



OSI Geospatial Inc.

**Consolidated Financial Statements
November 30, 2010 and 2009
(expressed in Canadian dollars)**

(Prepared in accordance with Canadian Generally Accepted Accounting Principles)

AUDITORS' REPORT

To the Shareholders of OSI Geospatial Inc.:

We have audited the consolidated balance sheets of OSI Geospatial Inc. as at November 30, 2010 and 2009 and the consolidated statements of operations, shareholders' equity, comprehensive loss, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of OSI Geospatial Inc. as at November 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
February 17, 2011

OSI Geospatial Inc.

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

Consolidated Balance Sheets

As at November 30, 2010 and 2009

In thousands of Canadian dollars

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 758	\$ 315
Restricted cash (note 5)	513	-
Accounts receivable and unbilled revenue (note 6)	3,522	3,897
Income taxes recoverable	131	-
Inventory (note 7)	921	1,139
Prepaid expenses and deposits	292	367
Current portion of future income tax asset (note 17)	101	1,041
Current assets held-for-sale (note 22)	2,812	2,525
	<hr/> 9,050	<hr/> 9,284
Restricted cash (note 5)	61	-
Deferred development costs	551	653
Future income tax asset (note 17)	124	113
Equipment and furnishings (note 8)	1,025	1,196
Intangible and other assets (note 9)	314	275
Goodwill (note 10)	4,198	4,324
	<hr/> \$ 15,323	<hr/> \$ 15,845
Liabilities		
Current liabilities		
Bank indebtedness (note 12)	\$ -	\$ 685
Factored advances payable (note 12)	325	240
Accounts payable and accrued liabilities (note 11)	2,929	2,868
Unearned revenue	310	547
Current portion of capital lease obligations (note 13)	25	68
Current portion of deferred rent	41	34
Current portion of accrued loss on sublease (note 15)	134	-
Current liabilities held-for-sale (note 22)	1,190	997
	<hr/> 4,954	<hr/> 5,439
Capital lease obligation (note 13)	28	54
Unearned revenue	65	178
Deferred rent	219	211
Accrued loss on sublease (note 16)	234	-
	<hr/> 5,500	<hr/> 5,882
Commitments and contingencies (notes 15 and 16)		
Shareholders' Equity		
Issued and outstanding		
Class A, Series A preference shares (note 14b)	30	30
Class B, Series 2 preference shares (notes 14c and 14f)	2,457	5,383
Common shares	31,112	29,876
	<hr/> 33,599	<hr/> 35,289
Warrants (note 14d)	-	4,546
Contributed surplus	9,765	3,322
Accumulated deficit	(32,025)	(31,838)
Accumulated other comprehensive loss	(1,516)	(1,356)
	<hr/> 9,823	<hr/> 9,963
	<hr/> \$ 15,323	<hr/> \$ 15,845

On behalf of the Board

“Raymond Johnston”

Director

“Steve Barnett”

Director

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

OSI Geospatial Inc.
Consolidated Statements of Operations
For the years ended November 30, 2010 and 2009

In thousands of Canadian dollars, except share related data

	2010	2009
Revenue		
Maritime navigation and tactical solutions	\$ 6,059	\$ 9,562
Advanced technology research and development	7,442	9,674
	<u>13,501</u>	<u>19,236</u>
Cost of sales	<u>8,456</u>	<u>12,924</u>
Gross profit	<u>5,045</u>	<u>6,312</u>
Expenses (income)		
General and administrative	4,461	4,640
Sales and marketing	2,333	2,777
Engineering	534	872
Technology Partnerships Canada royalty (note 15)	288	394
Amortization	318	390
Interest expense	70	111
Interest income	(11)	(8)
Foreign exchange loss	24	1
Loss on disposal of equipment and furnishings	10	-
	<u>8,027</u>	<u>9,177</u>
Loss before other items	<u>(2,982)</u>	<u>(2,865)</u>
Other items (expenses) recovery		
Gain on sale of intellectual property (note 24)	5,214	-
Loss on sublease (note 16)	(373)	-
Goodwill impairment charge (note 10)	-	(4,027)
Restructuring costs (note 23)	(852)	(652)
Income (loss) before income taxes	<u>1,007</u>	<u>(7,544)</u>
Future income tax expense (recovery)	931	(187)
Current income tax expense	186	9
Income tax expense (recovery) (note 17)	<u>1,117</u>	<u>(178)</u>
Net loss from continuing operations	<u>(110)</u>	<u>(7,366)</u>
Net loss from discontinued operations (note 22)	<u>(72)</u>	<u>(345)</u>
Net loss	<u>\$ (182)</u>	<u>\$ (7,711)</u>
Net loss available to common shareholders (note 14f)	\$ (540)	\$ (8,315)
Basic and diluted loss per share (note 14f)		
Continuing operations	\$ (0.01)	\$ (0.17)
Discontinued operations	(0.00)	(0.01)
Net loss	(0.01)	(0.18)
Weighted average number of common shares outstanding (note 14f)		
Basic and diluted	51,513,586	47,250,113

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

OSI Geospatial Inc.

Consolidated Statements of Shareholders' Equity For the years ended November 30, 2010 and 2009

In thousands of Canadian dollars

	2010		2009	
	Number	Amount	Number	Amount
Class A preference shares				
Balance at beginning and end of year	30,262	\$ 30	30,262	\$ 30
Class B preference shares				
Balance at beginning of year	167,690	\$ 5,383	178,530	\$ 5,731
Class B preference shares converted to common shares (note 14c)	(91,161)	(2,926)	(10,840)	(348)
Balance at end of year	76,529	\$ 2,457	167,690	\$ 5,383
Common shares				
Balance at beginning of year	47,669,084	\$ 29,876	46,956,439	\$ 29,748
Exercise of stock options	-	-	75,000	14
Class B preference shares converted to common shares (note 14c)	5,362,410	1,236	637,645	114
Balance at end of year	53,031,494	\$ 31,112	47,669,084	\$ 29,876
Warrants				
Balance at beginning of year	12,395,067	\$ 4,546	15,175,067	\$ 4,898
Warrants expired (note 14d)	(12,395,067)	(4,546)	(2,780,000)	(352)
Balance at end of year	-	\$ -	12,395,067	\$ 4,546
Contributed surplus				
Balance at beginning of year		\$ 3,322		\$ 2,674
Class B preference shares converted to common shares (note 14c)		1,690		234
Exercise of stock options		-		(4)
Warrants expired (note 14d)		4,546		352
Stock-based compensation expense		207		66
Balance at end of year		\$ 9,765		\$ 3,322
Accumulated deficit				
Balance at beginning of year		\$ (31,838)		\$ (24,121)
Dividends on Class B preference shares		(5)		(6)
Net loss for the year		(182)		(7,711)
Balance at end of year		\$ (32,025)		\$ (31,838)
Accumulated other comprehensive income (loss)				
Balance at beginning of year		\$ (1,356)		\$ 631
Unrealized loss on translating financial statements of self-sustaining foreign operations		(160)		(1,987)
Balance at end of year		\$ (1,516)		\$ (1,356)
Total accumulated deficit and accumulated other comprehensive loss		\$ (33,540)		\$ (33,194)
Total shareholders' equity		\$ 9,823		\$ 9,963

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

OSI Geospatial Inc.

Consolidated Statements of Comprehensive Loss For the years ended November 30, 2010 and 2009

In thousands of Canadian dollars	2010	2009
Net loss	\$ (182)	\$ (7,711)
Unrealized loss on translation of self-sustaining foreign operations	(160)	(1,987)
Comprehensive loss for the year	\$ (342)	\$ (9,698)

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

OSI Geospatial Inc.

Consolidated Statements of Cash Flows

November 30, 2010 and 2009

In thousands of Canadian dollars

	2010	2009
Cash flows from (used in) operating activities		
Net loss from continuing operations	\$ (110)	\$ (7,366)
Items not affecting cash		
Amortization	385	506
Stock-based compensation	207	66
Gain on sale of intellectual property	(5,214)	-
Goodwill impairment charge (note 10)	-	4,027
Future income taxes	931	(187)
Loss on disposal of equipment and furnishings	10	-
Loss on sublease	373	-
	<u>(3,418)</u>	<u>(2,954)</u>
Changes in non-cash working capital items		
Accounts receivable and unbilled revenue	319	4,049
Inventory	218	265
Prepaid expenses and deposits	70	(20)
Accounts payable and accrued liabilities	(148)	(328)
Income taxes payable	(131)	(16)
Unearned revenue	(347)	182
Deferred rent	(34)	(34)
	<u>(53)</u>	<u>4,098</u>
Cash provided by continuing operations	(3,471)	1,144
Cash provided by discontinued operations	108	773
Cash provided by operating activities	<u>(3,363)</u>	<u>1,917</u>
Cash flows from (used in) investing activities		
Net increase in restricted cash	(589)	-
Development costs deferred	(30)	(237)
Additions to equipment and furnishings	(81)	(148)
Additions to intangible and other assets	(195)	(24)
Proceeds from sale of intellectual property and related tangible assets, net of costs to dispose	5,431	-
Discontinued operations	(74)	(16)
	<u>4,462</u>	<u>(425)</u>
Cash flows from (used in) financing activities		
Net repayments of bank indebtedness	(685)	(1,275)
Net advances from factoring facilities	89	240
Repayment of capital lease obligations	(66)	(95)
Issuance of shares related to exercise of stock options	-	9
Class B preference share dividends declared and paid	(5)	(6)
	<u>(667)</u>	<u>(1,127)</u>
Effect of foreign exchange on cash balances	<u>15</u>	<u>36</u>
Increase in cash and cash equivalents	447	401
Cash and cash equivalents – beginning of year	401	-
Cash and cash equivalents – end of year	<u>\$ 848</u>	<u>\$ 401</u>
Cash and cash equivalents, continuing operations	\$ 758	\$ 315
Cash and cash equivalents, discontinued operations (note 22)	90	86
	<u>\$ 848</u>	<u>\$ 401</u>
Supplemental cash flow information (note 21)		

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

OSI Geospatial Inc.

Notes to Consolidated Financial Statements

November 30, 2010 and 2009

(in Canadian dollars)

1 Basis of presentation

These audited consolidated financial statements have been prepared by management and include the accounts of OSI Geospatial Inc. and its wholly-owned subsidiaries, collectively referred to as "OSI Geospatial" or "the Company". The 2010 and 2009 audited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") and all amounts herein have been expressed in Canadian dollars unless otherwise noted.

2 Nature of operations and going concern

OSI Geospatial delivers integrated navigation and tactical solutions that meet naval and maritime security operational requirements. These solutions include our Warship Electronic Chart Display and Information System (ECPINS®-W/S), Tactical Asset Control and Tracking System (TACTS), Integrated Navigation and Tactical System (INTS) and security risk assessment consulting services. In addition, OSI Geospatial provides advanced technology research and development engineering services in the support of military and security requirements, mapping services that provide geospatial data production and mapping consulting services. OSI Geospatial conducts its operations through three business units – International Systems, U.S. Systems and Mapping.

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 \$32.0 million. In October 2009, the Company replaced its US line of credit with an accounts receivable factoring arrangement to support its US working capital requirements. In January 2010, the Company replaced its Canadian line of credit with an accounts receivable factoring arrangement to support its Canadian working capital requirements. As per note 24, on February 1, 2010, the Company sold its soldier systems intellectual property for U.S. \$6.5 million. The net proceeds after corporate income taxes are approximately U.S. \$5.5 million with approximately U.S. \$5.0 million received in February 2010 and the balance to be received in fiscal 2011. The net proceeds provided additional working capital for the Company.

The 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 and these uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

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

3 Accounting changes

Recent pronouncements

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

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

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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 not adopt the new Section for its fiscal year beginning December 1, 2011 as it will adopt IFRS.

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 not adopt these new Sections for its fiscal year beginning December 1, 2011 as it will adopt IFRS.

The CICA has issued EIC-175, *Multiple Deliverable Revenue Arrangements*, which addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. This abstract also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. EIC-175 applies to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. Accordingly, the Company will not need to adopt this standard as it will adopt IFRS instead.

4 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian GAAP. The following is a summary of significant accounting principles used in the preparation of these consolidated financial statements.

a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated on consolidation.

b) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are valued at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at historical rates. Revenue and expenses are translated at the average exchange rate prevailing during the period. Foreign currency translation gains and losses are included in income in the period in which they occur.

The Company's Canadian subsidiaries' functional currency is the Canadian dollar. The Company's United States subsidiaries' functional currency is the United States dollar.

The cumulative foreign currency translation adjustment included under accumulated other comprehensive income within shareholders' equity on the consolidated balance sheets relates to the unrealized foreign currency translation gains or losses of foreign subsidiaries. Financial statements of foreign subsidiaries, all of which are self-sustaining, are translated into Canadian dollars using the current rate method. Under the current rate method, assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date. Revenue and expenses are translated at the average exchange rate prevailing during the period.

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(in Canadian dollars)

c) Use of judgments and estimates

The preparation of financial statements in conformity with Canadian GAAP requires the Company's management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the years reported. Significant areas requiring the use of estimates include revenue recognition, contingencies, inventory valuation, allowance for doubtful accounts, future income tax assets, stock-based compensation, valuation of warrants, valuation of goodwill, deferred development costs, valuation of intangibles, valuation of equipment and furnishings, and accrued losses on subleases.. Actual results could differ from these estimates.

d) Cash and cash equivalents

Cash and cash equivalents consist of cash and deposit instruments with an initial maturity of three months or less.

e) Accounts receivable

The Company maintains an allowance for doubtful accounts against its accounts receivable for estimated losses that may arise if any of its customers are unable to make required payments. Management specifically analyzes the age of outstanding customer balances, historical bad debts, customer credit-worthiness and changes in customer payment terms when making estimates of the non-collectibility of the Company's accounts receivable. If the Company determines that the financial condition of any of its customers deteriorates, increases in the allowance may be made.

The Company entered into an accounts receivable factoring arrangement. The arrangement is being recorded as a financing from the factoring company.

f) 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.

g) Research and development costs

The Company incurs costs on activities that relate to the research and development of new products. Research costs are expensed in the period incurred.

Product development costs include investigative and development expenditures incurred on specific potential products. These costs are expensed in the period incurred unless, in the opinion of management, the deferral criteria are satisfied in all material respects, in which case development expenditures are capitalized. These costs are amortized, commencing when the products are released, over the estimated life of the related products.

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November 30, 2010 and 2009

(in Canadian dollars)

h) Equipment and furnishings

Equipment, furniture and fixtures, and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided using the methods and rates indicated below based on the assets' estimated useful lives as follows:

	Method	Percentage
Equipment – Canadian operations	Declining balance	20 – 25
Equipment – U.S. operations	Straight line	33
Furniture and fixtures – Canadian operations	Declining balance	20
Furniture and fixtures – U.S. operations	Straight line	25
Leasehold improvements	Straight line	10

An impairment loss is recognized when the undiscounted cash flows expected from use and eventual disposition of the asset are less than the carrying amount of the asset. An impairment charge is recorded to reduce the carrying value of the asset to its fair value.

i) Intangible and other assets

Intangible and other assets are recorded at cost less accumulated amortization. Amortization is provided using the methods and rates indicated below based on the assets' estimated useful lives as follows:

	Method	Percentage
Computer software – Canadian operations	Declining balance	33
Computer software – U.S. operations	Straight line	33
Security clearance	Straight line	17
Licenses and patents	Straight line	10

An impairment loss is recognized when the undiscounted cash flows expected from use and eventual disposition of the asset are less than the carrying amount of the asset. An impairment charge is recorded to reduce the carrying value of the asset to its fair value.

j) Leases

Leases are classified as either capital or operating leases. A lease that transfers substantially all benefits and risks incidental to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a capital lease, an asset and a lease obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of such lease. Assets recorded under the capital leases are amortized over the estimated useful lives of the respective assets on commencement of use of the related assets.

At the inception of a sublease agreement, loss on sublease is recognized relating to the projected shortfall between the rent obligation under the original lease and the rental income to be received over the term of the sublease.

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(in Canadian dollars)

k) Goodwill

Acquisitions are accounted for using the purchase method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition. The excess of the purchase price over such fair value is recorded as goodwill. The Company evaluates, on at least an annual basis, the carrying amounts of goodwill for impairment. To accomplish this, the Company compares the fair value of the reporting unit to the carrying amount. If the carrying value of the reporting unit were to exceed its fair value, the Company would perform the second step of the impairment test. In the second step, the Company compares the fair value of the reporting unit's goodwill to the carrying amount and any excess would be written off as goodwill impairment. Any impairment of goodwill would be recognized as an expense in the period of impairment, and subsequent reversals of impairment are prohibited. During the fourth quarter of fiscal year 2009, the Company completed an impairment test of Goodwill and determined that the carrying value was partially impaired. This resulted in a non-cash impairment charge of \$4.0 million that was recorded in the consolidated financial statements for the year ended November 30, 2009 (note 10).

l) Lease inducements

Lease inducements are recorded on the balance sheet as deferred rent and are amortized on a straight-line basis against rent expense over ten years which is the economic life of the lease.

m) Income taxes

The Company accounts for income taxes using the liability method of tax allocation. Under the liability method, future income tax assets and liabilities are determined based on differences between their financial reporting and tax bases, and are measured using substantially-enacted tax rates and laws expected to be in effect when the differences are expected to reverse. The Company provides a valuation allowance against future tax assets and liabilities to the extent that the Company does not consider them to be more likely than not to be realized.

n) Revenue recognition

International Systems Operations and U.S. Systems Operations

The Company recognizes revenue from the sale of systems and software licenses upon the transfer of title and software locks to the customer, so long as persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, collection is reasonably assured, and there are no ongoing obligations of the Company to provide future services with the exception of warranties and maintenance. The Company uses the residual method to recognize revenue on delivered elements when a license agreement includes one or more elements to be delivered at a future date if evidence of the fair value of all undelivered elements exists. If an undelivered element for the arrangement exists under the license arrangement, revenue related to the undelivered element is deferred based on vendor-specific objective evidence ("VSOE") of the fair value of the undelivered element. If VSOE of fair value does not exist for all undelivered elements, all revenue is deferred until sufficient evidence exists or all elements are delivered.

The Company recognizes revenue from the sales of hardware products upon the transfer of title of the hardware product to the customer, so long as persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collection is reasonably assured.

The Company also enters into contracts that are primarily fixed-fee arrangements to render specific consulting and software modification services. The percentage of completion method is applied to these more complex contracts that involve the provision of services relating to the design or building of complex systems that require significant modification and that are essential to the functionality of other elements in the arrangement. Under this method, revenue is recognized using the percentage-of-completion basis and is calculated based on actual labour dollars incurred compared to the estimated total labour dollars for the services under the

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arrangement, so long as persuasive evidence of an arrangement exists, the price is fixed or determinable, and collection is reasonably assured. If the Company does not have a sufficient basis to measure progress towards completion, revenue is recognized when final acceptance is received by the Company from the customer. Anticipated losses on these contracts are expensed when identified.

Service revenues consist of revenues from consulting, implementation, training, integration services, and research and development services. These services are set forth separately in the contractual arrangements such that the total price of the customer arrangement is expected to vary as a result of the inclusion or exclusion of these services. For those contracts where the services are not essential to the functionality of any other element of the transaction, the Company determines VSOE of fair value for these services based upon normal pricing and discounting practices for these services when sold separately. These services contracts are primarily time and material contracts. Revenue from these services is recognized at the time such services are rendered by the Company, so long as persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collection is reasonably assured.

The Company's multiple-element sales arrangements include arrangements where software licenses and the associated post-contract customer support ("PCS") are sold together. The Company endeavours to establish VSOE of the fair value of the undelivered PCS element based on the contracted price for standalone PCS services previously provided. The Company's multiple-element sales arrangements may include rights for the customer to renew PCS after the bundled term ends. These rights are irrevocable to the customer's benefit, are for specified prices, are consistent with the initial price in the original multiple-element sales arrangement, and the customer is not subject to any economic or other penalty for failure to renew. Further, the renewal PCS options are for services comparable to the bundled PCS.

PCS revenue associated with systems and software licenses is recognized rateably over the term of the PCS period, so long as persuasive evidence of an arrangement exists, the price is fixed or determinable, and collection is reasonably assured. PCS revenue may include software license updates, rights to unspecified software product revisions addressing latent defects, maintenance releases, and patches released during the term of the PCS period. PCS revenue may also include hardware maintenance and upgrades throughout the PCS period including maintaining the continual performance standards of the hardware, making modifications, alterations and repairs as required, and other hardware related support services.

Revenue under bill-and-hold arrangements is recognized when risks of ownership have been passed on to the customer, there is a signed contract with the customer, the customer has a substantial business purpose for ordering the goods on a bill-and-hold basis, a fixed delivery schedule has been established with the customer, and the Company does not retain any specific performance obligations such that the earnings process is not complete. Goods held under such arrangements are segregated, ready for shipment and not subject to being used to fill other orders. The customers are charged additional fees for storage and other associated costs until shipment occurs. There has been no revenue recognized under the bill-and-hold arrangement for the fiscal years ending November 30, 2010 and 2009.

Mapping Operations

Revenue from mapping services is recognized using the proportional performance method of accounting, whereby revenue in the period is based on the output completed to total units of work to be completed of the project for each segment of the project. A provision is made for the entire amount of future estimated losses, if any, on contracts in progress.

Revenue from the sale of mapping products is recorded at the time of delivery of the product to the customer, so long as persuasive evidence exists of an agreement with the customer, the price is fixed or determinable, and collection is reasonably assured.

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(in Canadian dollars)

o) Unbilled revenue

Unbilled revenue is revenue that has been recognized using the percentage-of-completion or the proportional performance methods of accounting less amounts billed to the customer in accordance with the milestone terms of the contract. Unbilled revenue is reduced when customers are invoiced and the respective accounts receivable is recorded.

p) Unearned revenue

Unearned revenue is amounts that have been billed to the customer but have not been recognized in revenue.

q) Government assistance

Government assistance is recorded when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions necessary to obtain the government assistance. Government assistance towards current research expenditures is recorded as a reduction of expenses in the consolidated statements of operations. The liability to repay government assistance is recognized as an expense in the period in which conditions arise that cause the government assistance to be repayable.

r) Stock-based compensation

The Company has stock option plans as described in note 14. The Company uses the fair-value method to account for such plans. Under this method, the Company measures the fair value of stock-based awards as of the grant date and recognizes the cost as an expense on a straight-line basis over the applicable vesting period with a corresponding increase in contributed surplus. Upon the exercise of stock options, share capital is increased by the amount paid by the employees as well as the amounts previously added to contributed surplus when compensation costs were charged to earnings.

s) Loss per share

Basic loss per share is computed using the weighted-average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted loss per share. Under the treasury stock method, the weighted-average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period. Stock options and warrants are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

t) Guarantees

The Company guarantees that its 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. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified warranty issues based on historical activity. To date, the Company has had no material warranty claims.

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u) Derivative financial instruments

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

5 Restricted cash

Pursuant to the terms of the contract for the sale of soldier systems intellectual property (see note 24), U.S. \$500,000 (2009 – \$nil) was held in escrow on behalf of the Company for the purposes of, among other things, funding the payment of any indemnification obligation of the Company. Half of the escrow fund will be released on the first year anniversary of the closing date and the other half will be released upon the expiration of the escrow period in September 2011.

In addition, the Company has set aside as restricted cash \$61,000 (2009 – \$nil) as security for certain credit card accounts.

6 Accounts receivable and unbilled revenue

In thousands of Canadian dollars

	November 30,	
	2010	2009
Trade	\$ 1,953	\$ 1,973
Unbilled revenue	1,560	1,813
Other	17	120
Allowance for doubtful accounts	(8)	(9)
	<u>\$ 3,522</u>	<u>\$ 3,897</u>

As at November 30, 2010, government contract trade receivables were \$1,315,000 (2009 - \$1,270,000) and unbilled government contract revenues were \$1,537,000 (2009 - \$1,550,000).

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7 Inventory

In thousands of Canadian dollars

	November 30,	
	2010	2009
Materials and components	\$ 686	\$ 806
Work-in-process	70	150
Finished goods	183	183
Provision for inventory obsolescence	(18)	-
	<u>\$ 921</u>	<u>\$ 1,139</u>

The cost of finished goods and components inventories recognized as expense and included in cost of sales for the year ended November 30, 2010 was \$622,000 (2009 - \$1,987,000).

The inventory write-down included in cost of sales for the year ended November 30, 2010 was \$13,000 (2009 - \$34,000).

8 Equipment and furnishings

In thousands of Canadian dollars

	November 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Equipment and vehicles	\$ 4,563	\$ 4,073	\$ 490
Furniture and fixtures	612	549	63
Leasehold improvements	763	291	472
	<u>\$ 5,938</u>	<u>\$ 4,913</u>	<u>\$ 1,025</u>

In thousands of Canadian dollars

	November 30, 2009		
	Cost	Accumulated Amortization	Net Book Value
Equipment and vehicles	\$ 4,757	\$ 4,112	\$ 645
Furniture and fixtures	686	580	106
Leasehold improvements	651	206	445
	<u>\$ 6,094</u>	<u>\$ 4,898</u>	<u>\$ 1,196</u>

At November 30, 2010, equipment and furnishings included assets financed by capital leases in the amount of \$268,000 (2009 - \$277,000) and accumulated amortization of \$249,000 (2009 - \$209,000).

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(in Canadian dollars)

9 Intangible and other assets

In thousands of Canadian dollars

	November 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 1,068	\$ 821	\$ 247
Security clearance	282	235	47
Licenses and patents	74	54	20
	<u>\$ 1,424</u>	<u>\$ 1,110</u>	<u>\$ 314</u>

In thousands of Canadian dollars

	November 30, 2009		
	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 888	\$ 744	\$ 144
Security clearance	292	195	97
Licenses and patents	86	52	34
	<u>\$ 1,266</u>	<u>\$ 991</u>	<u>\$ 275</u>

The aggregate amortization expense for intangible assets for the year ended November 30, 2010 was \$157,000 (2009 - \$212,000).

10 Goodwill

The Company tests for impairment of assets as prescribed in CICA Handbook Section 3064, *Goodwill and Intangible Assets*.

As at November 30, 2010, the Company concluded that goodwill is not impaired, after reviewing impairment indicators and performing a step 1 impairment test.

In the fourth quarter of the fiscal year 2009, the Company received two expressions of interest to acquire its soldier systems intellectual property ("IP"). This established a fair value for the IP when testing for the goodwill impairment of the U.S. Systems business unit. This resulted in a re-allocation of the fair value of this asset from Goodwill to an intangible asset that had a book value of \$nil. As a result, an indicator of impairment was present for the Company's U.S. Systems business unit.

The Company performed impairment tests as at November 30, 2009, whereby the carrying amount of Goodwill was compared to the discounted future cash flow expected from its use, using a current weighted average discount rate that reflects the realities of the current conditions. Impairment tests involve a significant degree of judgment, as expectations concerning future cash flows and the selection of an appropriate discount rate are subject to considerable risks and uncertainties.

The Company concluded that impairments had occurred in the U.S. Systems operations, and, as part of step 2 of the goodwill test, determined that the carrying value of Goodwill of \$8.4 million was partially impaired. This resulted in a non-cash impairment charge of \$4.0 million that was recorded in the year ended November 30, 2009.

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The changes in the carrying amount of goodwill are as follows:

In thousands of Canadian dollars

	U.S. Systems Operations	
	2010	2009
Balance, beginning of year	\$ 4,324	\$ 9,772
Impairment charge	-	(4,027)
Unrealized loss on translation of self-sustaining foreign operations	(126)	(1,421)
Balance, end of year	\$ 4,198	\$ 4,324

11 Accounts payable and accrued liabilities

In thousands of Canadian dollars

	November 30,	
	2010	2009
Trade payables	\$ 819	\$ 669
Accrued employee compensation	1,017	990
Accrued employee benefits and payroll deductions	30	7
Accrued royalties (note 15)	283	765
Other accrued liabilities	780	437
	\$ 2,929	\$ 2,868

12 Credit facilities

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

At November 30, 2010, the Company had total borrowing capacity under its Canadian accounts receivable factoring arrangement of \$2.0 million. Under the terms of the factoring agreement, the Company may be requested to repay any amounts owing plus applicable interest. The fees charged under this agreement are: a) discount equal to discount percentage as set forth in the applicable schedule; b) 18.25% interest on any receivables that are required to be repurchased, payable from the designated due date until payment is made; and c) per diem equal to discount factor as set forth in the applicable schedule for any receivable not collected, payable from the designated due date until full payment of receivable is received. The financial institution is not entitled to both the interest and the per diem on any given day in respect of the same receivable. The credit facility is secured by a general assignment of accounts covering substantially all of the Company's present and future Canadian accounts receivable, claims and interests. This arrangement is being recorded as a financing from the factoring company and factoring costs are being charged to operations as incurred. At November 30, 2010, the amount advanced under this facility was \$325,000 (November 30, 2009 – \$nil). As at November 30, 2009, the Company had an operating line of credit facility of \$1 million in Canada and utilized \$860,000.

In October 2009, the Company's subsidiary, CHI Systems Inc. ("CHI"), entered into accounts receivable factoring arrangements with a U.S. financial institution. Under the terms of the factoring agreement, CHI shall repurchase the accounts that remain unpaid because of certain events as specified in the agreement. Fees

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charged under this agreement are a servicing fee of 0.275% for the first 15 days, 0.293% after 15 days and a daily discount fee of 0.0132%. The daily discount fee is the prime rate as published in *The Wall Street Journal* on the purchase date plus 1.5% per annum. This arrangement is being recorded as a financing from the factoring company and factoring costs are being charged to operations as incurred. The facility is secured by a security agreement covering substantially all of CHI's present and future property and interests. At November 30, 2010, the amount advanced under this facility was \$nil (November 30, 2009 – \$240,000).

The Company has a foreign exchange facility with a Canadian chartered bank whereby it can enter into forward foreign exchange contracts. The maximum facility is based on a bank formula for deemed risk and is calculated using recent volatility in the currency of the contract as well as the length of the contract. At November 30, 2010, the foreign exchange facility would enable the Company to enter into U.S. dollar denominated forward foreign exchange contracts for approximately \$5 million (November 30, 2009 - \$9 million). This facility is insured through insurance solutions provided by Export Development Canada. As at November 30, 2010, the Company has drawn on its forward foreign exchange contract facility in the amount of \$nil (November 30, 2009 - \$918,000). A foreign exchange loss on these contracts of \$nil (2009 - \$8,000) has been included in other liabilities.

13 Capital lease obligation

Finance leases have been established for the purchase of certain equipment, furnishings, and software with terms ranging from three to five years. The lease obligations are capitalized at the lease inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The weighted average interest rate implicit in the leases is approximately 4% (2009 – 4%).

Commitments in relation to capital leases are payable as follows:

In thousands of Canadian dollars

	November 30,	
	2010	2009
Within one year	\$ 29	\$ 77
Later than one year but less than five years	29	60
Minimum lease payments	58	137
Future financing charges	(5)	(15)
Recognized as liability	53	122
Less: current portion	(25)	(68)
Long-term portion of capital lease obligation	\$ 28	\$ 54

Future minimum lease repayments required over the term of the leases at November 30, 2010 are as follows:

In thousands of Canadian dollars

	November 30,
2011	29
2012	29

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14 Capital stock

a) Authorized

100,000,000 Class A preference shares with no par value, issuable in series, of which:

- 10,000,000 shares are designated Series A voting non-cumulative, redeemable at the option of the Company, convertible at a ratio of 1:1, 1% preference shares

100,000,000 Class B preference shares with a par value of \$50 each, issuable in series, of which:

- 10,000,000 shares are designated Series 1 voting, cumulative, redeemable at the option of the Company, convertible to common shares at a ratio of 1:45.5, 6% preference shares, and
- 10,000,000 shares are designated Series 2 voting, cumulative, redeemable at the option of the Company, convertible to common shares at a ratio of 1:58.82, 7% preference shares

Unlimited Class C preference shares without par value, issuable in series

Unlimited common shares without par value

b) Class A, Series A preference shares

The Company has 30,262 (November 30, 2009 – 30,262) Class A preference shares outstanding. These Class A preference shares are being held in escrow but are no longer subject to any escrow restrictions and may be converted at any time into common shares of the Company, by notice in writing from the holders.

c) Class B Series 2 preference shares

Each Series 2 preference share entitles the holder to one vote either in person or by proxy at any general meeting of the shareholders of the Company. The Company has the right to require the shareholders of the preference shares to convert each such share into 58.8235 common shares if (i) at any time after 13 months following the issuance of the preference shares, the closing trade price of the Company's common shares exceeds CAD \$2.13 for at least 20 consecutive trading days, or (ii) at any time, the Company completes a firm public underwritten offering of its common shares for more than CAD \$40 million at a price per common share greater than CAD \$1.70. The preference shares are redeemable at the option of the Company at any time after April 11, 2008, being the third anniversary of the issuance date, for an amount equal to the original issuance price plus a premium of 20% of the original issue price. The preference shares are not subject to any right of redemption at the option of the holder.

During the year ended November 30, 2010, 91,161 Class B Series 2 preference shares were converted into 5,362,410 common shares. Accordingly, the Class B Series 2 preference shares were reduced by \$2,926,000, being the carrying value of the shares converted. The common shares were increased by \$1,236,000 and the contributed surplus was increased by \$1,690,000.

During the year ended November 30, 2009, 10,840 Class B Series 2 preference shares were converted into 637,645 common shares (2008 – nil). Accordingly, the Class B Series 2 preference shares were reduced by \$348,000, being the carrying value of the shares converted. The common shares were increased by \$114,000 and the contributed surplus was increased by \$234,000.

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d) Warrants

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

On July 31, 2009, 2,780,000 common share purchase warrants, which were valued at \$352,000 using the Black-Scholes option pricing model, expired. Accordingly, the Company has reduced warrants by \$352,000 with a corresponding increase to contributed surplus.

e) Stock option plans

In 2009, the Company adopted a rolling stock option plan under the rules of Toronto Stock 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 that 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 ten years with a vesting schedule to be determined by the Board of Directors.

The number of common shares authorized for grant under the Company's stock option plans is 11,816,446 of which 5,303,149 are available for future granting.

Stock options granted to directors, management and employees vest over periods ranging from immediately to five years.

A summary of the outstanding and exercisable options of the Company's stock option plans at November 30 is as follows:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding – beginning of year	4,153,166	\$ 0.65	3,433,166	\$ 0.79
Granted	2,015,000	0.23	1,275,000	0.26
Forfeited	(902,500)	0.68	(480,000)	0.74
Exercised	-	-	(75,000)	0.12
Expired	(1,045,333)	0.93	-	-
Surrendered	(510,333)	0.91	-	-
Outstanding – end of year	3,710,000	\$ 0.29	4,153,166	\$ 0.65
Exercisable – end of year	2,166,648	\$ 0.35	3,686,492	\$ 0.71

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						November 30, 2010	
		Options outstanding			Options exercisable		
	Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price	
\$	0.13 – 0.20	790,000	3.53	\$ 0.19	546,662	\$ 0.18	
	0.21 – 0.30	1,925,000	4.42	0.23	641,653	0.23	
	0.31 – 0.45	375,000	3.52	0.41	358,333	0.41	
	0.46 – 0.68	475,000	1.74	0.52	475,000	0.52	
	0.69 – 0.73	145,000	0.76	0.72	145,000	0.72	
\$	0.13 – 0.73	3,710,000	3.65	\$ 0.29	2,166,648	\$ 0.35	

						November 30, 2009	
		Options outstanding			Options exercisable		
	Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price	
\$	0.13 – 0.20	800,000	4.49	\$ 0.19	333,326	\$ 0.18	
	0.21 – 0.30	-	-	-	-	-	
	0.31 – 0.45	400,000	4.43	0.42	400,000	0.42	
	0.46 – 0.68	750,000	2.75	0.52	750,000	0.52	
	0.69 – 0.99	2,203,166	0.85	0.90	2,203,166	0.90	
\$	0.13 – 0.99	4,153,166	0.95	\$ 0.65	3,686,492	\$ 0.71	

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Stock-based compensation

For the year ended November 30, 2010, the Company incurred non-cash stock-based compensation expense of \$207,000 (2009 - \$66,000). 2,015,000 options were granted during the year ended November 30, 2010 (2009 - 1,275,000). Of the stock options granted during the year ended November 30, 2010, 671,000 vested immediately, 672,000 will vest over one year and 672,000 will vest over two years from the grant date. Of the stock options granted during the year ended November 30, 2009, 809,000 vested immediately, 233,000 will vest over one year and 233,000 will vest over two years from the grant date. The expense was included in general and administrative costs and the offsetting amount was recorded in contributed surplus. The weighted average fair value of the stock options at grant date is \$0.15 per stock option (2009 - \$0.07).

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

	<u>2010</u>	<u>2009</u>
Risk-free interest rate	2.53%	2.45%
Expected volatility	71%	66%
Estimated average option lives	5 years	5 years
Dividend yield	nil	nil

Option valuation models require the input of highly-variable assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the input assumptions can materially affect the fair-value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options.

Shareholder rights plan

On April 18, 2001, the Board of Directors of the Company adopted a shareholder rights plan (the Rights Plan). The Rights Plan was approved by the Toronto Stock Exchange in accordance with its policies. On March 19, 2007, the Board of Directors carried a resolution regarding the continued existence of the Rights Plan as amended and restated as of March 19, 2007, subject to receipt of shareholder approval, for an additional three-year period. The continued existence of the Rights Plan was approved by the shareholders of the Company by ordinary resolution at the annual general meeting of the Company held on April 19, 2007. On April 13, 2010, the Board of Directors carried a resolution regarding the continued existence of the Rights Plan as amended and restated as of May 28, 2010, subject to receipt of shareholder approval, for an additional three-year period. The continued existence of the Rights Plan was approved by the shareholders of the Company by ordinary resolution at the annual general meeting of the Company held on May 28, 2010.

The objective of the Rights Plan is to ensure, to the extent possible, that all shareholders of the Company are treated equally and fairly in connection with any take-over offer for the Company. Take-over offers may not always result in shareholders receiving equal or fair treatment or full value for their investment. In addition, current Canadian securities legislation only requires a take-over offer to remain open for 35 days. The Board believes that this period may be insufficient for the shareholders to evaluate a bid, or for the Board to pursue alternatives that could maximize shareholder value and to make informed recommendations to shareholders.

The Rights Plan is designed to discourage discriminatory or unfair take-over offers for the Company and gives the Board time, if appropriate, to pursue alternatives to maximize shareholder value in the event of an unsolicited take-over bid for the Company. The Rights Plan will encourage an offeror to proceed by way of a permitted bid or to approach the Board of Directors with a view to negotiation by creating the potential for substantial dilution of the offeror's position. The permitted bid provisions of the Rights Plan are designed to ensure that, in any take-over bid, all shareholders are treated equally, receive the maximum value for their investment, and are given adequate time to properly assess the take-over bid on a fully-informed basis.

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f) Loss per share

In thousands of Canadian dollars, except share related data	For the year ended November 30,	
	2010	2009
Loss per share – basic		
Loss from continuing operations	\$ (110)	\$ (7,366)
Less:		
Class B Series 2 preference share dividends (*A)	(358)	(604)
Loss available to common shareholders	(468)	(7,970)
Net loss from discontinued operations	(72)	(345)
Net loss available to common shareholders	\$ (540)	\$ (8,315)
Weighted average number of common shares outstanding – basic	51,513,586	47,250,113
Loss per share – basic		
Continuing operations	\$ (0.01)	\$ (0.17)
Discontinued operations	(0.00)	(0.01)
Net loss	\$ (0.01)	\$ (0.18)

(*A) Dividends of \$358,000 (2009 - \$604,000) are included which represent the dividends earned by the shareholders of Class B Series 2 cumulative preference shares. As at November 30, 2010, there were \$1,576,000 (2009 - \$1,219,000) of dividends in arrears for the Class B Series 2 cumulative preference shares.

In thousands of Canadian dollars, except share related data	For the year ended November 30,	
	2010	2009
Loss per share – diluted		
Loss from continuing operations	\$ (110)	\$ (7,366)
Less:		
Class B Series 2 preference share dividends (*A)	(358)	(604)
Loss available to common shareholders	(468)	(7,970)
Net loss from discontinued operations	(72)	(345)
Net loss available to common shareholders	\$ (540)	\$ (8,315)
Weighted average number of common shares outstanding	51,513,586	47,250,113
Dilutive effect of Class A preference shares – Series A (*B)	-	-
Dilutive effect of Class B preference shares – Series 2 (*B)	-	-
Dilutive effect of warrants (*B)	-	-
Dilutive effect of stock options (*B)	-	-
Adjusted weighted average number of common shares outstanding	51,513,586	47,250,113
Loss per share – diluted		
Continuing operations	\$ (0.01)	\$ (0.17)
Discontinued operations	(0.00)	(0.01)
Net loss	\$ (0.01)	\$ (0.18)

(*A) Dividends of \$358,000 (2009 - \$604,000) are included which represent the dividends earned by the shareholders of Class B Series 2 cumulative preference shares. As at November 30, 2010, there were \$1,576,000 (2009 - \$1,219,000) of dividends in arrears for the Class B Series 2 cumulative preference shares.

(*B) The Class A preference shares – Series A, Class B preference shares Series 2, stock options and outstanding warrants were anti-dilutive for the purposes of calculating diluted earnings per share for the years ended November 30, 2010 and 2009.

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15 Royalties to Technology Partnerships Canada

The Company was required to pay a royalty of 1.4% on annual gross revenue of its subsidiary, Offshore Systems Ltd., for the period January 1, 2006 to December 31, 2008; and is required to pay a royalty of 2.5% on annual gross revenue in Offshore Systems Ltd. for the period January 1, 2009 to December 31, 2013. The Company commenced payment of these royalties effective February 2007. The Company has paid royalties of \$611,000 to date (2009 – \$407,000) and has accrued royalties of \$251,000 at November 30, 2010 (November 30, 2009 - \$326,000). Royalty payments will continue until the cumulative royalties paid or payable to December 31, 2013 are at least \$6.1 million or until December 31, 2017. At November 30, 2010, the royalties in arrears included in the accrued royalties amounted to \$131,000 (2009 - \$149,000).

In addition, the Company is required to pay a royalty of 3% on annual gross revenue of its subsidiary, Offshore Systems Ltd., for the period December 1, 1999 to November 30, 2008. The Company commenced payment of these royalties effective June 2001. The Company has paid royalties of \$2,659,000 to date (2009 – \$2,220,000) and has accrued royalties of \$160,000 at November 30, 2010 (November 30, 2009 - \$439,000). Royalty payments will continue until the cumulative royalties paid or payable to November 30, 2008 are at least \$7.8 million or until November 30, 2014. At November 30, 2010, the royalties in arrears included in the accrued royalties amounted to \$nil (2009 – \$222,000).

Technology Partnerships Canada royalties paid and accrued are as follows:

In thousands of Canadian dollars	For the year ended November 30,	
	2010	2009
Royalties paid	\$ 643	\$ 301
Accrued royalties - current	\$ 411	\$ 765

If the Company causes an event of default, as defined in the agreement, Technology Partnerships Canada can suspend or terminate any obligation to contribute to the costs of the project or require the Company to repay all or part of the contributions made, together with interest, from the date of demand.

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16 Commitments and contingencies

The Company has entered into a guarantee agreement for CHI. The Company has guaranteed CHI's accounts receivable factoring facility with a U.S. financial institution. At November 30, 2010, the carrying amount of CHI's factored advances payable was \$nil (2009 – \$240,000).

The Company has entered into operating leases for its office premises in Canada and the United States, and for certain equipment. Minimum lease payments required under the remaining terms of the leases are as follows:

Payments due by period	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
In thousands of Canadian dollars					
Facility leases	\$ 2,342	\$ 650	\$ 873	\$ 447	\$ 372
Equipment leases	55	21	25	9	-
Total contractual obligations	\$ 2,397	\$ 671	\$ 898	\$ 456	\$ 372

For the fiscal year ended November 30, 2010, the Company paid basic rent on facilities leases of \$796,000 (2009 - \$925,000). In addition to basic rent, the Company is required to pay a portion of certain costs and property taxes for the above commitments. In 2010, the Company paid \$88,000 (2009 - \$91,000) for these costs.

In October 2010, the Company entered into a sublease agreement with an arm's-length party for office premises that the Company does not use. The sublease rental period begins in March 2011. The Company recorded a sublease loss amounting to \$373,000, related to the projected shortfall between the rent obligation under the original lease and the rental income to be received over the term of the sublease.

The sublease is expected to generate minimum lease income as follows:

In thousands of Canadian dollars	November 30,
2011	\$ 42
2012	56
2013	56
2014	56
2015	56
Thereafter	93
Total	\$ 359

In the ordinary course of business, the Company enters into standard contracts which include indemnification provisions. Indemnifications cover customers for losses suffered or incurred by them with respect to the Company's products or services. The maximum amount of indemnification the Company could be required to make under these agreements is generally limited to the contract value. The Company estimates the fair value of its indemnification obligation to be insignificant, based upon its history of litigation. Accordingly, the Company has no liabilities recorded for indemnification under these agreements as of November 30, 2010 and 2009.

In January 2010, a claim for breach of contract and wrongful dismissal was filed against the Company by a former employee of the Company. The Company believed the claim was without merit and the Company filed a counterclaim for breach of fiduciary obligations as an officer of the Company and contractual obligations

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under the former employee's Employment Agreement. In April 2010, a settlement was reached and this lawsuit was dismissed.

In the normal course of business activities, the Company may become subject to various legal actions. The Company generally contests these actions and believe that their resolution will not have a material adverse effect on our financial condition.

17 Income taxes

The Company is subject to Canadian federal, and British Columbia and Ontario provincial taxes in Canada. The Company is also subject to federal income taxes in the U.S., and state taxes in Pennsylvania, California, Virginia and Florida.

Income (loss) before income taxes consisted of the following:

In thousands of Canadian dollars	2010	2009
Canadian loss	\$ (3,574)	\$ (3,891)
U.S. earnings (loss)	4,581	(3,653)
	<u>\$ 1,007</u>	<u>\$ (7,544)</u>

Income tax (recovery) expense consisted of the following:

In thousands of Canadian dollars	2010	2009
Canadian income tax recovery	\$ (21)	\$ (1)
U.S. income tax expense (recovery)	1,138	(177)
	<u>\$ 1,117</u>	<u>\$ (178)</u>

The Company has non-capital losses for Canadian income tax purposes of approximately \$4,035,000 (2009 - \$3,574,000) which are available for carry forward to reduce future years' taxable income. These income tax losses expire as follows:

In thousands of Canadian dollars	2010	2009
2015	915	871
2026	296	263
2027	607	582
2028	374	264
2029	1,152	1,594
2030	691	-

The Company has net operating losses for U.S. income tax purposes of approximately \$nil (2009 - \$1,205,000), which are available for carry forward to reduce future years' taxable income. These income tax losses expire as follows:

In thousands of Canadian dollars	2010	2009
2028	-	608
2029	-	597

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The Company also has investment tax credits for Canadian income tax purposes of approximately \$4,589,000 (2009 - \$3,882,000), which can be used to offset future income taxes otherwise payable and expire as follows:

In thousands of Canadian dollars	2010	2009
2012	4	-
2013	71	-
2014	173	211
2015	215	215
2016	243	243
2017	284	284
2018	264	202
After 2018	3,335	2,727

The Company has capital losses for Canadian income tax purposes of approximately \$354,000 (2009 - \$354,000), which are available for carry forward to reduce future years' income from capital gains. These capital losses carry forward indefinitely.

The Company has un-deducted scientific research and experimental development expenses for Canadian income tax purposes of approximately \$12,814,000 (2009 - \$13,217,000), which are available for carry forward to reduce future years' income for tax purposes. These expenses carry forward indefinitely.

The net future tax consists of the following:

In thousands of Canadian dollars	2010	2009
Future tax assets		
Non-capital losses and other loss balances	\$ 1,075	\$ 1,418
Interest deduction carry-forwards	-	350
Scientific research and experimental development costs	3,203	3,304
Investment tax credits	3,682	3,107
Equipment and furnishings	75	126
Accrued operating expenses	230	139
Other	158	214
	<u>8,423</u>	<u>8,658</u>
Valuation allowance	(8,054)	(7,504)
Future tax assets	<u>369</u>	<u>1,154</u>
Future tax liabilities		
Intangible assets	144	-
Future tax liabilities	<u>144</u>	<u>-</u>
Net future tax assets	225	1,154
Less: current portion of future income tax assets	<u>101</u>	<u>1,041</u>
Net future tax assets – long term	<u>\$ 124</u>	<u>\$ 113</u>

The Company increased its valuation allowance in 2010 against future income tax assets to reflect the amount of the future tax benefit that was more likely than not to be realized. A valuation allowance continues to be provided against future income tax assets for which the more likely than not criteria of future realization has not been met. Although the Company believes that its tax estimates are reasonable, the ultimate tax

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determination involves significant judgment that could become subject to audit by tax authorities in the ordinary course of business.

A reconciliation of the combined Canadian federal and provincial income tax rate with the Company's effective income tax rate is as follows:

In thousands of Canadian dollars	2010	2009
Expected statutory rate	31.25%	33.04%
Expected income tax expense (recovery)	\$ 315	\$ (2,492)
Change in tax rates	(29)	297
Change in valuation allowance	551	1,253
Foreign tax differentials	537	20
Intercompany transactions	(537)	-
Investment tax credits and share issue cost adjustments	(449)	(318)
Income subject to tax not recorded in accounting income	928	161
Non-deductible goodwill impairment charge	-	1,330
Non-deductible expenses and other	(199)	(429)
Income tax expense (recovery)	\$ 1,117	\$ (178)

18 Segmented information

The Company operates in three segments: International Systems Operations, U.S. Systems 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. Accounting policies used by these segments are the same as those described in the significant accounting policies as disclosed in note 4.

In thousands of Canadian dollars	2010			
	International Systems Operations	U.S. Systems Operations	Corporate and Public Company Costs	Total
Revenue	\$ 5,123	\$ 8,378	\$ -	\$ 13,501
Gross profit	2,377	2,668	-	5,045
Technology Partnerships Canada	288	-	-	288
Interest expense	15	15	40	70
Amortization	193	167	25	385
Gain on sale of intellectual property	-	5,214	-	5,214
Income tax expense (recovery)	2	1,138	(23)	1,117
Net income (loss) from continuing operations	(1,144)	3,754	(2,720)	(110)
Equipment and furnishings expenditures	23	54	4	81
Intangible expenditures	176	19	-	195

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In thousands of Canadian dollars				2009
	International Systems Operations	U.S. Systems Operations	Corporate and Public Company Costs	Total
Revenue	\$ 6,726	\$ 12,510	\$ -	\$ 19,236
Gross profit	3,225	3,087	-	6,312
Technology Partnerships Canada	394	-	-	394
Interest expense	10	67	34	111
Amortization	220	255	31	506
Income tax expense (recovery)	-	(177)	(1)	(178)
Net loss from continuing operations	(1,283)	(3,101)	(2,982)	(7,366)
Equipment and furnishings expenditures	20	118	10	148
Intangible expenditures	-	24	-	24

In thousands of Canadian dollars				
	International Systems Operations	U.S. Systems Operations	Corporate and Public Company Costs	Total
Total assets employed				
As at November 30, 2010	\$ 4,621	\$ 7,321	\$ 569	\$ 12,511
As at November 30, 2009	\$ 4,636	\$ 8,448	\$ 236	\$ 13,320

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

In thousands of Canadian dollars		2010	2009
United States	\$	8,405	\$ 12,488
United Kingdom		2,244	1,746
Australia		899	2,381
Canada		544	914
Denmark		304	114
New Zealand		259	249
South Africa		172	-
Netherlands		168	1,134
Other		506	210
Total	\$	13,501	\$ 19,236

Approximately 54% of revenue for the year ended November 30, 2010 (2009 - 36%) is derived from the Company's three largest customers at 20%, 17%, and 17%, respectively (2009 - 14%, 13%, 9%). For the year ended November 30, 2010, the first and third largest customers are U.S. Systems operations customers, and the second largest customer is an International Systems operations customer. For the year ended November 30, 2009, the largest customer is a U.S. Systems operations customer, and the second and third largest customers are International Systems operations customers.

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

In thousands of Canadian dollars		November 30, 2010		
		Canada	U.S.	Total
Equipment and furnishings	\$	928	\$ 97	1,025
Intangible and other assets		242	72	314
Goodwill		-	4,198	4,198
Total	\$	1,170	\$ 4,367	5,537

In thousands of Canadian dollars		November 30, 2009		
		Canada	U.S.	Total
Equipment and furnishings	\$	993	\$ 203	1,196
Intangible and other assets		109	166	275
Goodwill		-	4,324	4,324
Total	\$	1,102	\$ 4,693	5,795

19 Financial instruments

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's cash, accounts receivable and its foreign exchange contracts. The Company provides credit to its customers in the normal course of its operations. The Company's credit risk review includes performing credit evaluations of the financial condition of significant customers. The Company's customers are, for the most part, national and international government clients and large public customers. A significant portion of the Company's accounts receivable is from long-time customers, and, at November 30, 2010, 67% (2009 – 64%) of its accounts receivable was with national and international government clients, and 25% (2009 – 26%) of its accounts receivable was with large international public companies. Due to the low risk nature of the government clients and large international public companies and a history of excellent collections, provisions for doubtful accounts are made on a customer-by-customer basis, based on ongoing customer discussions.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at November 30, 2010 was \$4,854,000 (2009 – \$4,212,000).

The aging of the trade accounts receivable at November 30 was:

In thousands of Canadian dollars		2010		2009	
Current	\$	1,890	\$	1,870	
Past due (61 - 90 days)		9		2	
Past due greater than 90 days		54		101	
	\$	1,953	\$	1,973	

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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.

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, future cash flows related to contracts denominated in a foreign currency, and net investment in the Company's U.S. subsidiaries. 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; 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 sheets 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 \$nil at November 30, 2010 (2009 – \$8,000). Changes in fair value of these contracts are recognized as gains or losses in the consolidated statement of operations.

The forward foreign exchange contracts primarily require the Company to purchase or sell certain foreign currencies for Canadian dollars at contractual rates. The Company had no outstanding forward foreign exchange contracts as at November 30, 2010.

At November 30, 2009, the Company had the following forward foreign exchange contracts:

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

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a total of \$6,000 (2009 – \$8,000). 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 year ended November 30, 2010 by a total of \$304,000 (2009 - \$385,000). A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would impact the reporting currency balance sheet values at November 30, 2010, with an offsetting loss (gain) of approximately \$582,000 (2009 – \$729,000) to other comprehensive income.

Interest rate risk

The Company is exposed to interest rate risk on its variable interest credit facility. A 1% increase (decrease) in the interest rate would have resulted in approximately \$6,000 increase (decrease) in the loss of the Company for the year ended November 30, 2010 (2009 – \$17,000).

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, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The Company has an accounts receivable factoring credit facility of \$2.0 million in Canada and a variable limit in the U.S. that is based on the outstanding accounts receivable of the U.S. operations. At November 30, 2010, the Company utilized \$325,000 (November 30, 2009 - \$nil) and U.S. \$nil (November 30, 2009 – U.S. \$227,000). As at November 30, 2009, the Company had an operating line of credit facility of \$1 million in Canada and had utilized \$860,000. All of the Company's financial liabilities, other than capital lease obligations and accrued sublease loss, 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 November 30, 2010 to the contractual maturity date. The amounts disclosed in this table are the contractual undiscounted cash flows. Balances within twelve months equal the carrying balance as the impact of discounting is not significant.

Payments due by period	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
In thousands of Canadian dollars					
Facility leases	\$ 2,342	\$ 650	\$ 873	\$ 447	\$ 372
Capital equipment leases	58	29	29	-	-
Operating equipment leases	55	21	25	9	-
Total contractual obligations	<u>\$ 2,455</u>	<u>\$ 700</u>	<u>\$ 927</u>	<u>\$ 456</u>	<u>\$ 372</u>

Fair values

a) Establishing fair value

The Company's financial instruments consist of cash, restricted cash, bank indebtedness, accounts receivable, accounts payable and accrued liabilities, factored advances payable, capital lease obligations and foreign exchange contracts. The carrying value of restricted cash, bank indebtedness, accounts receivable, and accounts payable and accrued liabilities, and factored advances payable 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 November 30, 2010 and 2009.

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The carrying amounts of each of the financial instruments are:

In thousands of Canadian dollars		2010		2009	
Held-for-trading					
Cash	\$	758	\$	315	
Restricted cash		574		-	
Forward contracts		-		(8)	
Loans and receivables					
Trade accounts receivable				1,97	
		1,953		3	
Other liabilities					
Bank indebtedness		-		(685)	
Factored advances payable		(325)		(240)	
Accounts payable and accrued liabilities				(2,86	
		(2,929)		8)	
Capital lease obligation		(53)		(122)	
Accrued sublease loss		(368)		-	

b) Fair-value hierarchy

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

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

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

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

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

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

In thousands of Canadian dollars		2010			
		Level 1	Level 2	Level 3	Total
Financial liabilities					
Forward foreign exchange contracts		-	-	-	-
Total financial liabilities	\$	-	-	-	-

In thousands of Canadian dollars		2009			
		Level 1	Level 2	Level 3	Total
Financial liabilities					
Forward foreign exchange contracts		-	8	-	8
Total financial liabilities	\$	-	8	-	8

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20 Capital structure management

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

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

There were no changes in the Company's approach to capital management during the period. Neither the Company nor any of its subsidiaries is subject to externally-imposed capital requirements other than those disclosed in note 12.

In thousands of Canadian dollars

	2010	2009
Bank indebtedness	\$ -	\$ 685
Factored advances payable	325	240
Capital lease obligation	53	122
Total debt	<u>378</u>	<u>1,047</u>
Total equity	9,823	9,963
Less accumulated other comprehensive loss	1,515	1,356
Net equity	<u>11,338</u>	<u>11,319</u>

21 Supplemental cash flow information

In thousands of Canadian dollars

	2010	2009
Cash paid during the year for interest	\$ 75	\$ 106
Cash paid during the year for income taxes	\$ 332	\$ 4
Cash received during the year for interest	\$ 11	\$ 8

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22 Assets held-for-sale and discontinued operations

During the third quarter of 2010, the Company engaged in a plan to sell its Mapping business unit to focus its activities in the maritime business. Subsequent to the year end, on January 31, 2011, the Company closed the sale of Mapping business unit for a selling price of \$1,150,000. As such, this business unit has been considered as an operation held for sale and presented as discontinued operations as at November 30, 2010. Assets and liabilities have been reclassified as assets held-for-sale and liabilities related to assets held for sale; and revenues and expenses related have been reclassified from continuing operations to discontinued operations for all reporting years. A loss of \$233,000 has been recorded based on the excess of the carrying value over the expected proceeds in the loss from operations.

The results of the discontinued operations are as follows:

In thousands of Canadian dollars

	2010	2009
Sales	\$ 4,227	\$ 3,758
Gross profit	1,111	1,141
Loss from operations	(72)	(345)
Net loss from discontinued operations	(72)	(345)
Basic and diluted net loss from discontinued operations per share	(0.00)	(0.01)

The assets and liabilities of the discontinued operations have been reclassified and are presented as assets held for sale and liabilities related to assets held for sale as follows:

In thousands of Canadian dollars

	2010	2009
Current assets	\$	\$
Cash	90	86
Accounts receivable	2,432	1,983
Prepaid expenses	9	8
Equipment and furnishings	206	277
Intangible and other assets	75	171
Current assets held-for-sale	\$ 2,812	\$ 2,525
Liabilities		
Accounts payable and accrued liabilities	\$ 1,190	\$ 938
Deferred rent	-	56
Unearned revenue	-	3
Current liabilities related to assets held-for-sale	\$ 1,190	\$ 997

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23 Restructuring charges

During fiscal year 2010, the Company reduced its headcount by 9 persons who were involved in production, sales and administration. The Company recorded a personnel restructuring charge of \$852,000 consisting of severance and certain other benefit costs for the year ended November 30, 2010.

In thousands of Canadian dollars

	International Systems Operations	U.S. Systems Operations	Corporate and Public Company Costs	Total
Balance beginning of year	\$ 330	\$ -	\$ 9	\$ 339
Accrual during the year	36	619	197	852
Payments during the year	(330)	(273)	(9)	(612)
Balance end of year	<u>\$ 36</u>	<u>\$ 346</u>	<u>\$ 197</u>	<u>\$ 579</u>

During fiscal year 2009, the Company reduced its headcount by 25 persons who were involved in production, engineering, sales, and administration. The Company recorded a personnel restructuring charge of \$652,000 consisting of severance and certain other benefit costs for the year ended November 30, 2009.

In thousands of Canadian dollars

	International Systems Operations	U.S. Systems Operations	Corporate and Public Company Costs	Total
Balance beginning of year	\$ -	\$ -	\$ -	\$ -
Accrual during the year	539	-	113	652
Payments during the year	(209)	-	(104)	(313)
Balance end of year	<u>\$ 330</u>	<u>\$ -</u>	<u>\$ 9</u>	<u>\$ 339</u>

24 Sale of soldier systems intellectual property

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

25 Sale of mapping operations

On January 31, 2011, the Company sold its Mapcon Mapping group of companies ("Mapcon") to a third-party, Aeroquest International, for a selling price of \$1.15 million. Mapcon provides LiDAR, photogrammetry and related geomatic services to customers in the North American marketplace. Mapcon consists of two entities: a Canadian sales, operations and project management team located in Burnaby, BC; and a United States sales team located in Salt Lake City, Utah.