OSI Geospatial Inc.

Consolidated Financial Statements
November 30, 2009 and 2008
(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, 2009 and 2008 and the consolidated statements of operations, comprehensive loss, shareholders' equity, 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, 2009 and 2008 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 24, 2010

OSI Geospatial Inc.

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

Consolidated Balance Sheets

As at November 30, 2009 and 2008

In thousands of Canadian dollars – (note 3a)	2009	2008
Assets		
Current assets		
Cash	$ 315	$ -
Accounts receivable and unbilled revenue (note 5)	5,880	11,183
Inventory (note 6)	1,139	1,407
Prepaid expenses and deposits	375	388
Current portion of future income tax asset (note 16)	1,041	338
	8,750	13,316
Deferred development costs	653	437
Future income tax asset (note 16)	113	823
Equipment and furnishings (note 7)	1,473	1,735
Intangible and other assets (note 8)	446	732
Goodwill (note 9)	4,324	10,269
	$ 15,759	$ 27,312
Liabilities		
Current liabilities		
Bank indebtedness (note 11)	$ 599	$ 2,015
Factored advances payable (note 11)	240	-
Accounts payable and accrued liabilities (note 10)	3,806	4,519
Income taxes payable	-	9
Unearned revenue	550	256
Current portion of deferred rent	41	41
Current portion of capital lease obligations (note 12)	68	88
	5,304	6,928
Deferred rent	260	347
Capital lease obligation (note 12)	54	156
Unearned revenue	178	290
	5,796	7,721
Commitments and contingencies (notes 14 and 15)		
Shareholders' Equity		
Issued and outstanding		
Class A, Series A preference shares (note 13b)	30	30
Class B, Series 2 preference shares (notes 13c and 13f)	5,383	5,731
Common shares	29,876	29,748
	35,289	35,509
Warrants (note 13d)	4,546	4,898
Contributed surplus	3,322	2,674
Accumulated deficit	(31,838)	(24,121)
Accumulated other comprehensive income (loss)	(1,356)	631
	9,963	19,591
	$ 15,759	$ 27,312

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, 2009 and 2008

In thousands of Canadian dollars, except share related data – (note 3a)	2009	2008
Revenue		
Maritime systems	$ 8,159	$ 12,396
Land and air systems	11,077	10,154
Mapping	3,758	4,312
	22,994	26,862
Cost of sales	15,541	17,077
Gross profit	7,453	9,785
Expenses (income)		
General and administrative	5,275	5,621
Sales and marketing	3,164	4,086
Engineering	872	1,179
Technology Partnerships Canada royalty (note 14)	394	562
Amortization	433	497
Interest expense	111	137
Interest income	(8)	(8)
Foreign exchange loss	(6)	74
Loss on disposal of equipment and furnishings	-	28
	10,235	12,176
Net loss before other items	(2,782)	(2,391)
Other items (expenses) recovery		
Goodwill impairment charge	(4,453)	-
Restructuring costs (note 21)	(652)	-
Net loss before income taxes	(7,887)	(2,391)
Future income tax recovery	(187)	(802)
Current income tax expense (recovery)	11	(220)
Income tax recovery (note 16)	(176)	(1,022)
Net loss	$ (7,711)	$ (1,369)
Net loss available to common shareholders (note 13f)	$ (8,315)	$ (1,994)
Loss per share (note 13f)		
Basic and diluted	$ (0.18)	$ (0.04)
Weighted average number of common shares outstanding (note 13f)		
Basic and diluted	47,250,113	46,956,439

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, 2009 and 2008

In thousands of Canadian dollars – (note 3a)	2009		2008	
	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	178,530	$ 5,731	178,530	$ 5,731
Class B preference shares converted to common shares (note 13c)	(10,840)	(348)	-	-
Balance at end of year	167,690	$ 5,383	178,530	$ 5,731
Common shares				
Balance at beginning of year	46,956,439	$ 29,748	46,956,439	$ 29,748
Exercise of stock options	75,000	14	-	-
Class B preference shares converted to common shares (note 13c)	637,645	114	-	-
Balance at end of year	47,669,084	$ 29,876	46,956,439	$ 29,748
Warrants				
Balance at beginning of year	15,175,067	$ 4,898	16,568,368	$ 5,560
Warrants expired (note 13d)	(2,780,000)	(352)	(1,393,301)	(662)
Balance at end of year	12,395,067	$ 4,546	15,175,067	$ 4,898
Contributed surplus				
Balance at beginning of year		$ 2,674		$ 1,991
Class B preference shares converted to common shares (note 13c)		234		-
Exercise of stock options		(4)		-
Warrants expired (note 13d)		352		662
Stock-based compensation		66		21
Balance at end of year		$ 3,322		$ 2,674
Accumulated deficit				
Balance at beginning of year		$ (24,121)		$ (22,420)
Dividends on Class B preference shares		(6)		(332)
Net loss for the year		(7,711)		(1,369)
Balance at end of year		$ (31,838)		$ (24,121)
Accumulated other comprehensive income				
Balance at beginning of year		$ 631		$ (2,009)
Unrealized (loss) gain on translating financial statements of self-sustaining foreign operations		(1,987)		2,640
Balance at end of year		$ (1,356)		$ 631
Total accumulated deficit and accumulated other comprehensive income		$ (33,194)		$ (23,490)
Total shareholders' equity		$ 9,963		$ 19,591

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, 2009 and 2008

In thousands of Canadian dollars – (note 3a)		2009		2008
Net loss	$	(7,711)	$	(1,369)
Unrealized (loss) gain on translation of self-sustaining foreign operations		(1,987)		2,640
Comprehensive (loss) gain for the year	$	(9,698)	$	1,271

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

OSI Geospatial Inc.

Consolidated Statements of Cash Flows

November 30, 2009 and 2008

In thousands of Canadian dollars – (note 3a)	2009	2008
Cash flows from (used in) operating activities		
Net loss for the year	$ (7,711)	$ (1,369)
Items not affecting cash		
Amortization	637	724
Loss on disposal of intangible assets and equipment and furnishings	-	28
Stock-based compensation	66	21
Goodwill impairment charge (note 9)	4,453	
Future income taxes	(187)	(802)
	(2,742)	(1,398)
Changes in non-cash working capital items		
Accounts receivable and unbilled revenue	4,785	2,797
Inventory	265	(181)
Prepaid expenses and deposits	(24)	165
Accounts payable and accrued liabilities	(496)	(1,315)
Income taxes payable	(16)	(157)
Unearned revenue	186	153
Deferred rent	(41)	(42)
	4,659	1,420
	1,917	22
Cash flows used in investing activities		
Development costs deferred	(237)	(294)
Additions to equipment and furnishings	(164)	(182)
Additions to intangible and other assets	(24)	(99)
	(425)	(575)
Cash flows from (used in) financing activities		
Advances from (repayments of) bank indebtedness	(1,361)	1,089
Factored advances payable	240	-
Repayment of capital lease obligations	(95)	(50)
Issuance of shares related to exercise of stock options	9	-
Class B preference share dividends declared and paid	(6)	(332)
	(1,213)	707
Effect of foreign exchange on cash balances	36	(154)
Increase in cash and cash equivalents	315	-
Cash and cash equivalents – beginning of year	-	-
Cash and cash equivalents – end of year	$ 315	$ -

Supplemental cash flow information (note 20)

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

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 2009 and 2008 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. The Company terminated the registration of its common shares in the United States ("U.S.") with the Securities and Exchange Commission during the fourth quarter ending November 30, 2008, and as a result the reconciliation of Canadian and U.S. generally accepted accounting principles note disclosure is no longer presented.

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 support the military and security requirements and mapping services that provide geospatial data production and consulting services. OSI Geospatial conducts its operations through three business units – International Systems, U.S. Systems and Mapping.

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 $31.8 million. The Company was also in breach of two banking covenants in the lending agreement with its Canadian bank, and its line of credit has been reduced by its Canadian bank. In October 2009, the Company replaced its US line of credit with accounts receivable factoring arrangement to support its US working capital requirements. As per note 23b, on February 1, 2010, the Company sold its soldier systems intellectual property for USD $6.5 million. The expected net proceeds after corporate income taxes are approximately USD $5.0 million with approximately USD $4.5 million paid in February 2010 and the balance to be paid in fiscal 2011. The net proceeds provide additional working capital for the Company and after the close of this transaction, the Company expects that its level of working capital should be sufficient to fund future operations for a period greater than 12 months.

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

These 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

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 and Exchange Commission and to adopt the 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. 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 Loss and Deficit	**For the year ended November 30, 2008**	
In thousands of dollars	As currently reported CAD	As previously reported USD
Revenue	$ 26,862	$ 25,498
Gross profit	9,785	9,208
Gross profit percentage	36%	36%
Net loss	(1,369)	(1,584)
Net loss attributable to common shareholders	(1,994)	(2,143)
Accumulated deficit, end of period	(24,121)	(18,486)

Consolidated Statements of Cash Flow	**For the year ended November 30, 2008**	
In thousands of dollars	As currently reported CAD	As previously reported USD
Cash flows provided by (used in):		
Operating activities	$ 22	$ 25
Investing activities	(575)	(579)
Financing activities	707	587
Effect of foreign exchange on cash	(154)	(33)

b) Changes in accounting policies

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

Inventories

The Canadian Institute of Chartered Accountants ("CICA") has issued Handbook section 3031, *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 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.

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.

Financial instruments

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.

In August 2009, the CICA amended CICA Handbook section 3855, *Financial Instruments – Recognition and Measurement,* which adds 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.

The Company also adopted the changes made by CICA to Section 3862, *Financial Instruments – Disclosures,* whereby an entity shall classify and disclose fair-value measurements using a fair-value hierarchy that reflects the significance of the inputs used in making the measurements. The fair-value hierarchy shall have 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 required disclosures are included in note 18.

c) Recent 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 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 these new sections for its fiscal year beginning December 1, 2011. The Company does not expect that the adoption of these new sections will have a material impact on its consolidated financial statements.

The CICA has issued EIC 175, *Multiple Deliverable Revenue Arrangements,* which addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. This abstract also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. EIC 175 applies to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. The Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements.

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

4 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. 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.

c) Use of 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, allowance for doubtful accounts, future income tax assets, stock-based compensation, valuation of warrants, valuation of goodwill, deferred development costs, valuation of intangibles, and asset impairments. 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-collectability 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.

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
Customer contracts	Straight line	33 – 100
Customer relationships	Straight line	10 – 25
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.

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 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 $4.5 million that was recorded in the consolidated financial statements (note 9).

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 10 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 of being 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 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, 2009 and 2008.

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.

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 13. 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.

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 Accounts receivable and unbilled revenue

In thousands of Canadian dollars – (note 3a)	November 30, 2009	November 30, 2008
Trade	$ 2,607	$ 6,907
Unbilled revenue	3,164	4,183
Other	119	103
Allowance for doubtful accounts	(10)	(10)
	$ 5,880	$ 11,183

As at November 30, 2009, government contract trade receivables were $1,619,000 (2008 - $3,286,000) and unbilled government contract revenues were $2,870,000 (2008 - $4,112,000)

6 Inventory

In thousands of Canadian dollars – (note 3a)	November 30, 2009	November 30, 2008
Materials and components	$ 806	$ 1,199
Work-in-process	150	170
Finished goods	183	134
Provision for inventory obsolescence	-	(96)
	$ 1,139	$ 1,407

The cost of finished goods and components inventories recognized as expense and included in cost of sales for the year ended November 30, 2009 was $1,987,000 (2008 - $2,527,000).

The inventory write-down included in cost of sales for the year ended November 30, 2009 was $34,000 (2008 - $nil).

7 Equipment and furnishings

In thousands of Canadian dollars – (note 3a)

	November 30, 2009		
	Cost	Accumulated Amortization	Net Book Value
Equipment and vehicles	$ 5,362	$ 4,543	$ 819
Furniture and fixtures	710	597	113
Leasehold improvements	776	235	541
	$ 6,848	$ 5,375	$ 1,473

In thousands of Canadian dollars – (note 3a)

	November 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Equipment and vehicles	$ 5,326	$ 4,368	$ 958
Furniture and fixtures	785	622	163
Leasehold improvements	784	170	614
	$ 6,895	$ 5,160	$ 1,735

At November 30, 2009, equipment and furnishings included assets financed by capital leases in the amount of $277,000 (2008 - $323,000) and accumulated amortization of $209,000 (2008 – $146,000).

8 Intangible and other assets

In thousands of Canadian dollars – (note 3a)

	November 30, 2009		
	Cost	Accumulated Amortization	Net Book Value
Computer software	$ 1,707	$ 1,452	$ 255
Customer relationships	170	110	60
Security clearance	292	195	97
Licenses and patents	86	52	34
	$ 2,255	$ 1,809	$ 446

In thousands of Canadian dollars – (note 3a)

	November 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Computer software	$ 1,777	$ 1,319	$ 458
Customer relationships	198	109	89
Security clearance	340	170	170
Licenses and patents	65	50	15
	$ 2,380	$ 1,648	$ 732

The aggregate amortization expense for intangible assets for the year ended November 30, 2009 was $287,000 (2008 - $343,000).

9 Goodwill

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

With the uncertain economic environment and the increasingly competitive land-based mapping market, the Company has concluded that a reduction in future forecasts for its Mapping operations was necessary. As a result, an indicator of impairment was present for the Company's Mapping business unit.

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 resulted in the requirement to establish 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 and Mapping operations, and, as part of step 2 of the goodwill test, determined that the carrying value of Goodwill of $8.8 million was partially impaired. This resulted in a non-cash impairment charge of $4.5 million that was recorded.

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

In thousands of Canadian dollars – (note 3a)

	For the year ended November 30, 2009		
	US Systems Operations	**Mapping Operations**	**Total**
Balance, beginning of year	$ 9,772	$ 497	$ 10,269
Impairment charge	(4,027)	(426)	(4,453)
Unrealized loss on translation of self-sustaining foreign operations	(1,421)	(71)	(1,492)
Balance, end of year	$ 4,324	$ -	$ 4,324

In thousands of Canadian dollars – (note 3a)

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

10 Accounts payable and accrued liabilities

In thousands of Canadian dollars – (note 3a)

	November 30, 2009	2008
Trade payables	$ 1,320	$ 1,814
Accrued employee compensation	1,048	835
Accrued employee benefits and payroll deductions	11	223
Accrued royalties (note 14)	765	675
Other accrued liabilities	662	972
	$ 3,806	$ 4,519

11 Credit facilities

Effective July 9, 2008, the Company moved its 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 November 30, 2009, the Company had total borrowing capacity under its Canadian operating line of credit of $1 million. 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 3.0% with interest payable monthly. The prime lending rate at November 30, 2009 was 2.25% (2008 – 5.00%). 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, and the nine months ended August 31, 2008, the year ended November 30, 2008, the three months ended February 28, 2009, the six months ended May 31, 2009, and the nine months ended August 31, 2009, the Company has not met the interest coverage ratio covenant for the year ended November 30, 2009. In addition, for the three months ended May 31, 2009, three months ended August 31, 2009, and three months ended November 30, 2009, the Company has not met the tangible net worth covenant. As at November 30, 2009, the Company has drawn on its operating line of credit in the amount of $860,000 (2008 - $1,490,000). For the periods ended May 31, 2008, August 31, 2008, November 30, 2008, February 28, 2009, and May 31, 2009, the Company received a waiver from the bank.

On November 30, 2009, the Company's Canadian bank notified the Company that it must operate within a line of credit limit of $1 million due to the Company's failure to remedy the covenant breaches discussed above. Subsequent to year end, the Company moved its Canadian credit facilities to another Canadian financial institution (see note 23d).

In 2008, the Company also had an operating line of credit of USD $1,200,000 with a U.S. chartered bank which bore interest at the bank's prime lending rate plus 0.5%. The prime lending rate at November 30, 2008, was 4.50%. As at November 30, 2008, the Company had drawn on its U.S. operating line of credit in the amount of USD $691,000. In May 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. In October 2009, the Company replaced this facility with an accounts receivable factoring arrangement with another U.S. financial institution.

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

charged under this agreement are servicing fee of 0.275% for the first 15 days, 0.293% after 15 days; and 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, 2009, the amount advanced under this facility was $240,000 (2008 – nil).

The Company utilizes letters of credit to back certain performance obligations with its customers. As of November 30, 2009, no letters of credit were issued, and as of November 30, 2008, there were two letters of credit issued.

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, 2009, our foreign exchange facility would enable the Company to enter into USD denominated forward foreign exchange contracts for approximately USD $9 million. This facility is insured through insurance solutions provided by Export Development Canada. As at November 30, 2009, the Company has drawn on its forward foreign exchange contract facility in the amount of $918,000 (2008 – $3,300,000). A foreign exchange loss on these contracts of $8,000 (2008 - $30,000) has been included in other liabilities.

12 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% (2008 – 4%).

Commitments in relation to capital leases are payable as follows:

In thousands of Canadian dollars – (note 3a)

	November 30, 2009	2008
Within one year	$ 77	$ 111
Later than one year but less than five years	60	175
Minimum lease payments	137	286
Future financing charges	(15)	(42)
Recognized as liability	122	244
Less: current portion	(68)	(88)
Long-term portion of capital lease obligation	$ 54	$ 156

Future minimum lease repayments required over the term of the leases at November 30, 2009 are as follows:

In thousands of Canadian dollars – (note 3a)

	November 30,
2010	$ 77
2011	30
2012	30

13 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 preference shares

The Company has 30,262 (November 30, 2008 – 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, 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.

d) Warrants

On February 12, 2008, 1,393,301 common share purchase warrants, which were valued at $662,000 using the Black-Scholes model, 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, which were valued at $352,000 using the Black-Scholes model, expired. Accordingly, the Company has reduced warrants by $352,000 with a corresponding increase to contributed surplus.

The following warrants are outstanding at November 30, 2009:

In Canadian dollars

Number of Warrants	Exercise Price	Weighted average remaining contractual life in years
12,395,067	$0.85	1.36

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 10 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 11,351,881 of which 4,766,908 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:

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding - beginning of year	3,433,166	$ 0.79	3,596,166	$ 0.80
Granted	1,275,000	0.26	-	-
Forfeited	(480,000)	0.74	(163,000)	0.89
Exercised	(75,000)	0.12	-	-
Outstanding - end of year	4,153,166	0.65	3,433,166	$ 0.79
Exercisable – end of year	3,686,492	0.71	3,422,402	$ 0.79

								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 – 1.02	2,203,166	0.85		0.90	2,203,166		0.90
$	0.13 – 1.02	4,153,166	0.95	$	0.65	3,686,492	$	0.71

								November 30, 2008
		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	-	-	$	-	-	$	-
	0.21 – 0.30	-	-		-	-		-
	0.31 – 0.45	-	-		-	-		-
	0.46 – 0.68	980,000	3.71		0.53	969,236		0.52
	0.69 – 1.02	2,453,166	1.85		0.90	2,453,166		0.90
$	0.13 – 1.02	3,433,166	2.37	$	0.79	3,422,402	$	0.79

Stock-based compensation

For the year ended November 30, 2009, the Company incurred non-cash stock-based compensation expense of $66,000 (2008 - $21,000). 1,275,000 options were granted during the year ended November 30, 2009 (2008 - nil). Of the options granted in the year ended November 30, 2009, 809,000 options 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.

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

	2009	2008
Risk-free interest rate	2.45%	N/A
Expected volatility	66%	N/A
Estimated average option lives	5 years	N/A
Dividend yield	0.0%	N/A

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 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.

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.

f) Loss per share

In thousands of Canadian dollars, except share related data	For the year ended November 30,	
Loss per share – basic	**2009**	**2008**
Net loss	$ (7,711)	$ (1,369)
Less:		
Class B Series 2 preference share dividends (*A)	(604)	(625)
Net loss attributable to common shareholders	$ (8,315)	$ (1,994)
Weighted average number of common shares outstanding – basic	47,250,113	46,956,439
Loss per share – basic	$ (0.18)	$ (0.04)

(*A) Dividends of $604,000 (2008 - $625,000) are included which represent the dividends earned by the shareholders of Class B Series 2 cumulative preference shares. As at November 30, 2009, there were $1,219,000 (2008 - $621,000) 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,	
Loss per share – diluted	**2009**	**2008**
Net loss	$ (7,711)	$ (1,369)
Less:		
Class B Series 2 preference share dividends (*A)	(604)	(625)
Net loss attributable to common shareholders	$ (8,315)	$ (1,994)
Weighted average number of common shares outstanding	47,250,113	46,956,439
Dilutive effect of Class A preference shares – Series A (*1)	-	-
Dilutive effect of Class B preference shares – Series 2 (*1)	-	-
Dilutive effect of warrants (*1)	-	-
Dilutive effect of stock options (*1)	-	-
Adjusted weighted average number of common shares outstanding	47,250,113	46,956,439
Loss per share – diluted	$ (0.18)	$ (0.04)

(*A) Dividends of $604,000 (2008 - $625,000) are included which represent the dividends earned by the shareholders of Class B Series 2 cumulative preference shares. As at November 30, 2009, there were $1,219,000 (2008 - $621,000) of dividends in arrears for the Class B Series 2 cumulative preference shares.

(*1) 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, 2009 and 2008.

14 Royalties to Technology Partnerships Canada

The Company is required to pay a royalty of 1.4% on annual gross revenue of its subsidiary, Offshore Systems Ltd., for the period January 1, 2006 to December 31, 2008; and a royalty of 2.5% on annual gross revenue in Offshore Systems Ltd. for the period January 1, 2009 to December 31, 2013. The Company commenced payment of these royalties effective February 2007. The Company has paid royalties of $407,000 to date (2008 – $241,000) and has accrued royalties of $326,000 at November 30, 2009 (November 30, 2008 - $314,000). 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, 2009, the royalties in arrears included in the accrued royalties amounted to $149,000 (2008 - $146,000).

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 $2,220,000 to date (2008 – $2,085,000) and has accrued royalties of $439,000 at November 30, 2009 (November 30, 2008 - $361,000). 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, 2009, the royalties in arrears included in the accrued royalties amounted to $222,000 (2008 - nil).

Technology Partnerships Canada royalties paid and accrued are as follows:

In thousands of Canadian dollars – (note 3a)	For the year ended November 30,	
	2009	**2008**
Royalties paid	$ 301	$ 448
Accrued royalties - current	$ 765	$ 675

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.

15 Commitments and contingencies

The Company has entered into a guarantee agreement for one of the Company's subsidiaries, CHI Systems, Inc. ("CHI"). The Company has guaranteed CHI's accounts receivable factoring facility with a U.S. financial institution. At November 30, 2009, the carrying amount of CHI's factored advances payable was $240,000 (2008 – nil).

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 In thousands of Canadian dollars – (note 3a)	**Total**	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**After 5 years**
Facility leases	$ 3,119	$ 740	$ 1,210	$ 574	$ 595
Equipment leases	53	34	19	-	
Total contractual obligations	$ 3,172	$ 774	$ 1,228	$ 574	$ 595

For the fiscal year ended November 30, 2009, the Company paid basic rent of $1,043,000 (2008 - $967,000). In addition to basic rent, the Company is required to pay a portion of certain costs and property taxes for the above commitments. In 2009, the Company paid $92,000 (2008 - $94,000) for these costs.

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, 2009 and 2008.

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

16 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, Utah, California, Virginia and Florida.

Loss before income taxes consisted of the following:

In thousands of Canadian dollars – (note 3a)		2009		2008
Canadian earnings (loss)	$	(2,204)	$	650
U.S. loss		(5,683)		(3,041)
	$	(7,887)	$	(2,391)

Income tax (recovery) expense consisted of the following:

In thousands of Canadian dollars – (note 3a)		2009		2008
Canadian income tax expense	$	(1)	$	77
U.S. income tax recovery		(175)		(1,099)
	$	(176)	$	(1,022)

The Company has non-capital losses for Canadian income tax purposes of approximately $4,846,000 (2008 - $3,305,000) which are available for carry forward to reduce future years' taxable income. These income tax losses expire as follows:

In thousands of Canadian dollars – (note 3a)		2009		2008
2014	$	-	$	222
2015		1,431		1,431
2026		889		889
2027		668		499
2028		264		264
2029		1,594		-

The Company has net operating losses for U.S. income tax purposes of approximately $3,302,000 (2008 - $4,039,000), which are available for carry forward to reduce future years' taxable income. These income tax losses expire as follows:

In thousands of Canadian dollars – (note 3a)		2009		2008
2020	$	200	$	232
2021		29		34
2024		115		134
2026		348		405
2027		392		457
2028		1,040		2,777
2029		1,178		-

The Company also has investment tax credits for Canadian income tax purposes of approximately $3,882,000 (2008 - $3,020,000), which can be used to offset future income taxes otherwise payable and expire as follows:

In thousands of Canadian dollars – (note 3a)	2009	2008
2011	$ -	$ 146
2012	-	128
2013	326	199
2014	523	485
2015	601	601
2016	243	243
2017	284	146
2026	378	378
2027	511	263
2028	566	431
2029	450	-

The Company has capital losses for Canadian income tax purposes of approximately $354,000 (2008 - $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 $13,217,000 (2008- $10,563,000), 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 – (note 3a)	2009	2008
Future tax assets		
Non-capital losses and other loss balances	$ 2,570	$ 2,571
Interest deduction carry-forwards	350	530
Scientific research and experimental development costs	3,304	2,746
Investment tax credits	3,107	2,385
Equipment and furnishings	331	519
Accrued operating expenses	162	176
Other	215	209
	10,039	9,136
Valuation allowance	(8,840)	(7,826)
Future tax assets	1,199	1,310
Future tax liabilities		
Deferred development costs	-	61
Intangible assets	45	59
Equipment and furnishings	-	29
Future tax liabilities	45	149
Net future tax assets	1,154	1,161
Less: current portion	1,041	338
Net future tax assets – long term	$ 113	$ 823

The Company increased its valuation allowance in 2009 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 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 – (note 3a)	2009	2008
Expected statutory rate	33.04%	33.72%
Expected recovery for income taxes	$ (2,605)	$ (806)
Change in tax rates	319	595
Change in valuation allowance	1,017	11
Foreign tax differentials	(36)	(207)
Foreign exchange effect	140	(161)
Investment tax credits and share issue cost adjustments	(318)	(457)
Withholding taxes	(8)	89
Non-deductible goodwill impairment charge	1,471	-
Non-deductible expenses and other	(156)	(86)
Income tax expense (recovery)	$ (176)	$ (1,022)

17 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. 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 – (note 3a)					2009
	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	$ 6,726	$ 12,510	$ 3,758	$ -	$ 22,994
Gross profit	3,225	3,087	1,141	-	7,453
Technology Partnerships Canada	394	-	-	-	394
Interest expense	10	67	-	34	111
Income tax expense (recovery)	-	(177)	2	(1)	(176)
Amortization	220	255	131	31	637
Net earnings (loss)	(1,283)	(3,101)	(345)	(2,982)	(7,711)
Equipment and furnishings	20	118	16	10	164
Intangible expenditures	-	24	-	-	24

In thousands of Canadian dollars – (note 3a) **2008**

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	$ 10,885	$ 11,665	$ 4,312	$ -	$ 26,862
Gross profit	5,480	3,179	1,126	-	9,785
Technology Partnerships Canada	562	-	-	-	562
Interest expense	-	77	-	60	137
Income tax expense (recovery)	-	(1,110)	-	88	(1,022)
Amortization	260	278	169	17	724
Net earnings (loss)	562	1,406	(231)	(3,106)	(1,369)
Equipment and furnishings	90	68	9	15	182
Intangible expenditures	4	49	3	43	99

In thousands of Canadian dollars – (note 3a)

Total assets employed	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
As at November 30, 2009	$ 4,636	$ 8,448	2,439	$ 236	$ 15,759
As at November 30, 2008	$ 8,398	$ 14,781	$ 3,976	$ 157	$ 27,312

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

In thousands of Canadian dollars – (note 3a)

	2009	2008
United States	$ 13,955	$ 12,719
Canada	3,205	3,581
Australia	2,381	3,813
United Kingdom	1,746	3,822
Netherlands	1,134	-
New Zealand	249	530
Denmark	114	410
Germany	97	372
Brazil	-	981
Other	113	634
Total	$ 22,994	$ 26,862

Approximately 30% of revenue for the year ended November 30, 2009 (2008 - 35%) is derived from the Company's three largest customers at 12%, 10%, and 8%, respectively (2008 - 14%, 13%, 8%). 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. For the year ended November 30, 2008, the two largest customers are International Systems operations customers, and the third largest customer is a U.S. Systems operations customer.

Geographically, equipment and furnishings and intangible and other assets are reported based on location. At November 30, 2009 and 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 – (note 3a)			**November 30, 2009**
	Canada	**U.S.**	**Total**
Equipment and furnishings	$ 1,215	$ 258	$ 1,473
Intangible and other assets	168	278	446
Goodwill	-	4,324	4,324
Total	$ 1,383	$ 4,860	$ 6,243

In thousands of Canadian dollars – (note 3a)			**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	$ 1,676	$ 11,060	$ 12,736

18 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, 2009, 62% (2008 – 48%) of its accounts receivable was with national and international government clients, and 20% (2008 – 39%) 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, 2009 was $6,195,000 (2008 – $11,183,000) as disclosed in note 5.

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

In thousands of Canadian dollars (- (note 3a)		
	2009	**2008**
Current	$ 2,401	$ 6,128
Past due (61 - 90 days)	33	506
Past due greater than 90 days	173	273
	$ 2,607	$ 6,907

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 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 $8,000 at November 30, 2009 (2008 – $30,000). 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 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)
					(8)

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
					(30)

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 a total of $5,000 (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 year ended November 30, 2009 by a total of $51,000 (2008 - $32,000). A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would impact the reporting currency balance sheet values at November 30, 2009, with an offsetting loss (gain) of approximately $1,183,000 (2008 – $864,000) to other comprehensive income.

Interest rate risk

The Company is exposed to interest rate risk on its operating line of credit. A 1% increase (decrease) in the interest rate would have resulted in approximately $17,000 increase (decrease) in the loss of the Company for the year ended November 30, 2009 (2008 – $16,000).

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 operating lines of credit of $1 million and a variable limit that is based on the outstanding accounts receivable of the U.S. operations. At November 30, 2009, the Company utilized $860,000 (2008 - $1,500,000) and USD $227,000 (2008 – USD $691,000) of its lines of credit. Subsequent to year end, the Company moved its Canadian credit facilities to another Canadian financial institution (see note 23d). 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 November 30, 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.

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 - (note 3a)					
Facility leases	$ 3,119	$ 740	$ 1,210	$ 574	$ 595
Capital equipment leases	137	77	60	-	-
Operating equipment leases	53	34	19	-	-
Total contractual obligations	$ 3,309	$ 851	$ 1,289	$ 574	$ 595

Fair values

a) Establishing fair value

The Company's financial instruments consist of cash, bank indebtedness, accounts receivable, and accounts payable and accrued liabilities, factored advances payable, capital lease obligations and foreign exchange contracts. The carrying value of 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, 2009 and 2008.

The carrying amounts of each of the financial instruments are:

In thousands of Canadian dollars – (note 3a)	2009	2008
Held for trading	$	
Cash	315	-
Forward contracts	(8)	(30)
Loans and receivables		
Trade accounts receivable	2,607	6,908
Other liabilities		
Bank indebtedness	(599)	(2,015)
Factored advances payable	(240)	-
Accounts payable and accrued liabilities	(3,806)	(4,519)
Capital lease obligation	(122)	(244)

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

In thousands of Canadian dollars – (note 3a)				**2009**
	Level 1	**Level 2**	**Level 3**	**Total**
Financial liabilities				
Forward foreign exchange contracts	-	8	-	8
Total financial liabilities	$ -	$ 8	$ -	$ 8

19 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 11.

In thousands of Canadian dollars (- (note 3a)	**2009**	**2008**
Bank indebtedness	$ 599	$ 2,015
Factored advances payable	240	-
Capital lease obligation	122	244
Total debt	961	2,259
Total equity	9,963	19,591
Less accumulated other comprehensive (income) loss	1,356	(631)
Net equity	11,319	18,960

20 Supplemental cash flow information

In thousands of Canadian dollars – (note 3a)	2009	2008
Cash paid during the year for interest	$ 106	$ 142
Cash paid during the year for income taxes	$ 5	$ -
Cash received during the year for interest	$ 8	$ 8

21 Restructuring charges

During the 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 (2008 – nil) consisting of severance and certain other benefit costs.

In thousands of Canadian dollars – (note 3a)					2009
	International Systems Operations	U.S. Systems Operations	Mapping 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	$ 330	$ -	$ -	$ 9	$ 339

22 Change in accounting estimate

During the second quarter ending May 31, 2008, management with the input of the Company's independent tax advisors performed an in-depth tax planning policy review and undertook a complete review of the Company's current tax methodology. Based on this review, revisions to the Company's tax policies were implemented in the second quarter ending May 31, 2008. This resulted in a tax recovery in the amount of $345,000 during the second quarter ending May 31, 2008.

23 Subsequent events

a) Dividends

On January 8, 2010, the Board of Directors declared the semi-annual dividend of $3,000 (December 1, 2008 - $3,000) on the Class B Preference Shares – Series 2.

b) Sale of soldier systems intellectual property

On February 1, 2010, the Company announced that its U.S. Systems Operations signed a contract valued at USD $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 expected net proceeds after corporate income taxes are approximately $5.0 million.

c) Stock options

On January 8, 2010, 510,333 stock options were surrendered by certain employees of the Company. The average exercise price of these options was $0.91 and they have expiry dates between April and November 2010. On February 8, 2010, 525,000 options were granted to certain other employees with an exercise price of $0.23 with 175,000 options vested immediately; 175,000 will vest over one year; and 175,000 will vest over two years from the grant date.

d) Credit facilities

In January 2010, the Company entered into accounts receivable factoring arrangements with a Canadian financial institution. 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 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.

e) Contingency

In January 2010, a claim for breach of contract and wrongful dismissal was filed against the Company by a former employee of the Company. The Company believes the claim is without merit and the Company has filed a counterclaim for breach of fiduciary obligations as an officer of the Company and contractual obligations under the former employee's Employment Agreement. The final outcome with respect to this claim and counterclaim cannot be predicted with certainty and no amount has been accrued in the financial statements.