



Financial Report FY2009 Third Quarter

ended August 31, 2009

OSI Geospatial Inc.
300-340 March Road
Ottawa, ON K2K 2E4
Tel: 613.287.2042
Fax: 613.287.0466
www.osigeospatial.com

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
	<hr/>	<hr/>
	\$ 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
	<hr/>	<hr/>
	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
	<hr/>	<hr/>
	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
	<hr/>	<hr/>
	16,000	19,591
	<hr/>	<hr/>
	\$ 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)
	\$ 1,367	\$ 1,407

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.

OSI Geospatial Inc.

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).

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2009 and 2008

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.

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2009 and 2008

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>	

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2009 and 2008

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.

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2009 and 2008

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.

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2009 and 2008

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

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

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

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2009 and 2008

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>



MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three and nine months ended August 31, 2009

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

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

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 nine months ended August 31, 2009 in comparison with those for the three and nine months ended August 31, 2008. 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 nine months ended August 31, 2009, and the audited annual consolidated financial statements for the year ended November 30, 2008 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, 2008.

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™ and C3CORE are registered trademarks 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 October 7, 2009.

© 2009 OSI Geospatial Inc. and its affiliated or related companies.

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

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.

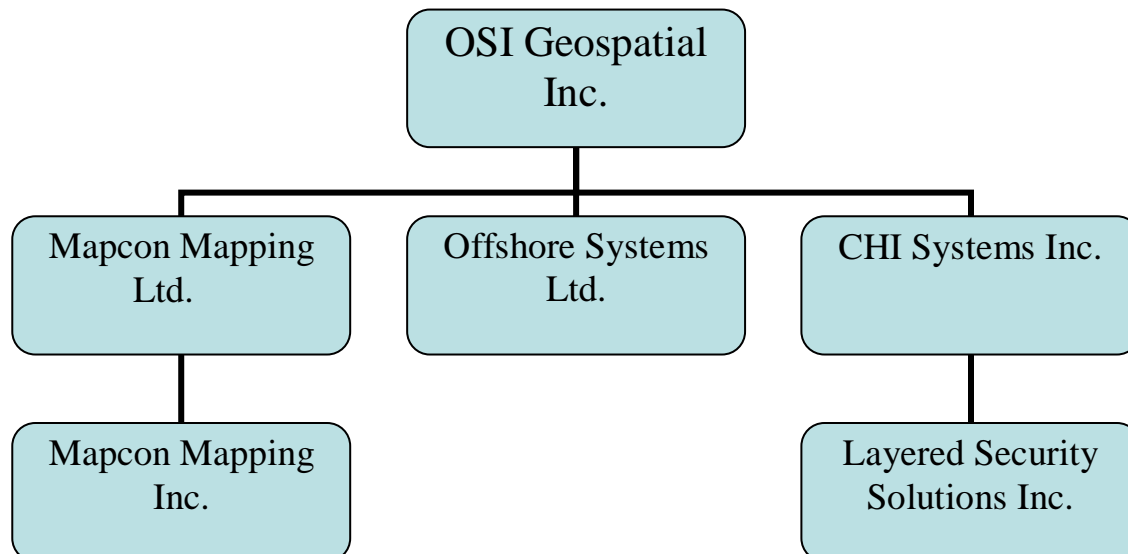
Headquartered in Ottawa, the Company is a globally focused organization with offices across North America and a sales office in the United Kingdom. The Company became a public company in 1990, and is currently listed on the Toronto Stock Exchange (symbol: OSI).

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

In April 2007, the Company, through its subsidiary CHI Systems Inc., acquired the assets of Liddy International Inc. ("Liddy"), a United States defence and security consultancy company and has established a new subsidiary, Layered Security Solutions Inc. ("LSS"). The Company's LSS subsidiary 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. 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®, C3CORE and iGEN™ to grow our market share, expand our customer base and enter into adjacent markets. We will also continue to partner with the

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

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.

The Company 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 System (W-AIS), Asset Control and Tracking system (ACT) and Dismounted Close Combat Command, Control System (DC4S).

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

SELECTED DATA

The following tables contain financial information that is derived from the unaudited interim consolidated financial statements for the three and nine months ended August 31, 2009 and 2008.

Operations:	For the nine months ended August 31,	
In thousands of Canadian dollars except share related data	2009	2008
	\$	\$
Revenue	18,252	18,716
Gross profit	6,016	6,453
Gross profit percentage	33%	34%
Net loss	(1,998)	(2,398)
Net loss attributable to common shareholders	(2,455)	(2,867)
Loss per share – basic and diluted	(0.05)	(0.06)
Weighted average common shares outstanding – basic and diluted	47,129,032	46,956,439
<u>Dividends declared per share</u>		
Class A Preference Shares – Series A	–	–
Class B Preference Shares – Series 2	\$0.02	\$0.02
Common Shares	–	–

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

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 nine months ended August 31, 2009 as compared to the nine months ended August 31, 2008 is largely due to the timing of new contracts that are awarded and the delivery schedules of existing contracts.

The lower gross profit and gross profit percentage in the nine months ended August 31, 2009 as compared to the nine months ended August 31, 2008 is due to the decrease in revenue in the International Systems and Mapping operations, the mix of revenue and the level of fixed costs included in cost of sales across all

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

operating units. There was less software revenue and more engineering services revenue in the nine months ended August 31, 2009 than in the nine months ended August 31, 2008. Software revenue generates more favorable margins than other revenue streams and services revenue generates less favorable margins than other revenue streams.

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 strategies focus on markets such as military command and control, homeland security, and maritime defence that recently have started to experience curtailments in budgets and delays in spending. These changes have impacted the Company's customers and as a result we have experienced delays in the execution of current projects, delays in the award of new contracts and the release of competitive request for proposals, and reductions in the values of some sales opportunities the Company has been pursuing.

Financial Position:	At August 31, 2009	At November 30, 2008
In thousands of Canadian dollars		
	\$	\$
Working capital ⁽¹⁾	4,062	6,388
Current assets	9,754	13,316
Long term assets	12,476	13,996
Total assets	22,230	27,312
Current liabilities	5,692	6,928
Long term liabilities	538	793
Total liabilities	6,230	7,721
Shareholders' equity	16,000	19,591

(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.

RESULTS OF OPERATIONS – Three and nine months ended August 31, 2009 as compared to three and nine months ended August 31, 2008

Overall Performance

Three months ended	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars (except per share data)			
Net loss before income taxes	\$ (293)	\$ (692)	\$ 399
Net loss	\$ (263)	\$ (683)	\$ 420
Net loss attributable to common shareholders	\$ (410)	\$ (839)	\$ 429
Loss per share – basic and diluted	(0.01)	(0.02)	0.01

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

Nine months ended	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Net loss before income taxes	\$ (2,153)	\$ (2,754)	\$ 601
Net loss	\$ (1,998)	\$ (2,398)	\$ 400
Net loss attributable to common shareholders	\$ (2,445)	\$ (2,867)	\$ 422
Loss per share – basic and diluted	(0.05)	(0.06)	0.01

The net loss reported for the three and nine months ended August 31, 2009 improved over those reported for the three and nine months ended August 31, 2008 as a result of lower operating costs offset by lower income tax recoveries.

Backlog

Firm backlog consists of firm fixed signed orders issued and executable subsequent to the balance sheet date. Firm backlog as at August 31, 2009 was at \$45 million compared to \$53 million at August 31, 2008. Of the \$45 million firm backlog, \$5 million is expected to be executed in fiscal 2009 and \$40 million is expected to be executed in fiscal year 2010 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 August 31, 2009.

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

Multi-year contracts with government agencies have a termination-for-convenience clause because governments approve budget expenditures on an annual basis. This allows contracts to be terminated by the contracting government agency should future budget funding not be approved. In International Systems operations and U.S. Systems operations, the termination-for-convenience clause has not been exercised by any of our customers. In Mapping operations, a government contract was terminated for convenience in the quarter ended February 29, 2008. The Company negotiated a settlement with the customer and the customer paid the negotiated settlement. We have included the full value of multi-year government contracts in backlog having a termination-for-convenience clause in firm backlog.

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

Revenue

Three months ended	August 31, 2009	% of total revenue	August 31, 2008	% of total revenue	2009 to 2008
In thousands of Canadian dollars					
Marine systems	\$ 2,003	32	\$ 3,176	50	\$ (1,173)
Land and air systems	2,890	47	2,209	35	681
Mapping	1,319	21	942	15	377
	<u>\$ 6,212</u>	<u>100</u>	<u>\$ 6,327</u>	<u>100</u>	<u>\$ (115)</u>

Nine months ended	August 31, 2009	% of total revenue	August 31, 2008	% of total revenue	2009 to 2008
In thousands of Canadian dollars					
Marine systems	\$ 6,642	37	\$ 8,015	43	\$ (1,373)
Land and air systems	8,602	47	7,501	40	1,101
Mapping	3,008	16	3,200	17	(192)
	<u>\$ 18,252</u>	<u>100</u>	<u>\$ 18,716</u>	<u>100</u>	<u>\$ (464)</u>

Our core revenue stream is derived from three sources: marine systems, land and air systems, and mapping. In Marine systems, our principal developed product, ECPINS®, delivers the majority of the marine systems revenue. We also derive revenue from the delivery of the ECPINS® software component of our system product. Marine systems delivered 32% and 50% of the revenue for the three months ended August 31, 2009 and 2008, respectively and 37% and 43% of the revenue for the nine months ended August 31, 2009 and August, 2008, respectively. Land and air systems through our U.S. Systems operations delivered 47% and 35% of the revenue for the three months ended August 31, 2009 and 2008, respectively. Land and air systems delivered 47% and 40% of the revenue for the nine months ended August 31, 2009 and 2008, 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 nine months ended August 31, 2009 were the Royal Australian Navy, Defense Advanced Research Projects Agency, 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. The main customers for our products and services in the nine months ended August 31, 2008 were the Royal Australian Navy, the Department of Homeland Security, Defense Advanced Research Projects Agency, U.S. Army and the Royal Navy of the U.K. Revenue from these customers accounted for 52% of the consolidated revenue.

Revenue by Segment

Three months ended	August 31, 2009	% of total revenue	August 31, 2008	% of total revenue	2009 to 2008
In thousands of Canadian dollars					
International Systems operations	\$ 1,810	29	\$ 2,681	42	\$ (871)
U.S. Systems operations	3,083	50	2,703	43	380
Mapping operations	1,319	21	943	15	376
	<u>\$ 6,212</u>	<u>100</u>	<u>\$ 6,327</u>	<u>100</u>	<u>\$ (115)</u>

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

Nine months ended	August 31, 2009	% of total revenue	August 31, 2008	% of total revenue	2009 to 2008
In thousands of Canadian dollars					
International Systems operations	\$ 5,422	30	\$ 7,434	40	\$ (2,012)
U.S. Systems operations	9,822	54	8,082	43	1,740
Mapping operations	3,008	16	3,200	17	(192)
	\$ 18,252	100	\$ 18,716	100	\$ (464)

Revenue from the International Systems operations for the three and nine months ended August 31, 2009 decreased 32% and 27%, 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 nine months ended August 31, 2009 increased over the same periods from the prior year by 14% and 22%, respectively. The increase is mainly due to the delivery schedules of existing contracts and the timely passage of the U.S. defence budget.

Revenue from the Mapping operations for the three months ended August 31, 2009 increased 40% and for nine months ended August 31, 2009 decreased 6%, over the same periods from the prior year, due to the timing of new contracts awarded and the delivery schedules of existing contracts.

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

Gross Profit

Three months ended	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Gross profit	\$ 2,362	\$ 2,246	\$ 116
Gross profit percentage	38%	35%	3%
	August 31, 2009	August 31, 2008	2009 to 2008
Nine months ended			
In thousands of Canadian dollars			
Gross profit	\$ 6,016	\$ 6,453	\$ (437)
Gross profit percentage	33%	34%	(1)%

Gross profit increased by 5% in the three months ended August 31, 2009 compared to the three months ended August 31, 2008 and the gross profit percentage increased 3% period-over-period. The mix of revenue from marine systems and services projects in the two periods were similar.

Gross profit decreased by 7% in the nine months ended August 31, 2009 compared to the nine months ended August 31, 2008 and the gross profit percentage decreased 1% period-over-period. The decreased gross profit and gross profit percentage compared to the prior period is due to the mix of contracts in the period with more revenue derived from lower margin systems and services revenues, and the level of fixed costs included in cost of sales across all operating units.

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

Gross Profit by Segment

Three months ended	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Gross profit:			
International Systems operations			
	\$ 838	\$ 1,233	\$ (395)
U.S. Systems operations			
	985	771	214
Mapping operations			
	539	242	297
Consolidated operations			
	<u>\$ 2,362</u>	<u>\$ 2,246</u>	<u>\$ 116</u>
Gross profit percentage:			
International Systems operations			
	46%	46%	-%
U.S. Systems operations			
	32%	29%	3%
Mapping operations			
	41%	26%	15%
Consolidated operations			
	<u>38%</u>	<u>35%</u>	<u>3%</u>
Nine months ended			
	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Gross profit:			
International Systems operations			
	\$ 2,770	\$ 3,344	\$ (574)
U.S. Systems operations			
	2,343	2,296	47
Mapping operations			
	903	813	90
Consolidated operations			
	<u>\$ 6,016</u>	<u>\$ 6,453</u>	<u>\$ (437)</u>
Gross profit percentage:			
International Systems operations			
	51%	45%	6%
U.S. Systems operations			
	24%	28%	(4)%
Mapping operations			
	30%	25%	5%
Consolidated operations			
	<u>33%</u>	<u>34%</u>	<u>(1)%</u>

Gross profit from the International Systems operations decreased 32% and 17% for the three and nine months ended August 31, 2009, respectively, and gross profit percentages remained consistent and increased 6%, respectively, 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 and the higher gross profit margin for the nine months ended August 31, 2009 is the result of higher software sales compared to more revenues from lower margins on systems and services projects in the prior year.

Gross profit from the U.S. Systems operations increased for the three and nine months ended August 31, 2009 28% and 2%, respectively. Gross profit percentage was 3% higher and 4% lower for the three and nine months ended August 31, 2009, respectively, when compared to the same periods in the prior year. The

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

increase in gross profit for the three months ended August 31, 2009 when compared to the same quarter last year was the result of increase in current quarter's revenue and achieving a higher gross profit percentage over the same period last year. The increase in the gross profit percentage for the three months ended August 31, 2009 is the result of higher project profit margins on certain fixed price contracts. The decrease in the gross profit and gross profit percentage for the nine months ended August 31, 2009, is primarily the result of a greater proportion of low margin engineering services and equipment revenues when compared to the same periods last year.

Gross profit from the Mapping operations for the three and nine months ended August 31, 2009 increased 123% and 11%, respectively, and gross profit percentage increased 15% and 5%, respectively, when compared to the same periods in the prior year. The increases in gross profit were impacted by higher revenues for the three months ended August 31, 2009 and higher gross profit percentages for the three and nine months ended August 31, 2009 when compared to the same periods in the prior year. 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

	August 31, 2009	% of total revenue	August 31, 2008	% of total revenue	2009 to 2008
Three months ended					
In thousands of Canadian dollars					
General and administrative	\$ 1,379	22%	\$ 1,415	22%	\$ 36
Sales and marketing	867	14%	909	14%	42
Engineering	175	3%	300	5%	125
Nine months ended					
In thousands of Canadian dollars					
General and administrative	\$ 4,164	23%	\$ 4,364	23%	\$ 200
Sales and marketing	2,494	14%	3,012	16%	518
Engineering	813	4%	874	5%	61

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 decreased 3% and 5% for three and nine months ended August 31, 2009, respectively, compared to the previous year's periods. The decrease was largely the result of a reduction in staff levels and lower public company costs offset by one time termination costs of \$230,000 for the three months ended May 31, 2009.

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

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 5% and 17% for three and nine months ended August 31, 2009 compared to the three and nine months ended August 31, 2008. The decrease is primarily due to lower commissions, vacancies in sales positions 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 42% and 7% for the three and nine months ended August 31, 2009, compared to the three and nine months ended August 31, 2008. The decrease is mainly related to lower engineering staff and related costs being charged to cost of sales to support specific customer orders during the three and nine months ended August 31, 2009 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	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Amortization	\$ 106	\$ 113	\$ 7
Nine months ended	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Amortization	\$ 329	\$ 378	\$ 49

Total amortization decreased by 6% and 13% for the three and nine months ended August 31, 2009 as compared to the same periods in the prior year. For the three and nine months ended August 31, 2009, a portion of the amortization, \$51,000 and \$148,000, respectively, (2008 – \$54,000 and \$158,000, respectively) were included in cost of sales for equipment used in revenue-generating activities.

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

Interest expense

Three months ended	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Interest expense	\$ 23	\$ 32	\$ 9

Nine months ended	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Interest expense	\$ 74	\$ 87	\$ 13

Interest expense decreased by \$9,000 and \$13,000 in the three and nine months ended August 31, 2009 as compared to the three and nine months ended August 31, 2008, respectively. The Company continued to utilize its operating line credit facility during the periods.

Interest income

Three months ended	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Interest income	\$ -	\$ (4)	\$ (4)

Nine months ended	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Interest income	\$ (3)	\$ (8)	\$ (5)

Interest income decreased in the three and nine months ended August 31, 2009 as compared to the same periods the previous year as the result of the Company's not having any surplus cash.

Foreign exchange

Three months ended	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Foreign exchange loss (gain)	\$ 1	\$ 35	\$ (34)

Nine months ended	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Foreign exchange loss (gain)	\$ (15)	\$ 88	\$ 103

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 and the UK pound. These fluctuations were not in the Company's favour for the three months ended August 31,

OSI Geospatial Inc.

Management's Discussion and Analysis
For the three and nine months ended August 31, 2009 and 2008
(expressed in Canadian dollars)

2009, were in the Company's favour during the nine months ended August 31, 2009 and were not in the Company's favour during the three and nine months ended August 31, 2008.

Technology Partnerships Canada

Three months ended	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Royalty	\$ 104	\$ 138	\$ 34
Nine months ended	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Royalty	\$ 313	\$ 384	\$ 71

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

As part of the agreement entered into on November 15, 1999 with TPC, we are required to pay a royalty of 3% on annual gross revenue in our subsidiary Offshore Systems Ltd. for the period December 1, 1999 to November 30, 2008. In addition, as part of the agreement entered into on April 26, 2004, we are required to pay a royalty of 1.4% on annual gross revenue in our subsidiary Offshore Systems for the period January 1, 2006 to December 31, 2008 and a royalty of 2.5% on annual gross revenue for the period January 1, 2009 to December 31, 2013.

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.

Income Taxes

Three months ended	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Future income tax recovery	\$ (11)	\$ -	\$ 11
Current income tax recovery	(19)	(9)	10
	<u>(30)</u>	<u>(9)</u>	<u>21</u>
Nine months ended	August 31, 2009	August 31, 2008	2009 to 2008
In thousands of Canadian dollars			
Future income tax recovery	\$ (151)	\$ (38)	\$ 113
Current income tax recovery	(4)	(318)	(314)
	<u>(155)</u>	<u>(356)</u>	<u>(201)</u>

Based on the information available at the time of the issue of the interim financial statements for the nine months ended August 31, 2009, we estimated that we would not have sufficient taxable earnings in Canada in future periods to utilize a portion of our \$6.4 million Canadian non-capital losses carried forward, \$8.6 million scientific research and experimental development costs and other Canadian tax balances.

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

We have recognized a future tax recovery for the nine months ended August 31, 2009 related to temporary timing differences between accounting income and income for tax purposes in our U.S. subsidiaries 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.

LIQUIDITY AND CAPITAL RESOURCES - August 31, 2009 compared to November 30, 2008

In thousands of Canadian dollars	August 31, 2009	November 30, 2008	2009 to 2008
Current assets	\$ 9,754	\$ 13,316	\$ (3,562)
Current liabilities	5,692	6,928	1,236
Working capital ⁽¹⁾	4,062	6,388	(2,326)

⁽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 bank operating lines of credit will be sufficient to fund currently anticipated working capital, planned capital spending, and debt service requirements for the next 12 months.

Overall we expect demands for cash resources to increase over the course of the fourth quarter of fiscal 2009 as the volume and size of projects that will be implemented increase and associated spending increases. Net cash flow is expected to improve over the course of the fourth quarter of fiscal 2009 and into the first quarter of 2010 as it has done historically through the collection of accounts associated with major projects reaching milestones and/or completion.

At August 31, 2009 our current assets decreased primarily due to a decrease in accounts receivable. Our working capital has decreased mainly due to the decrease in accounts receivable offset by a decrease in accounts payable and accrued liabilities. Accounts receivable decreased in the first nine months of 2009 due to collection of significant receivables. Accounts payable and accrued liabilities decreased due to payment of specific project costs related to receivable that were collected during the same period.

We have credit facilities consisting of an operating lines, standby letters of credit, and forward exchange contract facilities. The credit facilities permit us to borrow funds directly for general corporate purposes, including acquisitions, at floating rates. At August 31, 2009, we borrowed \$1.0 million against our Canadian operating line and borrowing of US \$604,000 against our U.S. operating line. We have an approved operating line of \$1.35 million available with a Canadian chartered bank collateralized by accounts receivable and US \$604,000 with a U.S. chartered bank. We utilize our forward exchange contract facility to reduce our exposure to exchange rate movements.

We are required to meet certain covenants as outlined in our credit facilities agreement with a major Canadian chartered bank. Compliance with these covenants is measured on a quarterly basis. For the periods ending May 31, 2008, August 31, 2008, November 30, 2008, February 28, 2009, May 31, 2009 and August 31, 2009, we did not meet the interest coverage ratio covenant. Additionally, for the periods ending May 31, 2009 and August 31, 2009, we did not meet the tangible net worth covenant. 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.

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

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.

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 as set out in the Company's banking agreement. At that time, the bank froze the Company's line of credit at US \$604,000 and extended to the company a 90-day period from May 28, 2009 to arrange an alternate banking facility. 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.

On July 7, 2009, the Board of Directors declared partial semi-annual dividend in the amount of Canadian \$0.0175 per share on the Class B Series 2 preference shareholders. The partial dividends were paid in accordance with the Company's Articles of Incorporation and to preserve our financial resources in light of the current market conditions. The Company will be assessing its financial resources on a regular basis to determine when we can increase or reinstate the dividends.

Cash Flows

	August 31, 2009	August 31, 2008	2009 to 2008
Three months ended			
In thousands of Canadian dollars			
Cash flows provided by (used in):			
Operating activities	\$ (530)	\$ 221	\$ (751)
Investing activities	(193)	(187)	(6)
Financing activities	718	(15)	733
Effect of foreign exchange on cash	20	(19)	39
	August 31, 2009	August 31, 2008	2009 to 2008
Nine months ended			
In thousands of Canadian dollars			

Cash flows provided by (used in):

Operating activities	\$ 1,568	\$ 484	\$ 1,084
Investing activities	(356)	(634)	278
Financing activities	(729)	100	(829)
Effect of foreign exchange on cash	45	50	(5)

Cash flows used by operating activities for the three months ended August 31, 2009 were the result of an increase in accounts receivable and inventory. Cash flows provided by operating activities for the nine months ended August 31, 2009 were the result of a decrease in accounts receivable offset by the net loss for the three and nine months ended August 31, 2009 which was reduced by amortization and stock-based compensation and by a decrease in accounts payable and accrued liabilities.

Cash flows used in investing activities for the three and nine months ended August 31, 2009 were to support our ongoing new product development and acquisitions of equipment, furnishings and intangibles commensurate with our plans to obtain additional fixed assets to accommodate our current and future anticipated growth.

OSI Geospatial Inc.

Management's Discussion and Analysis
For the three and nine months ended August 31, 2009 and 2008
(expressed in Canadian dollars)

Cash flows used in financing activities for the three and nine months ended August 31, 2009 were the result of changes in the operating line of credit.

As a result of the above mentioned changes, the line of credit utilization decreased by \$762,000 for the three months ended August 31, 2009 and increased \$647,000 for the nine months ended August 31, 2009.

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 August 31, 2009 we had entered into forward exchange contracts in the amount of £251,000 and €612,000.

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

OFF BALANCE SHEET ARRANGEMENTS

Guarantees

In January 2007, the Company signed a 10 year lease for office facilities in Burnaby, British Columbia. It relocated its North Vancouver, British Columbia operations to Burnaby, British Columbia on August 1, 2007.

In April 2007, the Company signed a three year lease for office facilities in Ottawa, Ontario. It opened the corporate head office in Ottawa on June 1, 2007.

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.

OSI Geospatial Inc.

Management's Discussion and Analysis
For the three and nine months ended August 31, 2009 and 2008
(expressed in Canadian dollars)

TRANSACTIONS WITH RELATED PARTIES

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated 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 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.

The 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.

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

As at November 30, 2008 and 2007, the Company performed impairment tests for goodwill and intangible assets with indefinite useful lives, and 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

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

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.

Deferred Development

The Company expenses development costs in the period they are incurred unless they meet all of the criteria for deferral according to CICA Handbook Section 3064, *Goodwill and Intangible Assets*, and are reasonably assured of their recovery. Deferred development costs are amortized to future periods when the product is produced commercially and are expensed over a period not exceeding five years using the straight-line method.

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 in the U.S. 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.

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.

PROPOSED TRANSACTIONS

We are not currently engaged in any proposed transactions.

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

SELECTED QUARTERLY DATA (UNAUDITED)

In thousands of Canadian dollars

For the three months ended	August 31, 2009	May 31, 2009	February 28, 2009	November 30, 2008
Revenue	\$ 6,212	\$ 6,315	\$ 5,724	\$ 8,145
Gross profit	2,362	1,934	1,719	3,336
Gross profit percentage	38%	31%	30%	41%
Net earnings (loss)	(263)	(1,038)	(697)	1,020
Net earnings (loss) attributable to common shareholders	(410)	(1,192)	(853)	864
Loss per share – basic	(0.01)	(0.02)	(0.02)	0.02
Loss per share – diluted	(0.01)	(0.02)	(0.02)	0.02

For the three months ended	August 31, 2008	May 31, 2008	February 29, 2008	November 30, 2007
Revenue	\$ 6,327	\$ 6,574	\$ 5,815	\$ 8,082
Gross profit	2,243	2,025	2,182	3,497
Gross profit percentage	36%	31%	38%	43%
Net earnings (loss)	(682)	(1,174)	(541)	(869)
Net earnings (loss) attributable to common shareholders	(838)	(1,330)	(697)	(1,025)
Loss per share – basic	(0.02)	(0.03)	(0.01)	(0.02)
Loss per share – diluted	(0.02)	(0.03)	(0.01)	(0.02)

CRITICAL ACCOUNTING POLICIES

These items are substantially unchanged as discussed in the Company's MD&A for the year ended November 30, 2008 as contained in our 2008 Annual Report filed on SEDAR at www.sedar.com.

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

The CICA has issued CICA Handbook section 1601, *Consolidated Financial Statements*, and CICA Handbook section 1602, *Non-controlling Interests*, which replace CICA Handbook section 1600, *Consolidated Financial Statements*. CICA Handbook section 1601 establishes standards for the preparation of consolidated financial statements and CICA Handbook section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements. These sections apply to annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will adopt the new 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.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

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 beginning 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.

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 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 August 31, 2009, we had entered into the following foreign exchange forward contracts, which were not treated as hedges in accordance with CICA Section 3865:

<i>Sell</i>	<i>Exchange rate in relation to CAD</i>	<i>Value date</i>
GBP 251,000	1.7686 to 1.8094	October 2009 to December 2009
EURO 612,000	1.5497	February 2010

DISCLOSURE OF OUTSTANDING SHARE DATA

As at October 7, 2009, we had 47,594,084 issued and outstanding common shares and 4,310,166 outstanding stock options. As at October 7, 2009, we also had 30,262 issued and outstanding class A preference shares and 167,690 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 9,894,379 common shares. Also, at October 7, 2009, we had 12,395,067 outstanding common share purchase warrants convertible to common shares at a conversion ratio of 1:1, representing 12,395,067 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

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

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 controls 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 controls 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 controls over financial reporting is the Committee of Sponsoring Organizations of the Treadway Committee (COSO) control framework. 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 controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the design of internal controls 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 Company has not formally evaluated the operating effectiveness of internal controls over financial reporting.

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

Certain statements made in this Management's Discussion and Analysis (MD&A) constitute forward-looking statements, and are subject to risks and uncertainties that may cause future results to differ materially from those expected. Factors that may cause such differences include, but are not limited to, the factors discussed below. If any of these events actually occur, they could have a materially adverse effect on the Company, our financial condition, or results of operations.

Below is a summary of some of the risks and uncertainties that the Company faces. Each of these risks is more fully described in the MD&A prepared for the Company's year ended November 30, 2008 as contained in our 2008 Annual Report filed on SEDAR at www.sedar.com.

- The Company depends heavily on government contracts, which are only partially funded, subject to termination, heavily regulated, and audited. The termination of one or more of these contracts could have a negative impact on our operations. The contract termination clauses are generally in favour of the government agencies. Typically the termination clause for convenience is 30 days or less with the condition that all costs to that date are paid by the government agencies.

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

- The Company derives a significant amount of revenue from only a few customers. We depend on national and international governments for a significant portion of our sales, and the loss of any of these relationships or a shift in any of these governments' funding could have severe consequences on our financial condition.
- The Company's product lines are not broadly diversified.
- The Company derives a significant portion of our revenues from international sales and are subject to the risks of doing business in foreign countries.
- The Company derives significant revenue from contracts awarded through a competitive bidding process, which can impose substantial costs upon it, and the Company could fail to maintain its current and projected revenue if it fails to compete effectively.
- The Company's revenues and costs are affected by fluctuations in the rate of exchange between the Canadian dollar, which is the functional currency for the Company, and the U.S. dollar, the British pound, the Australian dollar and the Euro.
- The Company has established teaming relationships and strategic partnerships with international corporations to pursue major international government procurements, and our reputation and results of operations could be adversely affected by our inability to control their operations.
- Competition within our markets may reduce our ability to procure future contracts and sales.
- The Company's ability to procure contracts and gain sales in foreign markets may be negatively impacted by increasing protectionism of foreign governments.
- The Company's future success will depend on our ability to develop new technologies that achieve market acceptance.
- The Company depends on the recruitment and retention of qualified personnel, and our failure to attract and retain such personnel could seriously harm our business.
- We do not have fixed-term employment agreements with our officers and key employees and the loss of any officer or key employee could seriously harm our business.
- We depend on foreign sub-contract labour in our mapping operations to maintain a competitive position in the mapping marketplace.
- The Company may be unable to adequately protect our intellectual property rights, which could affect our ability to compete.
- The Company's operations depend on component availability and our key suppliers to manufacture and deliver our products and services.
- The Company may not be able to meet the delivery terms or budgeted costs of its firm fixed price contracts.
- The unpredictability of our results may harm or contribute to the volatility of the trading price of our common stock.
- Sales of a significant number of shares of our common stock by existing shareholders could cause the market price of our common stock to decline.

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2009 and 2008

(expressed in Canadian dollars)

- The Company may pursue strategic relationships, investment, and acquisitions. We may not be able to successfully manage our operations if it fails to successfully integrate the acquired technologies and/or businesses.
- The Company may require additional capital, in which case we may need to raise additional funds from lenders and equity markets in the future.
- The Company's business could be adversely affected if we fail to manage our growth effectively.
- Third parties may claim that we infringe their proprietary rights.
- The Company may not be able to protect our proprietary information.
- The Company's products may contain significant defects, which may result in liability and/or decreased sales.