



MANAGEMENT'S DISCUSSION AND ANALYSIS

for the year ended November 30, 2010

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

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

MANAGEMENT'S DISCUSSION AND ANALYSIS of Financial Condition and Results of Operations

The following discussion and analysis provides a review of activities, results of operations, and financial condition of OSI Geospatial Inc. for the fiscal year and fourth quarter ended November 30, 2010, in comparison with those for the fiscal year and fourth quarter ended November 30, 2009. References to "OSI Geospatial", "the Company", "we", "us", and "our" refer to OSI Geospatial Inc. and its subsidiaries, as applicable. The following discussion should be read in conjunction with our audited annual consolidated financial statements prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"), including the notes thereto, for the fiscal year ended November 30, 2010.

All references in this report to financial information, excluding backlog and working capital, concerning OSI Geospatial Inc. are in accordance with Canadian GAAP and all dollar amounts are in Canadian dollars unless otherwise indicated.

This report contains forward-looking statements within the meaning of the Ontario Securities Act including Section 138.4(9), and includes statements regarding the future achievement of corporate objectives, advancement of additional project interests, analysis and development of acquisition opportunities, various project interests, and other matters. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, or performance or achievements expressed in or implied by these forward-looking statements. These risks include risks related to the effects of general economic conditions, changing foreign exchange rates, actions by government authorities, uncertainties associated with contract negotiations, and industry supply, as well as other factors discussed below and those risks which are discussed under the heading "Risks and Uncertainties". Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

ECPINS® and COP-IDS™ are registered trademarks of Offshore Systems Ltd., an OSI Geospatial company. iGEN™ is a registered trademark of CHI Systems Inc., an OSI Geospatial company. Other Company brand, product and service names are for identification purposes only and may be either trademarks, service marks or registered trademarks of their respective owners. Data subject to change without notice.

Additional information relating to OSI Geospatial, including our Annual Information Form, is filed on SEDAR at www.sedar.com and is also available on the Company's investor web site at www.osigeospatial.com.

This management's discussion and analysis is dated February 17, 2011.

© 2011 OSI Geospatial Inc. and its affiliated or related companies.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

Overview

Founded in 1977, the Company is a leader in providing real-time situational awareness solutions. The Company delivers products and services to the large and fast-growing defence and security markets. Our systems address critical issues - namely the need for enhanced real-time situational awareness and network-enabled operations. In the changing face of war where interoperability between forces and allies is critical, OSI Geospatial provides essential tactical, strategic, and operational information to help aid decision making, improve efficiency, and provide real-time access to all available information.

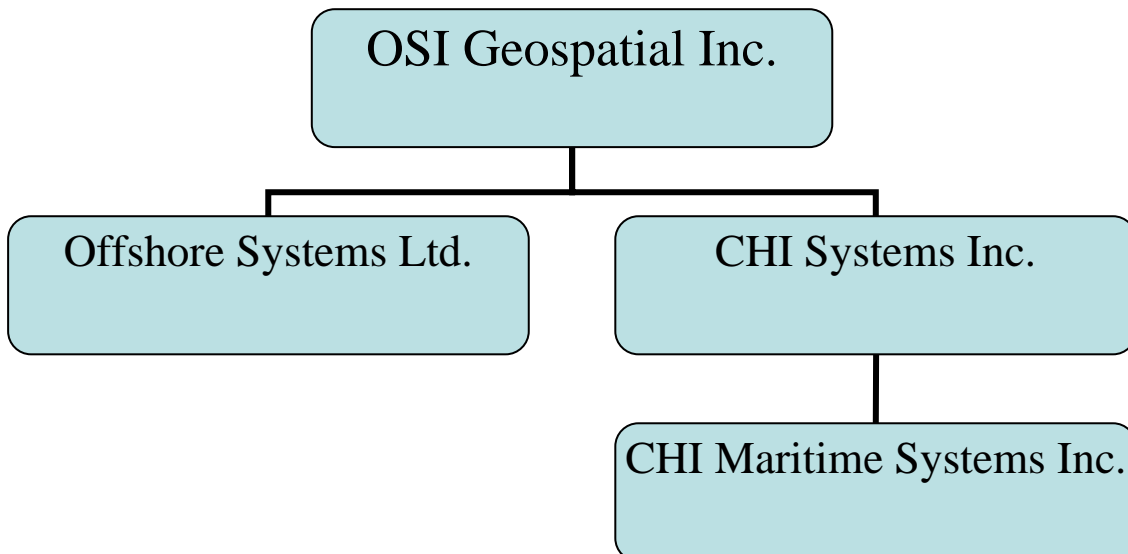
Headquartered in Burnaby, British Columbia, the Company is a globally-focused organization with offices across North America and a sales office in the United Kingdom. The Company became a public company in 1990, and is currently listed on the Toronto Stock Exchange (symbol: OSI).

During the third quarter of 2010, the Company engaged in a plan to sell its Mapping division to focus its activities in the maritime and advanced technology businesses. On January 31, 2011, the Company closed the sale of Mapping division for a selling price of \$1,150,000. As such, this division has been considered as an operation held for sale and presented as discontinued operations. Assets and liabilities have been reclassified as assets held for sale and liabilities related to assets held for sale; and revenues and expenses related have been reclassified from continuing operations to discontinued operations for all reporting years. The Mapping division included the operations of Mapcon Mapping Ltd. and Mapcon Mapping Inc.

In December 2005, the Company completed the acquisition of CHI Systems Inc. ("CHI"), a United States defence contractor. CHI has four offices in the United States, and is a supplier of technology and services to the U.S. Department of Defense and key defence prime contractors. CHI has developed command and control, training simulation, and cognitive agent applications to support its customers in multiple U.S. military agencies.

In April 2007, the Company, through its subsidiary CHI Systems Inc., acquired the assets of Liddy International Inc., a United States defence and security consultancy company, and has established a new subsidiary, CHI Maritime Systems Inc. (formerly Layered Security Solutions Inc.) ("CMS"). The Company's CMS subsidiary is primarily focused on developing the U.S. homeland security market.

The Company's current corporate structure is presented in the chart below.



OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

Our mission is to provide integrated navigational and tactical solutions that enhance the operational capabilities, security, and safety for our customers. Our customers include the United States Navy, Army, Coast Guard, and Department of Homeland Security; the Canadian Navy and Coast Guard; the UK Royal Navy; and other NATO allies around the world. The Company is leveraging its world-leading technologies, such as ECPINS® and iGEN™, to grow its market share, expand its customer base, and enter into adjacent markets. We will also continue to partner with the world's largest defence and security contractors, such as Lockheed Martin, BAE Systems, Northrop Grumman, L-3 Communications, General Dynamics, and Raytheon. As we successfully integrate our technology into the solution provided by the large defence systems integrators, we will significantly increase our reach into the defence and security markets around the world.

Our Company delivers integrated navigational 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, the Company provides advanced technology research and development engineering services in support of the military and security requirements.

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

SELECTED DATA

The following tables contain financial information that is derived from the audited consolidated financial statements for the years ended November 30, 2010 and 2009.

Operations:	For the Year Ended November 30	
In thousands of Canadian dollars, except per share related data	2010	2009
	\$	\$
Revenue	13,501	19,236
Gross profit	5,045	6,312
Gross profit percentage	37%	33%
Net loss from continuing operations	(110)	(7,366)
Net loss from discontinued operations	(72)	(345)
Net loss	(182)	(7,711)
Net loss available to common shareholders	(540)	(8,315)
Basic and diluted loss per share		
Continuing operations	(0.01)	(0.17)
Discontinued operations	(0.00)	(0.01)
Net loss	(0.01)	(0.18)
Weighted average common shares outstanding – basic and diluted	51,513,586	47,250,113
<u>Dividends declared per share</u>		
Class A Preference Shares – Series A	–	–
Class B Preference Shares – Series 2	\$0.04	\$0.04
Common Shares	–	–

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

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

We depend heavily on government contracts and derive a significant amount of revenue from a few customers, which may result in varying revenue, gross profit, and earnings. Some of our government customers have cyclical purchasing patterns which can also impact our quarterly and annual results.

The decrease in revenue for the year ended November 30, 2010, as compared to the year ended November 30, 2009, is largely due to the delivery schedules of existing contracts and the timing of new contracts that are awarded.

The lower gross profit for the year ended November 30, 2010, as compared to the year ended November 30, 2009, is largely due to the decrease in revenue in the International Systems and U.S. Systems operations, the mix of revenue, and the level of fixed costs included in the cost of sales across all operating units.

The increase in the gross profit percentage is due to an increase in higher-margin software revenue and a decrease in lower-margin hardware and systems revenue generated by International Systems and U.S. Systems operations.

Fluctuations in gross profit are influenced by the proportion of engineering labour, third-party systems, or third-party labour, or portions of all three required for a project; and a high proportion of these factors can result in increased cost of sales and therefore lower gross profit. Certain contracts awarded may require the inclusion of engineering labour, third-party systems, or third-party labour. In order to maintain competitiveness on these contracts, we may elect to reduce our usual margins on the third-party components.

The Company's sales strategy focuses on markets such as a military command and control, homeland security, and maritime defence that to date experienced curtailments in budgets and delays in spending. These changes have impacted the Company's customers and, as a result, the Company experienced delays in the execution of current projects, awarding of new contracts and releasing of competitive requests for proposals, and reductions in the value of some sales opportunities which the Company has been pursuing.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

Financial Position:

For the Year Ended November 30

In thousands of Canadian dollars	2010	2009
	\$	\$
Working capital ⁽¹⁾	4,096	3,845
Current assets	9,050	9,284
Long term assets	6,273	6,561
Total assets	15,323	15,845
Current liabilities	4,954	5,439
Long term liabilities	546	443
Total liabilities	5,500	5,882
Shareholders' equity	9,823	9,963

(1) Working capital is defined as current assets less current liabilities. Working capital does not have a standardized meaning or comparable measure under generally accepted accounting principles and may not be comparable to similar measures presented by other companies.

On February 1, 2010, the Company's U.S. Systems Operations signed a contract valued at USD \$6.5 million with Harris Corporation ("Harris"). Under the terms of this contract, the Company 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. The net cash proceeds after corporate income taxes were approximately USD \$5.5 million. The net proceeds provided additional working capital for the Company.

RESULTS OF CONTINUING OPERATIONS – November 30, 2010, compared to November 30, 2009

Overall Performance

In thousands of Canadian dollars,
except share related data

	2010	2009	2010 to 2009
Net income (loss) before income taxes	\$ 1,007	\$ (7,544)	\$ 8,551
Net loss	\$ (110)	\$ (7,366)	\$ 7,256
Net loss available to common shareholders	\$ (540)	\$ (8,315)	\$ 7,775
Loss per share – basic and diluted	\$ (0.01)	\$ (0.18)	\$ 0.17

The net loss reported in the year ended November 30, 2010, was largely driven by the lower gross profit and higher income tax expense, offset by the gain on sale of intellectual property and lower operating expenses.

Backlog

Firm backlog consists of firm, fixed, or signed orders issued and executable subsequent to the balance sheet date. Firm backlog as at November 30, 2010, was \$28 million compared to \$43 million at November 30, 2009. Of the \$28 million firm backlog, \$5 million is expected to be executed in fiscal 2011 and \$23 million is expected to be executed in fiscal year 2012 and beyond. The decrease in backlog is mainly due to contracts related to the soldier systems intellectual property that was sold on February 1, 2010. Although these contracts are still valid, the Company does not expect to generate revenue from these contracts as the technology is no longer available to the Company.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

Firm backlog is a non-GAAP measure. This measure does not have a standardized meaning or comparable GAAP measure and is likely not comparable to similar measures presented by other companies and cannot be reconciled to any GAAP measurements. The Company discloses this non-GAAP measure as we believe it provides more insight into our performance, specifically regarding revenue available for periods subsequent to November 30, 2010.

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

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

Revenue

In thousands of Canadian dollars	2010	% of total revenue	2009	% of total revenue	2010 to 2009
Maritime navigation and tactical solutions	\$ 6,059	45%	\$ 9,562	50%	\$ (3,503)
Advanced technology research and development	7,442	55%	9,674	50%	(2,232)
	<u>\$ 13,501</u>	<u>100%</u>	<u>\$ 19,236</u>	<u>100%</u>	<u>\$ (5,735)</u>

Our core revenue stream is derived from two sources: Maritime navigation and tactical solutions, and advanced technology research and development. In maritime navigation and tactical solutions, our principal-developed product line, ECPINS®, delivers the majority of the maritime navigation and tactical solutions revenue. We also derive revenue from the delivery of the ECPINS® software component of our system product. Maritime navigation and tactical solutions delivered 45% and 50% of the revenue for the years ended November 30, 2010 and 2009, respectively. Our advanced technology research and development through our U.S. Systems operations delivered 55% and 50% of the revenue for the years ended November 30, 2010 and 2009, respectively.

Our results are primarily affected by the level, timing, and duration of customer orders and customer product delivery requirements. The main customers in fiscal 2010 were the U.S. Army, the Royal Navy of the United Kingdom, and the U.S. Defence Advanced Research Projects Agency. Revenue from these customers accounted for 54% of the consolidated revenue. The main customers in fiscal 2009 were the U.S. Army, the Royal Australian Navy, and the Royal Navy of the United Kingdom. Revenue from these customers accounted for 36% of the consolidated revenue.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

Revenue by Segment

In thousands of Canadian dollars	2010	% of total revenue	2009	% of total revenue	2010 to 2009
International Systems operations	\$ 5,123	38%	\$ 6,726	35%	\$ (1,603)
U.S. Systems operations	8,378	62%	12,510	65%	(4,132)
	\$ 13,501	100%	\$ 19,236	100%	\$ (5,735)

Revenue from International Systems operations for the year ended November 30, 2010, decreased by 24% as compared to the year ended November 30, 2009, due to a decline in the number and dollar value of new contracts awarded and the delivery schedules of existing contracts.

Revenue from U.S. Systems operations for the year ended November 30, 2010, decreased by 33% as compared to the year ended November 30, 2009. The decrease is mainly due to the delay in receiving funding for certain contracts and the delivery schedules of existing contracts.

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

Gross Profit

In thousands of Canadian dollars	2010	2009	2010 to 2009
Gross profit	\$ 5,045	\$ 6,312	\$ (1,267)
Gross profit percentage	37%	33%	4%

Gross profit decreased by 20% in the year ended November 30, 2010, compared to the year ended November 30, 2009, and the gross profit percentage was 4% higher period-over-period. The reduced gross profit is due lower revenue during the current year. The increase in gross profit percentage compared to the prior fiscal year is due to the mix of contracts in the period with less revenue derived from projects that included third party system and services, and the level of fixed costs included in cost of sales across all operating units.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

Gross Profit by Segment

In thousands of Canadian dollars	2010	2009	2010 to 2009
Gross profit:			
International Systems operations	\$ 2,377	\$ 3,225	\$ (848)
U.S. Systems operations	2,668	3,087	(419)
Consolidated operations	<u>\$ 5,045</u>	<u>\$ 6,312</u>	<u>\$ (1,267)</u>
Gross profit percentage:			
International Systems operations	46%	48%	(2%)
U.S. Systems operations	32%	25%	7%
Consolidated operations	<u>37%</u>	<u>33%</u>	<u>4%</u>

Gross profit from the International Systems operations for the year ended November 30, 2010 decreased by 26% and gross profit percentage was 2% lower when compared to the prior year. The decrease in fiscal 2010 is mainly the result of lower revenues in the International Systems operations. The lower gross profit percentage for the year ended November 30, 2010, is the result of lower software sales and higher systems and services sales compared to the prior year.

Gross profit from the U.S. Systems operations for the year ended November 30, 2010, decreased by 14% and gross profit percentage was 7% higher when compared to the prior year. The decrease in gross profit is due to lower revenue as a result of delay in receiving funding for certain. The increase in gross profit percentage is primarily the result of a lesser proportion of low-margin engineering services and equipment revenues and a higher portion of software and systems sales when compared to the same period last year.

Operating Expenses

In thousands of Canadian dollars	2010	% of total revenue	2009	% of total revenue	2010 to 2009
General and administrative	\$ 4,461	33%	\$ 4,640	24%	\$ (179)
Engineering	534	4%	872	5%	(338)
Sales and marketing	2,333	17%	2,777	14%	(444)

General and administrative ("G&A") expenses consist mainly of salaries and benefits of management and administrative personnel, professional fees, public company expenses, related facility costs, and other general administrative expenses.

G&A decreased by 4% for the fiscal year ended November 30, 2010, compared to the previous fiscal year. The lower G&A cost in fiscal 2010 is largely due to lower wages as a result of reduction in staff levels and lower professional fees.

Engineering expenses consist mainly of salaries and benefits of software and hardware engineering personnel, facilities expenses, and related expenses. The Company expenses research and development related costs in the period incurred unless, in the opinion of management, certain development costs meet the deferral criteria under Canadian GAAP, in which case development expenditures are capitalized and amortized over the estimated lives of the related products.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

Engineering expenses decreased by 39% for fiscal 2010 compared to the previous year. The decrease is related to engineering staff and related costs being charged to cost of sales to support specific customer orders during the year. The decrease is also due to staff reductions that resulted in lower salaries. We believe that in order to maintain our technological leadership, we must continue to develop existing products and introduce innovative new products that challenge and redefine the industry standards.

Sales and marketing ("S&M") expenses consist primarily of compensation of sales and marketing personnel, as well as expenses associated with advertising, trade shows, facilities, and other expenses related to the sales and marketing of our products and services.

S&M expenses decreased by 16% for fiscal 2010 compared to the previous year. The decrease is primarily due to lower commissions, staff reductions, and a reduction in discretionary spending. We believe our current level of S&M staff continues to allow us to pursue business development activities relating to our expansion efforts targeting new and existing customers in the military agencies of Canada, the U.S., European NATO, other allies of Canada, and national and international commercial marine transportation companies. To increase our profile and our products, and to broaden our customer base in international markets, we have established marketing agreements with companies local to the targeted regions. Some of these activities will not result in closing orders during the current year but may yield orders in subsequent fiscal years.

Amortization

In thousands of Canadian dollars	2010	2009	2010 to 2009
Amortization	\$ 385	\$ 506	\$ (121)

Total amortization decreased by 24% in fiscal 2010 reflecting the mix of equipment and furnishings at November 30, 2010. For the years ended November 30, 2010 and 2009, a portion of the depreciation, \$67,000 and \$116,000, respectively, was included in cost of sales for equipment used in revenue-generating activities.

Interest expense

In thousands of Canadian dollars	2010	2009	2010 to 2009
Interest expense	\$ 70	\$ 111	\$ (41)

Interest expense decreased in fiscal 2010 as compared to fiscal 2009. With the cash proceeds from the sale of intellectual property, the Company did not utilize its credit facilities throughout the entire fiscal 2010.

Interest income

In thousands of Canadian dollars	2010	2009	2010 to 2009
Interest income	\$ 11	\$ 8	\$ 3

Interest income for fiscal years 2010 and 2009 was minimal as the Company did not have surplus funds to invest.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

Foreign Exchange

In thousands of Canadian dollars	2010	2009	2010 to 2009
Foreign exchange loss	\$ 24	\$ 1	\$ 23

The Company's Canadian subsidiaries, whose functional currency is the Canadian dollar, are exposed to foreign exchange gain and loss due to exchange rate movements of the U.S. dollar, the Australian dollar, the UK pound and the Euro. The Company minimized the exposure to foreign exchange fluctuations through the use of foreign exchange forward contracts. The fluctuations were not in the Company's favour during the year ended November 30, 2010.

Technology Partnerships Canada

In thousands of Canadian dollars	2010	2009	2010 to 2009
Royalty	\$ 288	\$ 394	\$ (106)

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

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. If the total royalties paid and payable as at December 31, 2013 does not equal or exceed \$6.1 million, the Company will continue to pay royalties on gross revenue generated after December 31, 2013 until total cumulative royalties paid or payable reach \$6.1 million or until December 31, 2017, whichever comes first. The Company commenced payment of these royalties effective February 2007.

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. If the total royalties paid and payable as at November 30, 2008 does not equal or exceed \$7.8 million, the Company will continue to pay royalties on gross revenue generated after November 30, 2008 until total cumulative royalties paid or payable reach \$7.8 million or until November 30, 2014, whichever comes first. The Company commenced payment of these royalties effective June 2001.

Although we believe that our submissions for TPC funding meet the terms and conditions of the TPC agreements, the final determination is subject to audit by government authorities in the ordinary course of business.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

Gain on sale of intellectual property

In thousands of Canadian dollars	2010	2009	2010 to 2009
Gain on sale of intellectual property	\$ 5,214	\$ -	\$ 5,214

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

Loss on sublease

In thousands of Canadian dollars	2010	2009	2010 to 2009
Loss on sublease	\$ 373	\$ -	\$ 373

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

Goodwill impairment charge

In thousands of Canadian dollars	2010	2009	2010 to 2009
Goodwill impairment charge	\$ -	\$ 4,027	\$ (4,027)

During the fourth quarter of fiscal year 2009, the Company completed impairment tests of Goodwill and determined that the carrying value was partially impaired. This resulted in a non-cash impairment charge of \$4.0 million

Restructuring costs

In thousands of Canadian dollars	2010	2009	2010 to 2009
Restructuring costs	\$ 852	\$ 652	\$ (200)

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

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-related restructuring charge of \$652,000, consisting of severance and benefit costs in the year ended November 30, 2009.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

Income Taxes

In thousands of Canadian dollars	2010	2009	2010 to 2009
Future income tax (recovery)	\$ 931	\$ (187)	\$ 1,118
Current income tax (recovery) expense	186	9	177
	<u>\$ 1,117</u>	<u>\$ (178)</u>	<u>\$ 1,295</u>

Based on the information available at the time of the issue of the audited annual financial statements for the year ended November 30, 2010, we estimated that we would not have sufficient taxable earnings in Canada in future periods to utilize a portion of our \$4.0 million Canadian non-capital losses carried forward, \$12.8 million scientific research and experimental development costs, and other Canadian tax balances.

We have recognized a future tax expense for the year ended November 30, 2010 related to temporary timing differences between accounting income and income for tax purposes in our U.S. subsidiaries. The future tax expense is mainly a result of reversal of future tax assets recognized in prior period for timing differences as these differences were utilized in the current period resulting from the sale of intellectual property. At November 30, 2010, we have a current future tax asset of \$101,000 and non-current future tax assets of \$124,000 as we believe that it is more likely than not that these differences will be realized in future fiscal years. In accordance with Canadian GAAP, we have provided a valuation allowance against future tax assets where realization did not meet the requirements of "more likely than not" under the liability method of tax allocation. We continue to evaluate our taxable position quarterly and consider factors such as estimated taxable income, the history of losses for tax purposes, and the growth of the Company, among others.

We recognized current income tax expense for the year ended November 30, 2010 mainly due to taxable income earned from the sale of intellectual property.

RESULTS OF DISCONTINUED OPERATIONS (Mapping Operations) – November 30, 2010, compared to November 30, 2009

In thousands of Canadian dollars

	2010	2009	2010 to 2009
Sales	\$ 4,227	\$ 3,758	\$ 469
Gross profit	1,111	1,141	(30)
Gross profit percentage	26%	30%	(4%)
Loss from operations	(72)	(345)	273
Net loss from discontinued operations	(72)	(345)	273
Basic and diluted net loss from discontinued operations per share	(0.00)	(0.01)	0.01

Revenue from Mapping operations for the year ended November 30, 2010, increased by 12% as compared to the year ended November 30, 2009. The increase is the result of new contracts awarded and the delivery of existing contracts.

Gross profit from the Mapping operations for the year ended November 30, 2010, decreased by 3% and gross profit percentage was 4% lower when compared to the prior year. The decrease in gross profit was a result of higher proportion of projects with specialized services. Gross profit percentages are influenced by the level of the fixed costs included in cost of sales. It is also driven by season as the

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

revenue generating activities are mostly influenced by weather. The gross profit percentage of any given mapping project is largely influenced by two factors:

1. the proportion of production services that are performed in-house versus subcontracted to either specialized production service companies in North America or offshore production companies in India or China, and
2. the customer's primary driver, being either price or quality.

Projects where the Company can rely heavily on offshore production will typically have higher gross margin percentages than those that include a large component of specialized or in-house services. Projects where the primary customer driver is quality will generally have higher margins than projects where the primary driver is price.

LIQUIDITY AND CAPITAL RESOURCES - November 30, 2010 compared to November 30, 2009

In thousands of Canadian dollars	2010	2009	2010 to 2009
(Including discontinued operations)			
Current assets	9,050	9,284	(234)
Current liabilities	4,954	5,439	(485)
Working capital ⁽¹⁾	4,096	3,845	251

⁽¹⁾ Working capital is defined as current assets less current liabilities. Working capital does not have a standardized meaning or comparable measure under Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other companies.

We strive to maintain cash-contributing profitable operations that provide an adequate liquidity and capital resource base for growth. We believe that cash flow from operating activities, together with lines of credit borrowings available under our credit facilities, will be sufficient to fund currently-anticipated working capital, planned capital spending, and debt service requirements for the next 12 months.

At November 30, 2010, our current assets decreased primarily due to decrease in current portion of future tax assets, offset by increase in cash and restricted cash. Our working capital has increased mainly due to the increase in cash and restricted cash, and decrease in bank indebtedness, offset by a decrease in current portion of future tax assets. Cash and restricted cash increased as a result of the sale of intellectual property. Current portion of future tax assets decreased mainly because of utilization during the current year as a result of taxable income generated from the sale of intellectual property.

We have credit facilities consisting of accounts receivable factoring arrangements and forward exchange contract facilities. The credit facilities permit us to borrow funds directly for general corporate purposes. We have an accounts receivable factoring facility with a Canadian financial institution with a maximum limit of \$2 million and a variable limit with a U.S. financial institution that is based on the outstanding accounts receivable of the U.S. operations. At November 30, 2010, we had \$325,000 borrowings against our Canadian accounts receivable factoring facility and \$nil borrowings against our U.S. accounts receivable factoring facility. We utilize our forward exchange contract facility to reduce our exposure to exchange rate fluctuations.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

The Company declared semi-annual dividends to the Class B, Series 2 preference shareholders as follows:

<u>Date declared</u>	<u>Period covered</u>	<u>Dividends per share</u>
December 2008	June 2008 – November 2008	\$ 0.0175
July 2009	December 2008 – May 2009	0.0175
January 2010	June 2009 – November 2009	0.0175
May 2010	December 2009 – May 2010	0.0175

The partial dividends were paid in accordance with the Company's Articles of Incorporation and to preserve our financial resources in light of the current market conditions.

Cash Flows (including discontinued operations)

<u>In thousands of Canadian dollars</u>	<u>2010</u>	<u>2009</u>	<u>2010 to 2009</u>
Cash flows provided by (used in):			
Operating activities	\$ (3,363)	\$ 1,917	\$ (5,280)
Investing activities	4,462	(425)	4,887
Financing activities	(667)	(1,127)	460
Effect of foreign exchange on cash	15	36	(21)

Cash flows provided by operating activities for the year ended November 30, 2010, were the result of the net loss for the year adjusted by non-cash expenses such as amortization, stock-based compensation, loss on sublease, and future tax expense, and non-operating cash from the disposal of intellectual property. In addition, cash from operations is mainly due to decrease in unearned revenue.

Cash flows provided by investing activities for the year ended November 30, 2010 were mainly due to sale of intellectual property.

Cash flows used in financing activities for the year ended November 30, 2010, were the result of changes in the credit facilities.

As a result of the above-mentioned changes, the credit facilities utilization decreased by \$596,000 for the year ended November 30, 2010.

In order to reduce the impact of exchange rate fluctuations, we use the forward exchange contract facility to mitigate any foreign exchange gain or loss that might occur. We use the forward exchange contract facility only for known or reasonably certain future foreign currency transactions. As at November 30, 2010, we do not have outstanding foreign exchange forward contracts.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

Capital Resources

On January 25, 2010, the Canadian operating line of \$1.0 million was replaced with an accounts receivable factoring facility with a Canadian financial institution, with a maximum facility of \$2.0 million. 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.

In addition, the Company has an accounts receivable factoring facility of variable U.S. dollar amounts with a U.S. financial institution. Fees charged under the accounts receivable factoring 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.

There can be no assurance that we will have adequate financial resources, financing, or cash flows to support the Company in the future.

On February 1, 2010, the Company's U.S. Operations signed a contract valued at USD \$6.5 million with Harris Corporation ("Harris"). Under the terms of this contract, the Company 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. The net cash proceeds after income taxes were approximately \$5.5 million. The net proceeds provided additional working capital for the Company and eliminated the need for the Company to draw on the accounts receivable factoring facilities for a few months during the year ended November 30, 2010.

CONTRACTUAL OBLIGATIONS

The following table provides a summary of the contractual obligations and the payments due for each of the next five years and thereafter.

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

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

In April 2010, the Company signed a two-year lease for new office facilities in Ottawa, Ontario. It opened the corporate head office in Ottawa on June 1, 2007.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

OFF BALANCE SHEET ARRANGEMENTS

Guarantees

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, 2010, the carrying amount of CHI's factored advances payable was USD \$nil.

We warrant that our software and hardware products will operate substantially in conformity with product documentation and that the physical media will be free from defect. The specific terms and conditions of the warranties are generally one year but may vary depending on the country in which the products are sold. We accrue for known warranty issues if a loss is probable and can be reasonably estimated, and accrue for estimated incurred but unidentified warranty issues based on historical activity. To date, we have had no material warranty claims.

TRANSACTIONS WITH RELATED PARTIES

There were no related party transactions for the fiscal years ending November 30, 2010 and 2009.

Related party transactions, when they occur, are conducted at market value prices and are approved by the board of directors.

CRITICAL ACCOUNTING 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. Management reviews its estimates based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates.

The Company's critical accounting policies are those that it believes are the most important in determining its financial condition and results, and requires significant subjective judgement by management. The Company considers an accounting estimate to be critical if the estimate requires management to make assumptions about matters that were highly uncertain at the time the estimate was made, if different estimates could have been reasonably used, or if changes in the estimate would have a material impact on the Company's financial condition, or results of operations are likely to occur from period to period.

Valuation of goodwill and intangible assets impairment

In November 2010, the Company performed impairment tests for goodwill and intangible assets with indefinite useful lives, and determined that these assets were not impaired. In November 2009, the Company performed impairment tests for goodwill and intangible assets with indefinite useful lives, and determined that goodwill was impaired. This resulted in a non-cash impairment charge of \$4.5 million that was recorded in the consolidated financial statements in the year ended November 30, 2009. The impairment test involves considerable use of judgment, and requires management to make estimates and assumptions. The fair values of the reporting units are derived from certain valuation models, which

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

consider various factors such as cost of capital, discount rates, the Company's stock price, future earnings, and earnings multiples. Changes in estimates and assumptions can affect the reported value of goodwill and intangible assets with indefinite useful lives.

Future income tax assets

The Company is required to determine if the "more likely than not" test under the liability method of accounting for income taxes is met in order to include in income the potential tax benefits relating to increases in future income tax assets. The valuation of income tax assets involves considerable use of judgment and requires management to make estimates and assumptions. Estimates and assumptions include projected earnings, projected growth, projected taxable income and tax planning strategies. Changes in estimates and assumptions can affect the reported value of net future tax assets.

Revenue recognition

The Company generates a portion of International Systems revenues from long-term fixed fee contracts to render specific consulting and software modification services. Revenues from long-term contracts are recognized using the percentage-of-completion method based on labour costs incurred relative to total estimated labour costs. The long-term nature of contracts involves considerable use of judgment and estimates in determining total revenues, total labour costs, and percentage of completion. There are numerous factors to consider, including variances in the contract deliverables, scheduling, labour costs, and productivity. The Company has developed methods and systems to provide dependable expenditure estimates for its long-term contracts.

OSI Geospatial Inc.

Management's Discussion and Analysis
 Year ended November 30, 2010 and 2009
 (expressed in Canadian dollars)

REVIEW OF THE FOURTH QUARTER ENDING NOVEMBER 30, 2010

In thousands of Canadian dollars	2010	% of total revenue	2009	% of total revenue
Revenue				
Maritime navigation and tactical solutions	\$ 2,565	56	1,713	43
Advanced technology research and development	2,022	44	2,280	57
	4,587	100	3,993	100
Cost of sales	2,504	55	2,796	70
Gross profit	2,083	45	1,197	30
Expenses				
General and administrative	1,037	23	1,163	29
Sales and marketing	670	15	647	16
Engineering	184	4	69	2
Technology Partnerships Canada royalty	133	3	81	2
Depreciation and amortization	83	2	95	2
Interest expense	21	-	37	1
Interest income	-	-	(5)	-
Foreign exchange (gain) loss	1	-	11	-
Loss on sale of fixed assets	10	-	-	-
	2,139	47	2,098	53
Loss before other items	(56)	1	(901)	(23)
Other items (expenses) recovery				
Gain on sale of intellectual property	(13)	-	-	-
Loss on sublease	(373)	(8)	-	-
Goodwill impairment charge	-	-	(4,027)	(101)
Restructuring costs	(323)	(7)	(387)	(10)
Loss before income taxes	(765)	(17)	(5,315)	(133)
Income tax recovery	(285)	(6)	(23)	(1)
Net loss from continuing operations	(480)	(10)	(5,292)	(133)
Net loss from discontinued operations	(24)	(1)	(421)	(11)
Net loss	\$ (504)	(11)	\$ (5,713)	(143)
Net loss available to common shareholders	\$ (571)		\$ (5,860)	
Basic and diluted loss per share				
Continuing operations	\$ (0.01)		\$ (0.11)	
Discontinued operations	(0.00)		(0.01)	
Net loss	\$ (0.01)		\$ (0.12)	

Overall Performance

For the three months ended November 30, 2010, we reported a net loss of \$504,000 compared to a net loss of \$5,713,000 for the three months ended November 30, 2009. The net loss attributable to common shareholders was \$571,000 compared to a net loss of \$5,860,000 for the three months ended November 30, 2009. The net loss reported in the three months ended November 30, 2010, was largely driven by the restructuring costs consisting of severance and other benefits, and loss on sublease recognized during the period related to the shortfall between the rent obligation under the original lease and the rental income to be received over the term of the sublease.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

Our revenues for the three months ended November 30, 2010, are primarily influenced by the level, timing, and duration of customer orders, and customer product delivery requirements. We depend heavily on government contracts and derive a significant amount of revenue from a few customers, which may result in varying revenue, gross profit, and earnings. Some of our government customers have cyclical purchasing patterns which can also impact our quarterly and year-to-date results.

The higher gross profit for the three months ended November 30, 2010, as compared to the three months ended November 30, 2009, is largely due to higher revenue and the mix of revenue. The increase in the gross profit percentage is due to an increase in higher-margin software revenue and a decrease in lower-margin hardware and systems revenue generated by International Systems operations.

Fluctuations in gross profit are influenced by the proportion of engineering labour, third-party systems, or third-party labour, or portions of all three required for a project; and a high proportion of these factors can result in increased cost of sales and therefore lower gross profit. Certain contracts awarded may require the inclusion of engineering labour, third-party systems, or third-party labour. In order to maintain competitiveness on these contracts, we may elect to reduce our usual margins on the third-party components.

G&A decreased by 11% for the three months ended November 30, 2010, compared to the three months ended November 30, 2009. The decrease is mainly due to lower professional fees. In the three months ended November 30, 2009, professional fees were incurred relating to compliance with the internal control over financial reporting standards and none in the same period in 2010.

S&M expenses increased by 4% for the three months ended November 30, 2010, compared to the three months ended November 30, 2009. The increase is primarily due to increase in professional fees to promote the Company's products and services. The increase was offset by the lower commissions and reduction in staff.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

SELECTED QUARTERLY DATA (UNAUDITED)

In thousands of Canadian dollars

For the three months ended	November 30, 2010	August 31, 2010	May 31, 2010	February 28, 2010
Revenue	\$ 4,587	\$ 2,831	\$ 2,753	3,329
Gross profit	2,083	666	1,078	1,193
Gross profit percentage	45%	24%	39%	36%
Net income (loss) from continuing operations	(480)	(883)	(1,123)	2,377
Net income (loss) from discontinued operations	(24)	(126)	373	(295)
Net income (loss)	(504)	(1,009)	(750)	2,082
Net income (loss) available to common shareholders				
Basic	(571)	(1,082)	(838)	1,951
Diluted	(571)	(1,082)	(838)	2,082
Earnings (loss) per share – basic and diluted				
Continuing operations	(0.01)	(0.02)	(0.02)	0.05
Discontinued operations	(0.00)	(0.00)	0.01	(0.01)
Net income (loss)	(0.01)	(0.02)	(0.01)	0.04
For the three months ended	November 30, 2009	August 31, 2009	May 31, 2009	February 28, 2009
Revenue	\$ 3,992	\$ 4,893	\$ 4,885	5,465
Gross profit	1,083	1,823	1,565	1,725
Gross profit percentage	27%	37%	32%	32%
Net loss from continuing operations	(5,293)	(545)	(1,115)	(413)
Net income (loss) from discontinued operations	(420)	282	77	(284)
Net loss	(5,713)	(263)	(1,038)	(697)
Net loss available to common shareholders	(5,860)	(410)	(1,192)	(853)
Loss per share – basic and diluted				
Continuing operations	(0.11)	(0.01)	(0.02)	(0.01)
Discontinued operations	(0.01)	0.00	0.00	(0.01)
Net loss	(0.12)	(0.01)	(0.02)	(0.02)

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

CRITICAL ACCOUNTING POLICIES

Financial statement preparation requires that we use estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses, and the related disclosure of contingent liabilities. Our accounting policies are described in note 4 to our audited consolidated financial statements. The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements:

Revenue

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 key 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-based 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

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

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.

Income Taxes

We are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities that may be included on our consolidated balance sheet. We recognize deferred income tax assets to the extent that their realizations are considered more likely than not and provide a valuation allowance against any remaining balance. The valuation allowance is based on our estimates of taxable income by the jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates, or we adjust these estimates in future periods, we may need to adjust the valuation allowance. Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgment that is subject to audit by tax authorities in the ordinary course of business.

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 would compare the fair value of the reporting unit goodwill to the carrying amount and any excess would be written off. Any impairment of goodwill would be recognized as an expense in the period of impairment, and subsequent reversals of impairment are prohibited. The Company performs its testing for impairment of goodwill and other intangible assets related to the CHI Systems Inc. and Mapcon Mapping Inc. acquisitions as of November 30 of each year. Based on testing performed as of November 30, 2010, there was no impairment. Based on testing performed as of November 30, 2009, an impairment of \$4.5 million was recorded.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

Stock-based Compensation and Other Stock-based Payments

We have established three stock option plans under which stock options to purchase common shares may be granted to directors, officers, and employees of the Company, and to any other person or Company permitted by the applicable regulatory authorities to purchase unissued common shares. The fair value of the stock options is estimated using the Black-Scholes option pricing model, using weighted-average assumptions for the following: dividend yield, volatility rate, risk-free interest rate, and expected average life. 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.

Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses that may arise if any of our 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 uncollectibility of our accounts receivable. If we determine that the financial condition of any of our customers deteriorates, increases in the allowance may be made. We review the unbilled revenue balance on a regular basis to assess our fair market value and provide an allowance against any amounts that are impaired.

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. We assess the need for inventory write-downs based on our assessment of estimated net realizable value using assumptions about future demand and market conditions. If market conditions differ from those originally estimated by us, an additional inventory write-down may be required.

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

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.

International Financial Reporting Standards

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 prepare its interim and annual consolidated financial statements in accordance with IFRS for the periods beginning on or after December 1, 2011 and will be required to provide information that conforms to IFRS for the comparative periods presented.

The Company commenced the process to transition from current Canadian GAAP to IFRS in 2009. We have engaged third-party consultants to assist us in this process. Progress reports are provided to the audit committee on the status of the IFRS implementation project on a quarterly basis.

A preliminary diagnostic review and preliminary assessment of accounting impact was completed by the third-party consultants. The diagnostic review and preliminary assessment included the determination, at a high level, of the financial reporting differences under IFRS and the key areas that may be impacted. The major areas of focus identified by the assessment include first year implementation decisions, impairment, share-based payments, government assistance, and financial statement presentation and disclosure. The final impact of the conversion on the Company's financial statements cannot be reasonably determined at this time.

The Company will continue to monitor results from the existing conversion plan, as well as ongoing changes to IFRS, and adjust its transition and implementation plans accordingly.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's cash, accounts receivable and its foreign exchange contracts. The Company provides credit to its customers in the normal course of its operations. The Company's credit risk review includes performing credit evaluations of the financial condition of significant customers. The Company's customers are, for the most part, national and international government clients and large public customers. A significant portion of the Company's accounts receivable is from long-time customers, and, at November 30, 2010, 67% (2009 – 64%) of its accounts receivable was with national and international government clients, and 25% (2009 – 26%) of its accounts receivable was with large international public companies. Due to the low-risk nature of the government clients and large international public companies and a history of excellent collections, provisions for doubtful accounts are made on a customer by customer basis, based on ongoing customer discussions. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at November 30, 2010, was \$4,854,000 (2009 –

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

\$4,212,000). 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 ratings 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 the net investment in the Company's US 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 \$nil at November 30, 2010 (2009 – \$8,000). Changes in fair value of these contracts are recognized as gains or losses in the consolidated statement of operations.

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

Interest rate risk

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

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The Company has an accounts receivable factoring credit facility of \$2 million in Canada and a variable limit in the U.S. that is based on the outstanding accounts receivable of the U.S. operations. At November 30, 2010, the Company utilized \$325,000 (2009 - \$nil) and USD \$nil (2009 - USD \$227,000) of its credit facilities. At November 30, 2009, the Company has an operating line of credit facility of \$1 million in Canada and utilized \$860,000. All of the Company's financial liabilities, other than capital lease obligations, have contractual maturities of less than 45 days.

Fair values

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

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

The carrying amounts of each of the financial instruments are:

In thousands of Canadian dollars

		2010	2009
Held for trading	\$		
Cash		758	315
Restricted cash		574	-
Forward contracts		-	(8)
Loans and receivables			
Trade accounts receivable		1,953	1,973
Other liabilities			
Bank indebtedness		-	(685)
Factored advances payable		(325)	(240)
Accounts payable and accrued liabilities		(2,929)	(2,868)
Capital lease obligation		(53)	(122)

DISCLOSURE OF OUTSTANDING SHARE DATA

As at February 25, 2011, the Company had 53,031,494 issued and outstanding common shares and 3,260,000 outstanding stock options. As at February 25, 2011, the Company also had 30,262 issued and outstanding Class A preference shares and 76,529 issued and outstanding Class B preference shares series 2, convertible into common shares at conversion ratios of 1:1 and 1:58.82353, respectively, which represents 4,531,967 common shares.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer of the Company conducted an evaluation of the disclosure controls and procedures as required by National Instrument 52-109, "*Certification of Disclosure in Issuers' Annual and Interim Filings*" issued by the Canadian Securities Administrators. They designed DC&P, or caused it to be designed under their supervision, to provide reasonable assurance that material information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Chief Executive Officer and Chief Financial Officer concluded that, as at November 30, 2010, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information regarding required disclosures was made known to them on a timely basis.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing and maintaining internal controls over financial reporting as required by National Instrument 52-109, "*Certification of Disclosure in Issuers' Annual and Interim Filings*" issued by the Canadian Securities Administrators.. They have designed internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's internal control over financial reporting and have determined that the Company's internal control over financial reporting was effective as of November 30, 2010.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no material changes in the Company's internal control over financial reporting that occurred during the Company's fourth quarter of the fiscal year 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RISKS AND UNCERTAINTIES

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

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

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

The termination of funding for a government program would result in a loss of anticipated future revenues attributable to that program. That could have a negative impact on our operations. Also, we cannot give assurance that we would be able to procure new government contracts to offset the revenues lost as a result of any contract termination. As our revenues are dependent on the procurement, performance, and payment under these contracts, the loss of one or more critical contracts could have a negative impact on our financial condition.

In addition, sales to the governments we work with may be affected by:

- changes in procurement policies;
- changes in the structure and management of government departments;
- budget considerations;
- changing concepts of national defence;
- political developments domestically and abroad; and
- increased protectionism.

The influence of any of these factors, which are largely beyond our control, could also negatively impact our financial condition.

We derive a significant amount of revenue from only a few customers. We depend on national and international governments for a significant portion of our sales, and the loss of any of these relationships or a shift in any of these governments' funding could have severe consequences on our financial condition.

For the year ended November 30, 2010, approximately 54% of our revenue was from the U.S. Army, the Royal Navy of the United Kingdom and the U.S. Defence Advanced Research Projects Agency. Approximately 36% of our revenue for the year ended November 30, 2009, was from U.S. Army, the Royal Australian Navy, and the Royal Navy of the United Kingdom. Therefore, any significant disruption or deterioration of any of our relationships with these entities' governments would significantly reduce our revenues. These governments may choose to use other competing corporations for their navigational equipment. In addition, a shift in government spending to other programs in which we are not involved could have severe consequences for our results of operations.

Our product lines are not broadly diversified.

We derive and expect to derive a substantial majority of our revenue from navigational software, systems, and equipment sales. If customers do not purchase our products as a result of competition, technological change, budget constraints, or other factors, we do not have other product categories that it could rely on to make up any shortfall in sales. As a result, our revenue could decrease, and our business and operating results would be adversely affected.

We derive a significant portion of our revenues from international sales and are subject to the risks of doing business in foreign countries.

In the year ended November 30, 2010, approximately 96% of our revenues were from international customers, including governmental customers: 62% from the U.S. and 34% from other international countries. We have focused our expansion efforts for the future on the American, European and Australasian markets. As a result, we expect that international sales will continue to account for a significant portion of our revenues for the foreseeable future. As a result, we are subject to the risks of doing business internationally, including those risks related to:

- changes in regulatory requirements;
- domestic and foreign government policies, including requirements to expend a portion of program funds locally and governmental industrial co-operation requirements;
- fluctuations in foreign currency exchange rates;

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

- the complexity and necessity of dealing with foreign representatives and consultants;
- imposition of tariffs or embargoes, export controls, and other trade restrictions; and
- compliance with a variety of foreign laws.

While the presence of these factors and the impact of these factors are difficult to predict, any one or more of them could adversely affect our operations in the future.

The Company derives significant revenue from contracts awarded through a competitive bidding process, which can impose substantial costs upon it, and the Company could fail to maintain its current and projected revenue if it fails to compete effectively.

The Company derives significant revenue from government contracts, both domestic and international, that are awarded through a competitive bidding process. The Company expects that most of the government business it will seek in the foreseeable future will be awarded through competitive bidding. Competitive bidding imposes substantial costs and presents a number of risks. Such risks include, but are not limited to:

- the need to bid on engagements in advance of the completion of their design, which may result in unforeseen difficulties in executing the engagement and cost overruns;
- the substantial cost and managerial time and effort that the Company spends to prepare bids and proposals for contracts that may not be awarded to them;
- the need to accurately estimate the resources and costs that will be required to service any contract the Company is awarded;
- the expense and delay that may arise if the Company's competitors protest or challenge contract awards made to them pursuant to competitive bidding, and the risk that any such protest or challenge could result in the resubmission of bids on modified specifications, or in termination, reduction, or modification of the awarded contract; and
- the opportunity lost of not bidding on and winning other contracts the Company might otherwise pursue.

To the extent the Company engages in competitive bidding and are unable to win particular contracts, it not only incurs substantial costs in the bidding process that could negatively affect the Company's operating results, but it may be precluded from operating in the market for services that are provided under those contracts for a number of years. Even if the Company wins a particular contract through competitive bidding, its profit margins may be depressed as a result of the costs incurred through the bidding process.

Our revenues and costs are affected by fluctuations in the rate of exchange between the Canadian dollar, which is the functional currency for the Company, and the U.S. dollar, the British pound, the Australian dollar, the Danish kroner and the Euro.

Exposure to exchange rate fluctuations exists because a significant portion of our trade receivables and revenue transactions are in U.S. dollars, Australian dollars, British pounds and Euros. For the year ended November 30, 2010, approximately 42% of the Company's revenues and 50% of our expenses were transacted in U.S. dollars. During the same period, approximately 4% and 1% of the Company's revenues were transacted in British pounds and Euros, respectively. We expect that U.S. dollars, British pound and Euros sales will continue to account for a material portion of our revenues for the foreseeable future. As a result, exchange rate fluctuations may affect our revenue and earnings growth materially in the future. In order to reduce the impact of foreign exchange volatility, we utilize our foreign exchange forward contract facility. As at November 30, 2010, we had no outstanding foreign exchange forward contracts.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

We have established teaming relationships and strategic partnerships with international corporations to pursue major international government procurements, and our reputation and results of operations could be adversely affected by our inability to control their operations.

We rely on agreements with international corporations to assist us in pursuing contracts for major government procurements. These international corporations often assist us with systems integration, complimentary products and services, and local domain knowledge necessary to successfully pursue major government procurements. We do not have assurance that these third parties will:

- remain in business;
- maintain the financial stability required to fulfill the requirements of these international procurements; and
- continue to consider our products in their business priorities.

There can be no assurance that we would be able to pursue and secure major international government procurements without these third parties.

We may lose sales, or sales may be delayed, because of the long sales and implementation cycles for our products and services.

Our customers have typically invested substantial time, money, and other resources, and have many people involved in the decision to license our software products and purchase our hardware products and services. As a result, we may wait up to two or three years after the first contact with a customer for that customer to enter into a purchase agreement while the customer seeks internal approvals for the purchase of our products and/or services. During this long sales cycle, events may occur that affect the size or timing of the purchase or even cause the order to be cancelled.

Even if a purchase agreement is signed, the time period required to deploy our products varies significantly from one customer to the next. Implementing our products can sometimes take several months or even a few years depending on the customer's needs. It may be difficult to deploy our products if the customer has complicated deployment requirements. If a customer utilizes a third party to deploy our products, we cannot guarantee that our products will be deployed successfully.

As a result, our revenue could decrease, and our business and operating results would be adversely affected.

Competition within our markets may reduce our ability to procure future contracts and sales.

The defence industry in which we operate is highly competitive. Our competitors range from companies, which are primarily targeting the pleasure boat market, to diversified corporations in the radar and marine equipment segment of the industry. Some of our competitors may have more extensive or more specialized engineering, manufacturing, and marketing capabilities. There can be no assurance that we can continue to compete effectively with these companies.

Our ability to procure contracts and gain sales in foreign markets may be negatively impacted by increasing protectionism of foreign governments.

Some foreign governments have come under increased pressure to protect their domestic economy and national security. Economic and security concerns have resulted in increasing protectionism that excludes foreign market participants from successfully procuring contracts and gaining sales in foreign markets. As a result, our revenue could decrease, and our business and operating results would be adversely affected.

Our future success will depend on our ability to develop new technologies that achieve market acceptance.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

The defence market is characterized by rapidly-changing technologies and evolving industry standards. Accordingly, our future performance depends on a number of factors, including our ability to:

- identify emerging technological trends in our market;
- develop and maintain competitive products;
- enhance our products by adding innovative features that differentiate our products from those of our competitors; and
- manufacture and bring products to market quickly at cost-effective prices.

We believe that, in order to remain competitive in the future, we will need to continue to develop new products, which will require the investment of significant financial resources in new product development. In addition, there can be no assurance that the market for our products will develop or continue to expand as we currently anticipate. The failure of our technology to gain market acceptance could significantly reduce our revenues and harm our business. Furthermore, we cannot be sure that our competitors will not develop competing technology, which gains market acceptance in advance of our products. The possibility that our competitors might develop new technology or products might cause our existing technology and products to become obsolete. If we fail in our new product development efforts or our products fail to achieve market acceptance more rapidly than our competitors, our revenues will decline and our business, financial condition, and results of operations will be negatively affected.

We depend on the recruitment and retention of qualified personnel, and our failure to attract and retain such personnel could seriously harm our business.

Due to the specialized nature of our business, our future performance is highly dependent upon the continued services of our key engineering personnel and executive officers. Our prospects depend upon our ability to attract and retain qualified engineering, manufacturing, marketing, sales, and management personnel for our operations. Competition for personnel is intense, and we may not be successful in attracting or retaining qualified personnel. Our failure to compete for these personnel could seriously harm our business, results of operations, and financial condition.

We do not have fixed-term employment agreements with our officers and key employees and the loss of any officer or key employee could seriously harm our business.

We have not entered into fixed-term employment agreements with our officers and key employees. Our success depends upon the abilities and experience of our officers and key employees. Competition for highly-skilled management, engineering, technical, and other key employees is intense. The loss of officers and key employees could seriously disrupt our operations and impair our ability to compete.

We depend on foreign sub-contract labour in our mapping operations to maintain a competitive position in the mapping marketplace.

Our mapping operations are dependent upon labour resources located outside North America. While we enter into sub-contract agreements with these suppliers, we cannot be sure that the labour resources will be available when required and at the levels required. Accordingly, maintaining our competitiveness will depend upon a number of factors, including:

- the geopolitical uncertainties specific to the home country of each sub-contractor;
- the cultural compatibility between Canada and the home country of each sub-contractor;
- the English language proficiency of the labour resources made available to the Company;
- labour pool characteristics such as work ethic, education, skill level, and attrition; and
- the infrastructure of both the sub-contractor's home country and the sub-contractor.

While the presence of these factors and the impact of these factors are difficult to predict, any one or more of them could adversely affect our mapping operations in the future.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

We may be unable to adequately protect our intellectual property rights, which could affect our ability to compete.

Protecting our intellectual property rights is critical to our ability to compete and succeed as a company. We have trademark and copyright registrations, which are necessary and contribute significantly to the preservation of our competitive position in the market. There can be no assurance that any of the trademarks, copyrights, and other intellectual property will not be challenged, invalidated or circumvented by third parties. In the future, we may not be able to obtain necessary licenses on commercially-reasonable terms. We enter into confidentiality and invention assignment agreements with our employees, and enter into nondisclosure agreements with our suppliers and customers, as appropriate, so as to limit access to and disclosure of our proprietary information. These measures may not suffice to deter misappropriation or independent third-party development of similar technologies.

Our operations depend on component availability and our key suppliers to manufacture and deliver our products and services.

Our operations are highly dependent on the timely delivery of materials by outside suppliers. While we enter into purchase agreements with a few of our suppliers, we cannot be sure that materials, components, and subsystems will be available in the quantities required, if at all. If any of the suppliers fail to meet our needs, it may not have readily available alternatives. Our inability to fill our supply needs would jeopardize our ability to satisfactorily complete our obligations under our contracts on a timely basis. This might result in reduced sales, contractually-imposed penalties for delay in delivery, termination of one or more of these contracts, or damage our reputation and relationships with our customers. All of these events could have a negative effect on our financial condition.

The Company may not be able to meet the delivery terms or budgeted costs of its firm fixed price contracts.

A majority of the Company's contracts are firm fixed-price contracts. There is a risk in every firm fixed-price contract that the Company will be unable to deliver to the customer within the time specified or at a cost to the Company which is less than the contract price. In the absence of any amendments to the original firm fixed-price contract to increase the price of the contract or extend the delivery times, customers may be in a position to terminate the contract, demand repayment, or impose penalties on the Company. A significant cost overrun or delay in delivery to the customer could adversely affect the Company's business and operating results.

The unpredictability of our results may harm or contribute to the volatility of the trading price of our common stock.

Our operating results may vary significantly over time for a variety of reasons, many of which are outside our control, and any of which may harm our business. The value of our common stock may fluctuate as a result of considerations that are difficult to forecast, such as:

- the volume and timing of product orders received and delivered;
- levels of product demand;
- government and corporate spending patterns;
- the timing of contract receipt and funding and resulting impact on our working capital position;
- our ability and the ability of our key suppliers to respond to changes in customer orders;
- the timing of our new product introductions and our competitors' new product introductions;
- the cost and availability of components and subsystems;
- price erosion;
- the adoption of new technologies and industry standards;
- competitive factors, including pricing, availability, and demand for competing products;
- fluctuations in foreign currency exchange rates; and

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

- regulatory developments.

Sales of a significant number of shares of our common stock by existing shareholders could cause the market price of our common stock to decline.

If the Company's shareholders sell substantial amounts of the Company's common stock, including shares issued upon the exercise of outstanding options, the market price of the Company's common stock may decline. These sales also might make it more difficult for the Company to sell equity or equity-related securities in the future at a time and price that the Company deems appropriate. The Company is unable to predict the effect that sales may have on then prevailing market price of its common stock.

U.S. investors may not be able to enforce their civil liabilities against the Company or its directors and officers.

It may be difficult to bring and enforce suits against the Company which is incorporated in the Province of British Columbia, Canada. With the exception of one (1) director who is a resident of Australia, the directors of the Company are residents of Canada and the United States, and the Company has a substantial portion of its assets located outside of the U.S. As a result, it may be difficult for U.S. shareholders of the Company to effect service of process on these persons within the U.S. or to enforce judgments obtained in the U.S. based on the civil liability provisions of the U.S. federal securities laws against the Company or its officers and directors. In addition, U.S. shareholders of the Company should not assume that the courts of Canada (i) would enforce judgments of U.S. courts obtained in actions against the Company, its officers or directors predicated upon the civil liability provisions of the U.S. federal securities laws or other laws of the U.S., or (ii) would enforce, in original actions, liabilities against the Company, its officers or directors predicated upon the U.S. federal securities laws or other laws of the U.S.

We may pursue strategic relationships, investment, and acquisitions. We may not be able to successfully manage our operations if we fail to successfully integrate the acquired technologies and/or businesses.

As part of our business strategy, we may expand our product offerings to include application software products that are complementary to our existing products. This strategy may involve technology licensing agreements, joint development agreements, investments, or acquisitions of other businesses that offer complementary products. The risks that we may encounter in acquiring or licensing technology from third parties include the following:

- difficulty in integrating the third-party product with our products;
- undiscovered software errors in the third-party product;
- difficulties in selling the third-party product;
- difficulties in providing satisfactory support for the third-party product;
- potential infringement claims from the use of the third-party product; and
- discontinuation of third-party product lines.

The risks commonly encountered in the investment in or acquisition of businesses would accompany any future investments or acquisitions by the Company. Such risks may include the following:

- issues related to product transition (such as development, distribution, and customer support);
- the substantial management time devoted to such activities;
- the potential disruption of our ongoing business;
- undisclosed liabilities;
- failure to realize anticipated benefits (such as synergies and cost savings);
- the difficulty of integrating previously-distinct businesses into one business unit; and
- technological uncertainty regarding the current and future functionality of the product.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

We may require additional capital, in which case we may need to raise additional funds from lenders and equity markets in the future.

If our expenditures exceed our incoming cash flows, we may be required to raise additional capital. In addition, we may choose to pursue additional financing in order to capitalize on potential opportunities in the marketplace that may accelerate our growth objectives. Our ability to arrange such financing in the future will depend in part on the prevailing capital market conditions as well as on our business performance. There can be no assurance that we will be successful in our efforts to raise additional funds, if needed, on terms satisfactory to us. If additional capital is raised by the issuance of shares, shareholders may experience dilution to their equity interest in the Company.

Our business could be adversely affected if we fail to manage our growth effectively.

If we fail to manage our growth effectively, our business and operating results could be adversely affected. We expect to continue to grow our operations domestically and internationally, and to hire additional employees. The growth in our operations and staff has placed, and will continue to place, a significant strain on our management systems and resources. If we fail to manage our future anticipated growth, we may experience higher operating expenses, and may be unable to meet the expectations of investors with respect to future operating results. To manage this growth we must, among other things, continue to:

- improve our financial and management controls, reporting systems, and procedures;
- add and integrate new senior management personnel;
- improve our licensing models and procedures;
- hire, train, and retain qualified employees;
- maintain sufficient working capital;
- control expenses;
- diversify channel sales strategies; and
- invest in our internal networking infrastructure and facilities.

To the extent that this anticipated growth does not occur or occurs more slowly than we anticipate, we may not be able to reduce expenses to the same degree. If we incur operating expenses out of proportion to revenue in any given quarter, our operating results may be adversely impacted.

Third parties may claim that we infringe their proprietary rights.

We potentially may receive claims that we have infringed the intellectual property rights of others. As the number of products in the software industry increases and the functionality of these products further overlap, we may become increasingly subject to infringement claims, including patent, trademark, and copyright infringement claims. In addition, former employers of our former, current, or future employees may assert claims that such employees have improperly disclosed to the Company the confidential or proprietary information of these former employers. Any such claim, with or without merit, could be time-consuming to defend, result in costly litigation, divert management's attention from our core business, require it to stop selling or delay shipping, or cause the redesign of our product or products. In addition, we may be required to pay monetary amounts, such as damages, for royalty or licensing arrangements, or to satisfy indemnification obligations that it has with some of our customers.

We license and use software from third parties in our business. These third-party software licenses may not continue to be available to the Company on acceptable terms. Also, these third parties may from time to time receive claims that they have infringed the intellectual property rights of others, including patent and copyright infringement claims, which may affect our ability to continue licensing this software. Our inability to use any of this third-party software could result in shipment delays or other disruptions in our business, which could materially and adversely affect our operating results.

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

We may not be able to protect our proprietary information.

We rely on a combination of copyright, trademark, and trade secret laws; confidentiality procedures; contractual provisions; and other measures to protect our proprietary information. All of these measures afford only limited protection. These measures may be invalidated, circumvented, or challenged, and others may develop technologies or processes that are similar or superior to our technology. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy our products or to obtain or use information that we regard as proprietary.

Our products may contain significant defects, which may result in liability and/or decreased sales.

Software products frequently contain bugs, errors or failures, especially when first introduced or when new versions are released. Despite our efforts to test our products, we might experience significant errors or failures in our products, or they might not work with other hardware or software as expected. This could delay the development or release of new products or new versions of products, or could adversely affect market acceptance of our products. Customers use our products for applications that are critical to their businesses, and they have a greater sensitivity to product defects than the market for other software products generally. Our customers may claim that we are responsible for damages to the extent they are harmed by the failure of any of our products. If we were to experience significant delays in the release of new products or new versions of products, or if customers were dissatisfied with product functionality or performance, we could lose revenue or be subject to liability for service or warranty costs. Should this occur, our business and operating results could be adversely affected.

Our products depend on third-party software products and our reputation and results of operations could be adversely affected by our inability to control their operations.

Our products incorporate and use software products developed by other entities. We do not have assurance that such third parties will:

- remain in business;
- support our product lines;
- maintain viable and functional product lines; and
- make their product lines available to the Company on commercially-acceptable terms.

Any significant interruption in the supply of such third-party technology could have a materially-adverse effect on our business, results of operation, cash flows, and financial condition.

Our products may not be compatible with various operating systems, and, therefore, we may not be able to sell our products to potential customers.

Our products are used in combination with various operating systems. Our future success depends on our ability to continue to support widely-used operating systems. Our applications run on Microsoft-operating systems. Therefore, our ability to increase sales depends on the continued acceptance of Microsoft-operating system products. If we are unable to develop and market products that support Microsoft's operating platforms or develop and market products that support other operating systems on a timely and cost-effective basis, our business and operating results could be adversely affected.

The Company is subject to various government audits, which may result in unfavourable assessments or penalties to the Company.

The Company is occasionally subject to compliance audits from government bodies and agencies relating to its Technology Partnership Canada (TPC) funding agreements, and the U.S. government defence contracts, corporate income tax filings, or federal, state, provincial and municipal government

OSI Geospatial Inc.

Management's Discussion and Analysis
Year ended November 30, 2010 and 2009
(expressed in Canadian dollars)

contracts for the procurement of the Company's products and services. The Company was audited in 2005 by Industry Canada in relation to its TPC funding agreements and as part of a broader Industry Canada review of TPC funding agreements. This compliance audit was focused on ensuring the funding submissions by the Company met the terms and conditions of its TPC funding agreement. The results of the compliance audit required a repayment of contributions received of \$105,000 recognized in the 2006 fiscal year as a reduction in TPC contributions. The royalty audit concluded in 2008 and resulted in a requirement to pay an additional \$16,000. The U.S. government defence contracts are audited on an annual basis by the Defense Contract Auditing Agency for compliance with the U.S. Federal Acquisition Regulations. To date, there have been no audit exceptions or adjustments required.