009 and 2008

General standards of financial statement presentation

The Company adopted the amended CICA Handbook Section 1400, *General Standards of Financial Statement Presentation*. This section now requires that management make an assessment of an entity's ability to continue as a going concern when preparing financial statements. This amendment applies to annual and interim financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this section did not have a material impact on the Company's consolidated financial statements.

EIC 173

In January 2009, the CICA issued EIC 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which clarifies that the Company's own credit risk and the credit risk of counterparties should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. EIC 173 is to be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value for periods ending on or after the date of issuance of this Abstract. The Company concluded that this standard has no material impact on its consolidated financial statements.

Financial instruments

In August 2009, the CICA amended CICA Handbook section 3855, *Financial Instruments – Recognition and Measurement*, which add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. In addition, this section has been amended to change the categories into which a debt instrument is required or permitted to be reclassified; change the impairment model for held-to-maturity financial assets to the incurred credit loss model of impaired loans; and require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances. These amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008. The adoption of this new Section did not have a material impact on the Company's consolidated financial statements.

5 Credit facilities

Effective July 9, 2008, the Company moved its Canadian credit facilities to another major Canadian chartered bank. The financing agreement consists of an operating line, a foreign exchange forward contract facility and standby letters of credit.

At August 31, 2009, the Company had total borrowing capacity under its Canadian operating line of credit. The credit facility is collateralized by a general assignment of book debts and a general security agreement. This facility is, in part, guaranteed by Export Development Canada. The operating line bears interest at the chartered bank's prime lending rate plus 1.8% with interest payable monthly. Funds drawn on the operating lines and the standby letters of credit are repayable on demand.

The Company is required to meet certain covenants as outlined in the credit facilities agreement. Similar to the six months ended May 31, 2008, the nine months ended August 31, 2008, the year ended November 30, 2008, the three months ended February 28, 2009, and the six months ended May 31, 2009, the Company has not met the interest coverage ratio covenant for the three and nine months ended August 31, 2009. In addition, for the three months ended May 31, 2009 and three months ended August 31, 2009, the Company has not met the tangible net worth covenant. As at August 31, 2009, the Company has drawn on its operating line of credit in the amount of \$1.0 million (November 30, 2008 - \$1.5 million). For the periods ended May 31, 2008, August 31, 2008, November 30, 2008, February 28, 2009, and May 31, 2009, we received a waiver from the bank.

On September 8, 2009, the Company's Canadian bank notified the Company that it must operate within a line of credit limit of \$1.35 million due to the Company's failure to remedy the covenant breaches discussed above. The Canadian bank is monitoring the Company's results on an ongoing basis and may further reduce the line of credit in the future should the Company continue to be in breach of these covenants.

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2009 and 2008

The Company also has an operating line of credit of U.S. \$604,000 with a U.S. chartered bank which bears interest at the bank's prime lending rate plus 0.5%. As at August 31, 2009, the Company has drawn on its U.S. operating line of credit in the amount of U.S. \$604,000 (November 30, 2008 - U.S. \$691,000). On May 8, 2009, the Company's U.S. bank advised in writing that they would no longer be able to provide an operating line of credit of US \$1.2 million as set out in the Company's banking agreement and reduced the line of credit to \$604,000. In August 2009, this was further extended by 60 days to October 31, 2009. The Company's banking arrangement has been in good standing at all times. On October 9, 2009, the Company replaced this facility with a facility at another U.S. financial institution. The new facility has a variable limit that is based on the outstanding accounts receivable of the U.S. operations.

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 November 30, 2008, the foreign exchange facility would enable the Company to enter into USD denominated forward foreign exchange contracts for approximately \$8.4 million. This facility is insured through insurance solutions provided by Export Development Canada. As at August 31, 2009, the Company has drawn on its forward foreign exchange contract facility in the amount of \$1.4 million (November 30, 2008 - \$3.3 million). A foreign exchange gain on these contracts of \$4,000 and a foreign exchange loss of \$30,000 was recognized for the period ended August 31, 2009 and November 30, 2008, respectively.

6 Inventory

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, 2009	November 30, 2008
Materials and components	\$ 1,002	\$ 1,199
Work-in-process	173	170
Finished goods	288	134
Provision for inventory obsolescence	(96)	(96)
	<u>\$ 1,367</u>	<u>\$ 1,407</u>

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, 2009 were \$555,000 and \$1,702,000, respectively (three and nine months ended August 31, 2008 - \$593,000 and \$ 1,636,000, respectively).

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2009 and 2008

7 Goodwill

In thousands of Canadian dollars

	For the nine months ended August 31, 2009		
	US Systems Operations	Mapping Operations	Total
Balance, beginning of the period	\$ 9,772	\$ 497	\$ 10,269
Unrealized loss in translation of self-sustaining foreign operations	(1,180)	(59)	(1,239)
Balance, end of the period	\$ 8,592	438	\$ 9,030

In thousands of Canadian dollars

	For the year ended November 30, 2008		
	US Systems Operations	Mapping Operations	Total
Balance, beginning of the period	\$ 7,898	\$ 402	\$ 8,300
Unrealized gain in translation of self-sustaining foreign operations	1,874	95	1,969
Balance, end of the period	\$ 9,772	497	\$ 10,269

8 Capital Stock

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

During the three and nine months ended August 31, 2009, 8,340 and 10,840 Class B series 2 preference shares, respectively, (2008 – nil), were converted into 490,587 and 637,645 common shares, respectively. Accordingly, the Class B, series 2 preference shares were reduced by \$268,000 and \$348,000, respectively, the carrying value of the shares converted. The common shares were increased by \$34,000 and \$114,000, respectively, and the contributed surplus was increased by \$234,000 and \$234,000, respectively.

b) Warrants

On February 12, 2008, 1,393,301 common share purchase warrants valued at \$662,000 expired. Accordingly, the Company has reduced warrants by \$662,000 with a corresponding increase to contributed surplus.

On July 31, 2009, 2,780,000 common share purchase warrants valued at \$353,000 expired. Accordingly, the Company has reduced warrants by \$353,000 with a corresponding increase to contributed surplus.

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2009 and 2008

c) Stock option plans

A summary of the outstanding and exercisable options of the Company's stock option plans at August 31, 2009 is as follows:

In Canadian dollars

	Number of options	Weighted average exercise price
Outstanding at November 30, 2008	3,433,166	0.79
Granted	1,275,000	0.26
Forfeited	(398,000)	0.78
Outstanding at August 31, 2009	4,310,166	0.64
Exercisable at August 31, 2009	3,843,492	0.69

Stock-based compensation

For the three and nine months ended August 31, 2009, the Company incurred non-cash stock-based compensation expense of \$10,000 and \$58,000, respectively, (three and nine months ended August 31, 2008 - \$5,000 and \$10,000, respectively). 1,275,000 stock options were granted during the quarter ended May 31, 2009. Of the stock options granted during the quarter ended May 31, 2009, 808,000 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 \$0.07 per stock option.

Stock Option Plan

The Company adopted a rolling stock option plan under the rules of the TSX Exchange to replace the three legacy 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.

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Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2009 and 2008

d) Loss per share

In thousands of Canadian dollars, except share related data	For the three months ended August 31,	
Loss per share – basic and diluted	2009	2008
Net loss for the period	\$ (263)	\$ (683)
Less:		
Class B Series 2 preference share dividends (*A)	(147)	(156)
Net loss attributable to common shareholders	\$ (410)	\$ (839)
Weighted average number of common shares outstanding – basic and diluted	47,416,118	46,956,439
Loss per share – basic and diluted	\$ (0.01)	\$ (0.02)

In thousands of Canadian dollars, except share related data	For the nine months ended August 31,	
Loss per share – basic and diluted	2009	2008
Net loss for the period	\$ (1,998)	\$ (2,398)
Less:		
Class B Series 2 preference share dividends (*A)	(457)	(469)
Net loss attributable to common shareholders	\$ (2,455)	\$ (2,867)
Weighted average number of common shares outstanding – basic and diluted	47,129,032	46,956,439
Loss per share – basic and diluted	\$ (0.05)	\$ (0.06)

(*A) Dividends for three and nine months ended August 31, 2009 of \$147,000 and \$457,000, respectively (three and nine months ended August 31, 2008 - \$156,000 and \$469,000, respectively) are included which represents the dividends earned by the shareholders of the Class B Series 2 cumulative preference shares. As at August 31, 2009, there were \$1,072,000 (November 30, 2008 - \$619,000) of dividends in arrears for the Class B, Series 2 cumulative preference shares.

The preference shares, the outstanding warrants, and stock options were anti-dilutive for the purposes of calculating diluted loss for the three and nine months ended August 31, 2009 and August 31, 2008.

If all preferred shares were converted, and all warrants and options were exercised, there would be a total of 74,193,694 common shares outstanding at August 31, 2009 (November 30, 2008 – 76,096,696). As a result of the exercise of all warrants and options, the Company would receive cash of \$13.3 million (November 30, 2008 - \$15.5 million).

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9 Financial Instruments

The Company has exposure to the following risks from its use of financial instruments: credit risks, market, and liquidity risk. 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 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, 2009, 90% (November 30, 2008 – 86%) of its accounts receivable was with national and international government clients and large public customers. 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 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, 2009	November 30, 2008
Trade accounts receivable	\$ 4,189	\$ 6,907
Unbilled revenue	2,689	4,183
Other	118	103
Allowance for doubtful accounts	(10)	(10)
	<u>\$ 6,986</u>	<u>\$ 11,183</u>

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

In thousands of Canadian dollars

	August 31, 2009	November 30, 2008
Current	\$ 3,869	\$ 6,128
Past due (61 - 90 days)	72	506
Past due greater than 90 days	248	273
	<u>\$ 4,189</u>	<u>\$ 6,907</u>

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

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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.

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 \$4,000 and \$30,000 at August 31, 2009 and November 30, 2008, respectively. 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, 2009	
Type	Notional	Currency	Maturity	Equivalent to Canadian Dollars	Fair Value	
Sell	100	GBP	December 2009	178	\$ 3	
Sell	151	GBP	October 2009	268	(1)	
Sell	612	EURO	February 2010	955	(6)	
				\$	<u>(4)</u>	

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In thousands of dollars				November 30, 2008		
Type	Notional	Currency	Maturity	Equivalent to Canadian Dollars		Fair Value
Sell	195	GBP	December 2008	371	\$	3
Sell	300	USD	December 2008	315		(55)
Sell	230	AUD	December 2008	186		5
Sell	25	GBP	January 2009	50		3
Sell	460	USD	January 2009	471		(96)
Buy	(300)	USD	January 2009	(307)		66
Sell	350	AUD	January 2009	283		8
Sell	150	GBP	February 2009	292		12
Sell	300	USD	February 2009	308		(61)
Sell	200	GBP	March 2009	395		24
Buy	(300)	USD	March 2009	(309)		61
					\$	<u>(30)</u>

A 10% strengthening (weakening) of the Canadian dollar against each of the Great Britain pound, the United States dollar, the Euro and the Australian dollar would have decreased (increased) earnings from operations at August 31, 2009 by a total of \$19,000 (November 30, 2008 - \$6,000). A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would have decreased (increased) the reporting currency earnings from U.S. operations for the nine months ended August 31, 2009 by a total of \$51,000 (the year ended November 30, 2009 - \$32,000). 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 \$1.2 million (November 30, 2008 - \$864,000) 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 \$3,000 and \$15,000 increase (decrease) in the loss of the Company for the three and nine months ended August 31, 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 operating lines of credit of \$1.35 million and U.S. \$604,000. At August 31, 2009, the Company's utilization of its lines of credit was \$1.0 million (November 30, 2008 - \$1.5 million) and U.S. \$604,000 (November 30 2008 - US \$691,000). 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, 2009 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.

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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	\$ 3,360	\$ 785	\$ 1,281	\$ 642	\$ 652
Capital equipment leases	166	96	70	-	-
Operating equipment leases	63	36	26	1	-
Total contractual obligations	\$ 3,589	\$ 917	\$ 1,377	\$ 643	\$ 652

Fair values

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, 2009 and November 30, 2008.

The carrying amounts of each of the financial instruments are:

In thousands of Canadian dollars		August 31, 2009	November 30, 2008
Held for trading	\$	(788)	(2,045)
Loans and receivables		4,189	6,907
Other liabilities		(3,879)	(4,763)

10 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 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 5.

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11 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.

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, 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 expense (recovery)	-	(11)	-	(19)	(30)
Amortization	55	63	31	8	157
Net earnings (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	313	-	-	-	313
Interest expense	9	47	-	18	74
Income tax expense (recovery)	-	(151)	-	(4)	(155)
Amortization	163	191	100	23	477
Net earnings (loss)	(569)	729	77	(2,235)	(1,998)
Equipment and furnishings expenditures	20	96	16	9	141
Intangible expenditures	-	19	-	-	19

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Three and Nine Months Ended August 31, 2009 and 2008

In thousands of Canadian dollars

Three Months Ended August 31, 2008

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 2,681	\$ 2,703	\$ 943	\$ -	\$ 6,327
Gross profit	1,233	771	242	-	2,246
Technology Partnerships Canada	138	-	-	-	138
Interest expense	-	14	-	18	32
Income tax expense (recovery)	-	21	-	(30)	(9)
Amortization	64	57	42	4	167
Net earnings (loss)	130	(14)	(77)	(722)	(683)
Equipment and furnishings expenditures	23	19	3	-	45
Intangible expenditures	2	-	-	-	2

In thousands of Canadian dollars

Nine Months Ended August 31, 2008

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 7,434	\$ 8,082	\$ 3,200	\$ -	\$ 18,716
Gross profit	3,344	2,296	813	-	6,453
Technology Partnerships Canada - net	384	-	-	-	384
Interest expense	-	44	-	43	87
Income tax expense (recovery)	-	(363)	-	7	(356)
Amortization	195	205	124	12	536
Net earnings (loss)	(260)	612	(233)	(2,517)	(2,398)
Equipment and furnishings expenditures	69	66	8	8	151
Intangible expenditures	5	49	3	40	97

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, 2009	\$ 5,683	\$ 13,049	\$ 3,270	\$ 228	\$ 22,230
As at November 30, 2008	\$ 8,398	\$ 14,781	\$ 3,976	\$ 157	\$ 27,312

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

In thousands of Canadian dollars	Three months ended August 31,		Nine months ended August 31,	
	2009	2008	2009	2008
United States	\$ 3,511	\$ 2,757	\$ 11,043	\$ 9,401
Canada	1,036	677	2,508	1,994
Australia	205	893	1,863	2,459
United Kingdom	386	973	1,411	2,531
Netherlands	928	-	928	-
New Zealand	63	164	188	349
Brazil	-	358	-	838
Denmark	-	222	-	401
Other	83	283	311	743
Total	<u>\$ 6,212</u>	<u>\$ 6,327</u>	<u>\$ 18,252</u>	<u>\$ 18,716</u>

Geographically, equipment and furnishings and intangible and other assets are reported based on location. At August 31, 2009 and November 30, 2008, 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, 2009		
	Canada	U.S.	Total
Equipment and furnishings	\$ 1,277	\$ 280	\$ 1,557
Intangible and other assets	190	319	509
Goodwill	-	9,030	9,030
Total	<u>\$ 1,467</u>	<u>\$ 9,629</u>	<u>\$ 11,096</u>

In thousands of Canadian dollars	November 30, 2008		
	Canada	U.S.	Total
Equipment and furnishings	\$ 1,427	\$ 308	\$ 1,735
Intangible and other assets	249	483	732
Goodwill	-	10,269	10,269
Total	<u>\$ 1,676</u>	<u>\$ 11,060</u>	<u>\$ 12,736</u>