



2008 FIRST QUARTER REPORT

for the three months ended February 29, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three months ended February 29, 2008

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Management's Discussion and Analysis
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(expressed in U.S. dollars)

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

The following discussion and analysis provides a review of activities, results of operations, and financial condition of OSI Geospatial Inc. for the three months ended February 29, 2008 in comparison with those for the three months ended February 28, 2007. References to "OSI", "the Company", "we", "us", and "our" refer to OSI Geospatial Inc. and its subsidiaries, as applicable. The following discussion should be read in conjunction with our unaudited consolidated interim financial statements, including the notes thereto, for the three months ended February 29, 2008, and the audited annual consolidated financial statements for the year ended November 30, 2007 prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The following discussion should also be read in conjunction with Management's Discussion and Analysis prepared for the year ended November 30, 2007.

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 U.S. dollars unless otherwise indicated.

This report contains forward-looking statements within the meaning of the Ontario Securities Act including Section 138.4(9) and U.S. securities laws including Section 27a of the Securities Act of 1933, as amended, and Section 21e of the Securities Exchange Act of 1934, as amended, including statements regarding the future achievement of corporate objectives, advancement of additional project interests, analysis and development of acquisition opportunities, various project interests and other matters. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these forward-looking statements. These risks include risks related to the effects of general economic conditions, changing foreign exchange rates, actions by government authorities, uncertainties associated with contract negotiations, and industry supply, as well as other factors discussed below and those risks which are discussed under the heading "Risks and Uncertainties". Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

ECPINS, COP-IDS and iGEN are registered trademarks of Offshore Systems Ltd., and CHI Systems Inc, subsidiaries of OSI Geospatial Inc. 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 is subject to change without notice.

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

This management's discussion and analysis is dated April 9, 2008.

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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.

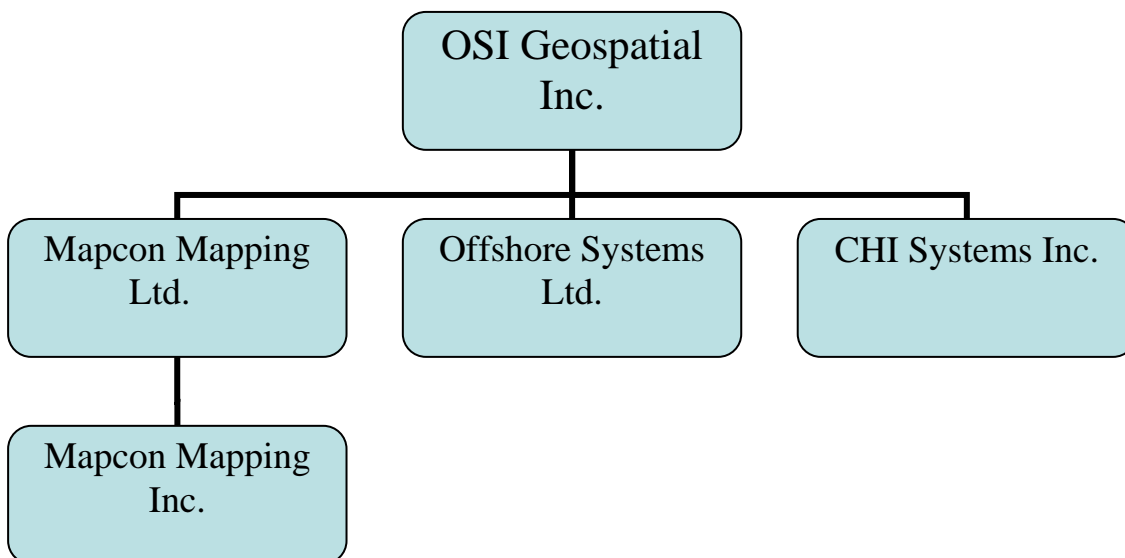
Headquartered in Ottawa, the Company is a globally focused organization with offices across North America and a sales office in the United Kingdom. The Company became a public company in 1990, and is currently listed on the Toronto Stock Exchange (symbol: OSI). We also trade on the Over the Counter Bulletin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

In April 2005, the Company completed the acquisition of all the outstanding shares of Mapcon Mapping Consultants Inc. ("Mapcon") of Salt Lake City, Utah. Mapcon is a land mapping company in the U.S. geospatial mapping market.

In December 2005, the Company completed the acquisition of CHI Systems Inc. ("CHI"), a United States defence contractor. CHI has three offices in the United States, is a supplier of technology and services to the U.S. Department of Defense and key defence prime contractors. CHI has developed C2, training simulation and cognitive agent applications to support its customers in multiple U.S. military agencies.

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

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



Our mission is to provide our customers in the military and security markets with quality geospatial products and services that will enhance operational performance, security and safety through real-time situational awareness. Our clients include the United States Navy, Army, Coast Guard, and Department of Homeland Security, the Canadian Navy and Coast Guard, the UK Royal Navy and other NATO allies around the world. The Company is leveraging our world leading technologies, such as ECPINS®,

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C3COR and iGEN™, to grow our market share, expand our 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 systems and services that provide situational awareness solutions that meet maritime and land command and control requirements. These include our Warship Electronic Chart Display and Information System (ECPINS-W), Warship Automated Identification Systems (W-AIS), Asset Control and Tracking systems (ACT) and Small Unit Situational Awareness system (SUSA).

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

SELECTED DATA

The following tables contain financial information that is derived from the unaudited interim consolidated financial statements for the three months ended February 29, 2008.

| Operations: | For the three months ended | |
|--|-----------------------------------|------------------------------|
| | February 29, 2008 | February 28, 2007 |
| In thousands of U.S. dollars except share related data | | |
| | \$ | \$ |
| Revenue | 5,808 | 3,571 |
| Gross profit | 2,188 | 669 |
| Gross profit percentage | 38% | 19% |
| Net loss | (533) | (1,989) |
| Net loss attributable to common shareholders | (692) | (2,180) |
| Loss per share – basic | (0.01) | (0.06) |
| Loss per share – diluted | (0.01) | (0.06) |
| Weighted average common shares outstanding – basic | 46,956,439 | 36,148,418 |
| Weighted average common shares outstanding - diluted | 46,956,439 | 36,148,418 |

Our quarterly results 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 results.

The increase in revenue for the three months ended February 29, 2008 as compared to the three months ended February 28, 2007 is largely due to the timing of new contracts that are awarded and the delivery schedules of existing contracts.

The higher gross profit and gross profit percentage in the three months ended February 29, 2008 as compared to the three months ended February 28, 2007 is largely due to the mix of revenue. There was more software revenue and less engineering services revenue in the three months ended February 29, 2008 than in the three months ended February 28, 2007. Software revenue generates more favorable margins than other revenue streams and services revenue generates less favorable margins than other revenue streams.

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Fluctuations in gross profit are also influenced by the proportion of engineering labor, third-party systems or third-party labor 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 labor, third-party systems or third-party labor. In order to maintain competitiveness, we may elect to reduce our usual margins on the third-party components.

| Financial Position: | At February 29, 2008 | At November 30, 2007 |
|--------------------------------|---------------------------------|---------------------------------|
| In thousands of U.S. dollars | | |
| | \$ | \$ |
| Working capital ⁽¹⁾ | 6,997 | 7,818 |
| Current assets | 12,202 | 14,905 |
| Long term assets | 11,478 | 11,443 |
| Total assets | 23,680 | 26,348 |
| Current liabilities | 5,205 | 7,087 |
| Long term liabilities | 622 | 647 |
| Total liabilities | 5,827 | 7,734 |
| Shareholders' equity | 17,853 | 18,614 |

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

RESULTS OF OPERATIONS – Three months ended February 29, 2008 as compared to three months ended February 28, 2007

Overall Performance

| Three months ended | February 29, 2008 | February 28, 2007 | 2008 to 2007 |
|---|------------------------------|------------------------------|---------------------|
| In thousands of U.S. dollars | | | |
| Net loss before income taxes | \$ (627) | \$ (1,917) | \$ 1,290 |
| Net loss | \$ (533) | \$ (1,989) | \$ 1,456 |
| Net loss attributable to common shareholders | \$ (692) | \$ (2,180) | \$ 1,488 |
| Loss per share – basic and diluted | (0.01) | (0.06) | 0.05 |

The lower net loss reported for the three months ended February 29, 2008 compared to February 28, 2007 was largely driven by higher revenues and the mix of contracts executed in the period and higher gross profit. There was more software revenue and less systems and services revenue for the quarter ended February 29, 2008 than for the quarter ended February 28, 2007. Software revenue generates more favorable margins than other revenue streams and services revenue generates less favorable margins than other revenue streams.

Backlog

Firm backlog consists of firm, fixed, or signed orders issued and executable subsequent to the balance sheet date. Firm backlog as at February 29, 2008 was at \$42 million compared to \$40 million at February 28, 2007. Of the \$42 million firm backlog, \$10 million is expected to be executed in fiscal 2008 and \$32 million is expected to be executed in fiscal year 2009 and beyond.

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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.

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

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

Revenue

| Three months ended | February 29, 2008 | % of total revenue | February 28, 2007 | % of total revenue | 2008 to 2007 |
|------------------------------|----------------------|--------------------------|----------------------|--------------------------|--------------------|
| In thousands of U.S. dollars | | | | | |
| Marine systems | \$ 2,513 | 43 | \$ 700 | 20 | \$ 1,813 |
| Land and air systems | 2,790 | 48 | 2,348 | 66 | 442 |
| Mapping | 505 | 9 | 523 | 14 | (18) |
| | <u>\$ 5,808</u> | <u>100</u> | <u>\$ 3,571</u> | <u>100</u> | <u>\$ 2,237</u> |

Our core revenue stream is derived from three sources: marine systems, land and air systems, and mapping. In Marine systems, our principal developed product, ECPINS®, delivers the majority of the marine systems revenue. We also derive revenue from the delivery of the ECPINS® software component of our system product. Marine systems delivered 43% and 20% of the revenue for the three months ended February 29, 2008 and February 28, 2007, respectively. Land and air systems through our U.S. Systems operations delivered 48% and 66% of the revenue for the three months ended February 29, 2008 and February 28, 2007, respectively.

Our results are primarily affected by the level, timing, and duration of customer orders and customer product delivery requirements. The main customers for our products and services in the three months ended February 29, 2008 were the Royal Australian Navy, the Department of Homeland Security and the Royal Navy of the U.K. Revenue from these customers accounted for 57% of the consolidated revenue. The main customers for our products and services for the three months ended February 28, 2007 were the U. S. Army, the U.S. Navy, the Defense Threat Reduction Agency, and the Royal Navy of the U.K. Revenue from these customers accounted for 62% of the consolidated revenue.

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Revenue by Segment

| Three months ended | February 29, 2008 | % of total revenue | February 28, 2007 | % of total revenue | 2008 to 2007 |
|---|----------------------|--------------------------|----------------------|--------------------------|-----------------|
| In thousands of U.S. dollars | | | | | |
| International Systems operations | \$ 2,479 | 43 | \$ 700 | 20 | \$ 1,779 |
| U.S. Systems operations | 2,824 | 48 | 2,348 | 66 | 476 |
| Mapping operations | 505 | 9 | 523 | 14 | (18) |
| | <u>\$ 5,808</u> | <u>100</u> | <u>\$ 3,571</u> | <u>100</u> | <u>\$ 2,237</u> |

Revenue from the International Systems operations for the three months ended February 29, 2008 increased 254% due to the timing of new contracts awarded, the delivery schedules of existing contracts and the mix of products and services delivered.

Revenue from the U.S. Systems operations for the three months ended February 29, 2008 increased over the same period from the prior year by 20%. The increase is mainly due to the acquisition of the Layered Security Solutions business unit.

Revenue from the Mapping operations for the three months ended February 29, 2008 decreased over the same period from the prior year by 3% due to the timing of new contracts awarded and the delivery schedules of existing contracts.

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

Gross Profit

| Three months ended | February 29, 2008 | February 28, 2007 | 2008 to 2007 |
|--------------------------------|----------------------|----------------------|--------------|
| In thousands of U.S. dollars | | | |
| Gross profit | \$ 2,188 | \$ 669 | \$ 1,519 |
| Gross profit percentage | 38% | 19% | 19% |

Gross profit increased by 227.0% in the three months ended February 29, 2008 compared to the three months ended February 28, 2007 and the gross profit percentage was 19% higher period-over-period. The increased gross profit and gross profit percentage compared to the prior period is due to higher revenues and due to the mix of contracts in the period with more revenue in the higher margin software sales and less revenue derived from lower margin systems and services products sales.

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Gross Profit by Segment

| Three months ended | February 29, 2008 | February 28, 2007 | 2008 to 2007 |
|---|----------------------|----------------------|--------------|
| In thousands of U.S. dollars | | | |
| Gross profit: | | | |
| International Systems operations | \$ 1,311 | \$ 37 | \$ 1,274 |
| U.S. Systems operations | 773 | 520 | 253 |
| Mapping operations | 104 | 112 | (8) |
| Consolidated operations | \$ 2,188 | \$ 669 | \$ 1,519 |

Gross profit percentage:

| | | | |
|---|-----|-----|-----|
| International Systems operations | 53% | 5% | 48% |
| U.S. Systems operations | 27% | 22% | 5% |
| Mapping operations | 21% | 21% | -% |
| Consolidated operations | 38% | 19% | 19% |

Gross profit from the International Systems operations increased over 30 times and gross profit percentage was 48% higher when compared to the prior period. The increases in the first quarter of 2008 are the result of higher revenues in the International Systems operations and higher margin software sales compared to more revenues from lower margins on systems and services projects in the prior period.

Gross profit from the U.S. Systems operations for the three months ended February 29, 2008 increased 49% and gross profit percentage was 5% higher when compared to February 28, 2007. The increase is due to the addition of new higher margin revenues following the acquisition of the Layered Security Solutions business unit as well as higher margin marine navigation revenue to U.S. customers.

Gross profit from the Mapping operations for the three months ended February 29, 2008 decreased 7% and gross profit percentage remained stable when compared to the prior period. Gross profit percentages are influenced by the mix of projects executed. 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.

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Operating Expenses

| Three months ended | February 29 2008 | % of total revenue | February 28, 2007 | % of total revenue | 2008 to 2007 |
|-----------------------------------|---------------------|--------------------------|----------------------|--------------------------|-----------------|
| In thousands of U.S. dollars | | | | | |
| General and administrative | \$ 1,259 | 21% | \$ 1,247 | 37% | \$ 12 |
| Engineering | 261 | 4% | 481 | 13% | (220) |
| Sales and marketing | 907 | 15% | 780 | 20% | 127 |

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 increased by 1% for three months ended February 29, 2008 compared to the previous year. There was little change in G&A staffing levels and costs between the two periods.

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

Engineering costs decreased by 46% for the three months ended February 29, 2008, compared to the three months ended February 28, 2007. The decrease is mainly related to development-related costs in the amount of \$88,000 which were capitalized in the three months ended February 29, 2008 and will be amortized over the estimated lives of the related products. 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 increased by 16% for three months ended February 29, 2008 compared to the three months ended February 28, 2007. The increases in S&M expenses are primarily due to additional sales and marketing emphasis. 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, and 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

| Three months ended | February 29, 2008 | February 28, 2007 | 2008 to 2007 |
|------------------------------|----------------------|----------------------|--------------|
| In thousands of U.S. dollars | | | |
| Amortization | \$ 199 | \$ 164 | \$ 36 |

Total amortization increased by 22% on the three months ended February 29, 2008 as compared to the three months ended February 28, 2007. For the three months ended February 29, 2008 and February

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28, 2007, a portion of the amortization, \$50,000 and \$53,000 respectively, was included in cost of sales for equipment used in revenue-generating activities.

Interest expense

| Three months ended | February 29, 2008 | February 28, 2007 | 2008 to 2007 |
|------------------------------|----------------------|----------------------|--------------|
| In thousands of U.S. dollars | | | |
| Interest expense | \$ 24 | \$ 22 | \$ 2 |

Interest expense increased by \$2,000 in the three months ended February 29, 2008 as compared to the three months ended February 28, 2007. The Company continued to utilize its operating line credit facility during the period.

Interest income

| Three months ended | February 29, 2008 | February 28, 2007 | 2008 to 2007 |
|------------------------------|----------------------|----------------------|--------------|
| In thousands of U.S. dollars | | | |
| Interest income | \$ 3 | \$ - | \$ 3 |

Interest income increased in the three months ended February 29, 2008 as compared to the three months ended February 28, 2007 as the result of one of the Company's subsidiaries having surplus cash in the three months ended February 28, 2007.

Foreign Exchange

| Three months ended | February 29, 2008 | February 28, 2007 | 2008 to 2007 |
|-------------------------------------|----------------------|----------------------|-----------------|
| In thousands of U.S. dollars | | | |
| Foreign exchange loss (gain) | \$ 38 | \$ (85) | \$ (123) |

The Company's Canadian subsidiaries, whose functional currency is the Canadian dollar, are exposed to foreign exchange gain and loss due to exchange rate movements of the U.S. dollar, the Australian dollar and the UK pound. These fluctuations were not in the Company's favour during the three months ended February 29, 2008 as compared to February 28, 2007.

Technology Partnerships Canada

| Three months ended | February 29, 2008 | February 28, 2007 | 2008 to 2007 |
|------------------------------|----------------------|----------------------|---------------|
| In thousands of U.S. dollars | | | |
| Royalty | \$ 152 | \$ 30 | \$ 123 |

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

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

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period January 1, 2006 to December 31, 2008 and a royalty of 2.5% on annual gross revenue for the period January 1, 2009 to December 31, 2013.

Although we believe that our submissions for TPC funding 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. During the year ended November 30, 2005, the Company was subject to three audits by government authorities. The results of the cost audit did not have a financial impact on the Company's results. 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 2007 and resulted in a requirement to pay an additional \$16,000.

Income Taxes

| Three months ended | February 29, 2008 | February 28, 2007 | 2008 to 2007 |
|---------------------------------------|----------------------|----------------------|--------------|
| In thousands of U.S. dollars | | | |
| Future income tax expense (recovery) | \$ - | \$ (30) | \$ 30 |
| Current income tax (recovery) expense | (94) | 102 | (196) |
| | <u>(94)</u> | <u>72</u> | <u>(166)</u> |

Based on the information available at the time of the issue of the interim financial statements for the three months ended February 29, 2008, we estimated that we would not have sufficient taxable earnings in Canada in future periods to utilize a portion of our \$3.9 million Canadian non-capital losses carried forward, \$8.6 million scientific research and experimental development costs and other Canadian tax balances.

We have recognized a future tax recovery for the three months ended February 29, 2008 related to temporary timing differences between accounting income and income for tax purposes in our U.S. subsidiaries as we believe that it is more likely than not that these differences will be realized in future fiscal years. In accordance with Canadian GAAP, we have provided a valuation allowance against future tax assets where realization did not meet the requirements of "more likely than not" under the liability method of tax allocation. We continue to evaluate our taxable position quarterly and consider factors such as estimated taxable income, the history of losses for tax purposes, and the growth of the Company, among others.

LIQUIDITY AND CAPITAL RESOURCES - February 29, 2008 compared to November 30, 2007

| In thousands of U.S. dollars | February 29, 2008 | November 30, 2007 | 2008 to 2007 |
|--------------------------------|----------------------|----------------------|-----------------|
| Current assets | \$ 12,202 | \$ 14,905 | \$ (2,703) |
| Current liabilities | 5,205 | 7,087 | 1,882 |
| Working capital ⁽¹⁾ | 6,997 | 7,818 | (821) |

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

We strive to maintain cash-contributing profitable operations that provide an adequate liquidity and capital resource base for growth. We believe that cash flow from operating activities, together with lines of credit borrowings of Canadian \$2.0 million and US \$600,000 available under our revolving credit facilities, will be sufficient to fund currently anticipated working capital, planned capital spending, and debt service requirements for the next 12 months. We expect cash flow from operations will continue to

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improve next year as scheduled contract milestone payments will be made on several contracts. The expenditures associated with these contracts have been incurred in prior periods.

At February 29, 2008 our current assets decreased primarily due to a decrease in accounts receivable. Our working capital has decreased mainly due to the decrease in accounts receivable offset by a decrease in accounts payable and accrued liabilities. Accounts receivable decreased due to lower revenues in the first quarter of 2008 compared to the fourth quarter of 2007 and due to collection of significant receivables. Accounts payable and accrued liabilities decreased due to one-time costs which were incurred in the fourth quarter ending November 30, 2007 including severance costs due to reorganization and accrual of estimated settlement costs relating to the lawsuit with Triathlon Ltd.

We have credit facilities consisting of an operating lines, standby letters of credit, and forward exchange contract facilities. The credit facilities permit us to borrow funds directly for general corporate purposes, including acquisitions, at floating rates. At February 29, 2008, we had borrowings of \$820,000 against our operating line. We have an operating line of Canadian \$2.0 million available with a Canadian chartered bank collateralized by accounts receivable and US \$600,000 with a U.S. chartered bank. During the three months ended February 29, 2008, we utilized these facilities. We utilize our forward exchange contract facility to reduce our exposure to exchange rate movements.

Cash Flows

| Three months ended | February 29, 2008 | February 28, 2007 | 2008 to 2007 |
|---|----------------------|----------------------|--------------|
| In thousands of U.S. dollars | | | |
| Cash flows provided by (used in): | | | |
| Operating activities | \$ 639 | \$ 517 | \$ 122 |
| Investing activities | (221) | (49) | (172) |
| Financing activities | (392) | (477) | 85 |
| Effect of foreign exchange on cash | (26) | 9 | (35) |

Cash flows provided by operating activities for the three months ended February 29, 2008 were the result of the net loss for the three months ended February 29, 2008 which was reduced by amortization and stock-based compensation and a decrease in accounts receivable offset by a decrease in accounts payable and accrued liabilities and an increase in prepaid expenses and deposits. Cash flows used in investing activities for the three months ended February 29, 2008 were primarily reflective of the acquisitions of equipment, furnishings and intangibles commensurate with our plans to obtain additional systems and facilities to accommodate our current and future anticipated growth.

Cash flows used in financing activities for the three months ended February 29, 2008 were the result of a decrease in the operating line of credit and the semi-annual dividends on our Class B preference shares.

As a result of the above mentioned changes, the line of credit utilization decreased by \$15,000 for the three months ended February 29, 2008.

In order to reduce the impact of exchange rate fluctuations, we use the forward exchange contract facility to mitigate any foreign exchange gain or loss that might occur. We use the forward exchange contract facility only for known or reasonably certain future foreign currency transactions. At February 29, 2008 we had entered into forward exchange contracts in the amount of U.S. \$76,000, £1,150,000 and Australian \$438,000.

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

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CONTRACTUAL OBLIGATIONS

| Payments due by period | Total | Less than 1 year | 1 to 3 years | 4 to 5 years | After 5 years |
|--------------------------------------|-----------------|------------------|-----------------|-----------------|-----------------|
| In thousands of U.S. dollars | | | | | |
| Facility leases | \$ 4,518 | \$ 769 | \$ 1,496 | \$ 1,053 | \$ 1,200 |
| Capital equipment leases | 289 | 89 | 148 | 52 | - |
| Operating equipment leases | 89 | 36 | 53 | - | - |
| Total contractual obligations | \$ 4,896 | \$ 894 | \$ 1,697 | \$ 1,105 | \$ 1,200 |

OFF BALANCE SHEET ARRANGEMENTS

Guarantees

The Company has entered into a one year guarantee for one of the Company's subsidiaries, CHI Systems Inc ("CHI"). The Company has guaranteed CHI's bank line of credit that was put in place by the previous owners prior to OSI Geospatial's acquisition of CHI. The maximum potential amount of future payments the Company could be required to make under this guarantee is \$600,000 U.S. At November 30, 2007, the carrying amount of the liability was \$150,000 U.S. dollars.

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

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

TRANSACTIONS WITH RELATED PARTIES

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

PROPOSED TRANSACTIONS

We are not currently engaged in any proposed transactions.

OSI Geospatial Inc.

Management's Discussion and Analysis
For the three months ended February 29, 2008
(expressed in U.S. dollars)

SELECTED QUARTERLY DATA (UNAUDITED)

In thousands of U.S. dollars

| For the three months ended | February 29 2008 | November 30 2007 | August 31 2007 | May 31 2007 |
|--|---------------------|---------------------|-------------------|----------------|
| Revenue | \$ 5,808 | \$ 8,276 | \$ 7,342 | \$ 6,138 |
| Gross profit | 2,188 | 3,593 | 3,048 | 2,455 |
| Gross profit percentage | 38% | 43% | 42% | 40% |
| Net earnings (loss) | (533) | (798) | 279 | (366) |
| Net earnings (loss) attributable to common shareholders | (692) | (960) | 109 | (748) |
| Loss per share – basic | (0.01) | (0.02) | 0.00 | (0.02) |
| Loss per share – diluted | (0.01) | (0.02) | 0.00 | (0.02) |

| For the three months ended | February 28 2007 | November 30 2006 | August 31 2006 | May 31 2006 |
|--|---------------------|---------------------|-------------------|----------------|
| Revenue | \$ 3,571 | \$ 10,018 | \$ 4,714 | \$ 5,742 |
| Gross profit | 669 | 5,461 | 1,801 | 2,197 |
| Gross profit percentage | 19% | 55% | 38% | 38% |
| Net earnings (loss) | (1,989) | 2,785 | (311) | (311) |
| Net earnings (loss) attributable to common shareholders | (2,180) | 2,560 | (574) | (837) |
| Loss per share – basic | (0.06) | 0.08 | (0.02) | (0.03) |
| Loss per share – diluted | (0.06) | 0.05 | (0.02) | (0.03) |

CRITICAL ACCOUNTING POLICIES

These items are substantially unchanged as discussed in the Company's MD&A for the year ended November 30, 2007 as contained in our 2007 Annual Report filed on SEDAR at www.sedar.com or our annual Form 20-F report which will be filed on EDGAR at www.sec.gov.

RECENT ACCOUNTING PRONOUNCEMENTS

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

The CICA has issued CICA Handbook Section 3031 *Inventories* which will replace CICA 3030 *Inventories*. CICA 3031 will create changes from current practice, including the reversal of impairment write-downs, which is not permitted currently and more extensive disclosure. The section is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

The CICA has issued CICA Handbook Section 3064 Goodwill and Intangible Assets which replaces Section 3062 Goodwill and Other Intangibles and Section 3450 Research and Development Costs. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including the development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licenses, intellectual property, market knowledge and trademarks. This Section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008.

The Company is assessing the impact on its consolidated financial statements of the above recent pronouncements.

OSI Geospatial Inc.

Management's Discussion and Analysis
For the three months ended February 29, 2008
(expressed in U.S. dollars)

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Foreign Exchange Forward Contracts

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposure to reduce its exposure to fluctuations in foreign exchange on certain committed and anticipated transactions. The Company formally documents the relationships between derivative financial instruments and hedged items, as well as the risk management objective and strategy. The Company assesses, on an ongoing basis, whether the derivative financial instruments continue to be effective in offsetting changes in fair values or cash flows of the hedged transactions.

Changes in fair value of foreign currency denominated derivative financial instruments used to hedge anticipated or committed foreign currency exposures are recognized as an adjustment to the related operating costs or revenue when the hedged transaction is recorded. Derivatives are not subject to hedge accounting and are recorded on the consolidated balance sheets with the changes in fair value being recorded in the consolidated statement of operations each period.

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

At February 29, 2008, we had entered into the following foreign exchange forward contracts, which were not treated as hedges in accordance with CICA Section 3865:

| <i>Sell</i> | <i>Exchange rate in relation to CAD</i> | <i>Value date</i> |
|---------------|---|--|
| GBP 1,150,000 | 1.9522 to 1.9656 | February 6, 2008 to September 19, 2008 |
| AUD 438,000 | 0.8882 to 0.9089 | December 13, 2007 to May 26, 2008 |
| USD 76,000 | 0.9494 | March 20, 2008 |

DISCLOSURE OF OUTSTANDING SHARE DATA

As at March 31, 2008, we had 46,956,439 issued and outstanding common shares and 3,535,166 outstanding stock options. As at March 31, 2008, we also had 30,262 issued and outstanding class A preference shares and 178,530 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 10,501,765 common shares. Also at March 31, 2008, we had 16,568,368 outstanding common share purchase warrants convertible to common shares at a conversion ratio of 1:1, representing 16,568,368 common shares.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintained a set of disclosure controls and procedures during the three months ended February 29, 2008 designed to ensure that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in provincial securities legislation as defined under Multilateral Instrument 52-109. The Chief Executive Officer and the Chief Financial Officer have determined that there were no changes to the Company's disclosure controls and procedures during the three month period ended February 29, 2008 that have materially affected, or are reasonably likely to materially affect the design and operation of these disclosure controls and procedures.

OSI Geospatial Inc.

Management's Discussion and Analysis
For the three months ended February 29, 2008
(expressed in U.S. dollars)

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company maintains internal controls over financial reporting which have been designed to provide reasonable assurance of the reliability of external financial reporting as required by Multilateral Instrument 52-109. The Chief Executive Officer and the Chief Financial Officer, along with other employees to the extent considered necessary and appropriate, have designed internal controls over financial reporting that are effective as at February 29, 2008.

Nonetheless, the Chief Executive Officer and the Chief Financial Officer have identified areas where the Company can enhance process controls and they intend to incorporate such enhancements into the internal controls over financial reporting during the current fiscal year. The Company employs entity level controls to compensate for any deficiencies that may exist. Under 52-109, the Chief Executive Officer and the Chief Financial Officer are not required to, and have not yet tested the actual effectiveness of the Company's internal controls over financial reporting.

There were no changes in the Company's internal control over financial reporting that occurred since the beginning of the Company's current fiscal year to the date of this document that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

RISKS AND UNCERTAINTIES

The primary risks and uncertainties that affect and may affect us and our business, financial condition and results of operations are substantially unchanged as discussed in the Company's MD&A for the year ended November 30, 2007 as contained in our 2007 Annual Report filed on SEDAR at www.sedar.com or our annual Form 20-F which will be reported on EDGAR at www.sec.gov.

OSI Geospatial Inc.

**Interim Consolidated Financial Statements (Unaudited)
Three months ended February 29, 2008 and February 28, 2007
(expressed in U.S. dollars)**

(Prepared in accordance with Canadian Generally Accepted Accounting Principles)

OSI Geospatial Inc.

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

Consolidated Balance Sheets (unaudited)

| In thousands of U.S. dollars | February 29, 2008 | November 30, 2007 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Accounts receivable and unbilled revenue | \$ 9,983 | \$ 13,055 |
| Inventory | 1,273 | 1,216 |
| Prepaid expenses and deposits | 814 | 502 |
| Current portion of future income tax asset | 132 | 132 |
| | <hr/> 12,202 | <hr/> 14,905 |
| Deferred development costs | 189 | 97 |
| Future income tax asset | 270 | 271 |
| Equipment and furnishings | 1,879 | 1,914 |
| Intangible and other assets | 840 | 861 |
| Goodwill | 8,300 | 8,300 |
| | <hr/> \$ 23,680 | <hr/> \$ 26,348 |
| Liabilities | | |
| Current liabilities | | |
| Bank indebtedness | \$ 820 | \$ 822 |
| Accounts payable and accrued liabilities | 3,786 | 5,585 |
| Income taxes payable | 106 | 179 |
| Unearned revenue | 364 | 392 |
| Current portion of deferred rent | 39 | 38 |
| Current portion of future income tax liability | 25 | 25 |
| Current portion of capital lease obligations | 65 | 46 |
| | <hr/> 5,205 | <hr/> 7,087 |
| Deferred rent | 342 | 347 |
| Capital lease obligation | 180 | 200 |
| Future income tax liability | 100 | 100 |
| | <hr/> 5,827 | <hr/> 7,734 |
| Shareholders' Equity | | |
| Issued and outstanding | | |
| 30,262 Class A, Series A preference shares (2007 – 30,262) | 19 | 19 |
| 178,530 Class B, Series 2 preference shares (2007 – 178,530) | 4,542 | 4,542 |
| 46,956,439 common shares (2007 – 46,956,439) | 21,293 | 21,293 |
| | <hr/> 25,854 | <hr/> 25,854 |
| Warrants | 4,181 | 4,618 |
| Contributed surplus | 2,116 | 1,679 |
| Accumulated deficit | (17,474) | (16,564) |
| Accumulated other comprehensive income | 3,176 | 3,027 |
| | <hr/> 17,853 | <hr/> 18,614 |
| | <hr/> \$ 23,680 | <hr/> \$ 26,348 |

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

OSI Geospatial Inc.

Consolidated Statements of Operations (unaudited)

| | Three months ended | |
|---|---------------------|---------------------|
| | February 29 2008 | February 28 2007 |
| In thousands of U.S. dollars, except share related data | | |
| Revenue | | |
| Marine systems | \$ 2,513 | \$ 700 |
| Land and air systems | 2,790 | 2,348 |
| Mapping | 505 | 523 |
| | <u>5,808</u> | <u>3,571</u> |
| Cost of sales | <u>3,620</u> | <u>2,902</u> |
| Gross profit | <u>2,188</u> | <u>669</u> |
| Expenses (income) | | |
| General and administrative | 1,259 | 1,247 |
| Engineering | 261 | 481 |
| Sales and marketing | 907 | 780 |
| Amortization | 149 | 111 |
| Interest expense | 24 | 22 |
| Interest income | (3) | - |
| Foreign exchange loss (gain) | 38 | (85) |
| Loss on disposal of intangibles and other assets | 28 | - |
| Technology Partnerships Canada royalty | 152 | 30 |
| | <u>2,815</u> | <u>2,586</u> |
| Net loss before income taxes | <u>(627)</u> | <u>(1,917)</u> |
| Future income tax (recovery) | - | (30) |
| Current income tax (recovery) expense | (94) | 102 |
| Income tax (recovery) expense | <u>(94)</u> | <u>72</u> |
| Net loss | <u>\$ (533)</u> | <u>\$ (1,989)</u> |
| Accumulated deficit, beginning of period | (16,564) | (13,296) |
| Dividends on Class B preference shares | (338) | - |
| Tax expense on dividends | (39) | - |
| Accumulated deficit, end of period | <u>\$ (17,474)</u> | <u>\$ (15,285)</u> |
| Net loss attributable to common shareholders (note 4c) | <u>\$ (692)</u> | <u>\$ (2,180)</u> |
| Loss per share (note 4c) - basic and diluted | \$ (0.01) | \$ (0.06) |
| Weighted average number of common shares outstanding (note 4c) – basic and diluted | 46,956,439 | 36,148,418 |

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

OSI Geospatial Inc.

Consolidated Statements of Comprehensive Income (Loss) (unaudited)

| In thousands of U.S. dollars | Three months ended | |
|--|---------------------|---------------------|
| | February 29 2008 | February 28 2007 |
| Net loss | \$ (533) | \$ (1,989) |
| Other comprehensive income (loss), net of taxes | | |
| Unrealized gain (loss) on translation of self-sustaining foreign operations | 149 | (138) |
| Comprehensive loss | \$ (384) | \$ (2,127) |

OSI Geospatial Inc.

Consolidated Statements of Accumulated Other Comprehensive Income (Loss) (unaudited)

| In thousands of U.S. dollars | February 29 | November 30 |
|---|-----------------|-----------------|
| | 2008 | 2007 |
| Accumulated other comprehensive income, beginning of the period | \$ 3,027 | \$ 2,427 |
| Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations | 149 | 600 |
| Accumulated other comprehensive income, end of period | \$ 3,176 | \$ 3,027 |

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

OSI Geospatial Inc.

Consolidated Statements of Cash Flows (unaudited)

| In thousands of U.S. dollars | For the three months ended | |
|--|----------------------------|---------------------|
| | February 29 2008 | February 28 2007 |
| Cash flows from operating activities | | |
| Net loss for the period | \$ (533) | \$ (1,989) |
| Items not affecting cash | | |
| Amortization | 199 | 164 |
| Loss on disposal of patents | 28 | - |
| Stock-based compensation | 5 | 53 |
| Future income taxes | - | (30) |
| | <u>(301)</u> | <u>(1,802)</u> |
| Changes in non-cash working capital items | | |
| Accounts receivable | 3,221 | 4,597 |
| Inventory | (29) | (258) |
| Prepaid expenses and deposits | (300) | (423) |
| Accounts payable and accrued liabilities | (1,895) | (1,294) |
| Income taxes payable | (13) | (176) |
| Deferred rent | (11) | - |
| Unearned revenue | (33) | (127) |
| | <u>940</u> | <u>2,319</u> |
| | <u>639</u> | <u>517</u> |
| Cash flows used in investing activities | | |
| Development costs deferred | (88) | - |
| Additions to plant and furnishings | (33) | (27) |
| Additions to leaseholds | (10) | - |
| Additions to intangibles and other assets | (90) | (22) |
| | <u>(221)</u> | <u>(49)</u> |
| Cash flows used in financing activities | | |
| Repayment to operating line of credit | (15) | (477) |
| Class B preference share dividends declared and paid | (377) | - |
| | <u>(392)</u> | <u>(477)</u> |
| Effect of foreign exchange on cash balances | <u>(26)</u> | <u>9</u> |
| Decrease in cash and cash equivalents | - | - |
| Cash and cash equivalents – beginning of period | - | - |
| Cash and cash equivalents – end of period | <u>\$ -</u> | <u>\$ -</u> |

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

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)
Three Months Ended February 29, 2008 and February 28, 2007

1 Basis of presentation

These unaudited interim consolidated financial statements have been prepared by management and include the accounts of OSI Geospatial Inc. and its subsidiaries, collectively referred to as OSI Geospatial or the Company. These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") and all amounts have been expressed in thousands of U.S. dollars unless otherwise noted.

These unaudited interim consolidated financial statements have been prepared using the same accounting policies used in the preparation of the audited annual consolidated financial statements for the year ended November 30, 2007 with the exception of the application of the accounting policies described in Note 3.

The annual and interim consolidated financial statements originally issued for February 28, 2007 and prior periods were prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). These previously released financial statements included a reconciliation to Canadian GAAP. The Company has restated all comparative amounts presented in accordance with Canadian GAAP and has re-issued the unaudited interim consolidated financial statements for the quarters ended February 28, 2007 and May 31, 2007, including full comparative information presented in accordance with Canadian GAAP.

These unaudited interim consolidated financial statements do not include all the information and footnote disclosures required by Canadian GAAP for annual audited consolidated financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements.

The preparation of these unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported. Actual results could vary from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

2 Nature of operations

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

3 Adoption of new accounting standards

Effective December 1, 2007 the Company adopted the following new accounting standards.

Capital Management

The Canadian Institute of Chartered Accountants ("CICA") Handbook section 1535, *Capital Disclosures*, requires the Company to disclose information about the Company's objectives, policies and processes for the management of its capital. The impact of this new accounting standard on the Company's interim and annual financial statements is limited to providing additional disclosure requirements.

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)
Three Months Ended February 29, 2008 and February 28, 2007

Financial Instruments – Recognition and Measurement

CICA Handbook section 3862, *Financial Instruments – Disclosures*, and Handbook section 3863, *Financial Instruments- Presentation*, require the disclosure of information with regard to the significance of financial instruments for the Company's financial position and performance, and the nature and extent of risk arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how the Company manages those risks. The impact of this new accounting standard on the Company's interim and annual financial statements is additional disclosure requirements.

Financial instrument classification is as follows:

- | | |
|--|-----------------------|
| • Cash and bank indebtedness | Held for trading |
| • Accounts receivable | Loans and receivables |
| • Derivative assets and liabilities | Held for trading |
| • Accounts payable and accrued liabilities | Other liabilities |
| • Long-term liabilities | Other liabilities |

4 Capital Stock

a) Warrants

On February 12, 2008, 1,393,301 common share purchase warrants valued at \$437,000 expired. Accordingly, the Company has reduced warrants by \$437,000 with a corresponding increase to contributed surplus.

b) Stock option plans

A summary of the status of the Company's stock option plans at February 29, 2008 is as follows:

In Canadian dollars

| | Number of shares | Weighted average exercise price |
|-----------------------------------|---------------------|--|
| Outstanding - beginning of period | 3,596,166 | 0.80 |
| Granted | - | - |
| Forfeited | (61,000) | 0.83 |
| Expired | - | - |
| Outstanding - end of period | 3,535,166 | 0.80 |
| Exercisable – end of period | 3,489,957 | 0.80 |

Stock-based compensation

For the three months ended February 29, 2008, the Company incurred non-cash stock-based compensation expense of \$5,000 (three months ended February 28, 2007 - \$53,000) related to 104,000 stock options granted in 2007. Of the 104,000 stock options granted, 52,000 will vest over one year and 52,000 will vest over two years from the grant date. The expense was included in general and administrative costs and was recorded in contributed surplus.

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)
Three Months Ended February 29, 2008 and February 28, 2007

c) Loss per share

| In thousands of U.S. dollars, except share related data | For the three months ended | |
|---|----------------------------|---------------------|
| | February 29 2008 | February 28 2007 |
| Loss per share – basic and diluted | | |
| Net loss for the period | \$ (533) | \$ (1,989) |
| Less: | | |
| Class B Series 2 preference share dividends | (159) | (191) |
| Net loss available to common shareholders | \$ (692) | \$ (2,180) |
| Weighted average number of common shares outstanding – basic and diluted | 46,956,439 | 36,148,418 |
| Loss per share – basic and diluted | \$ (0.01) | \$ (0.06) |

The preference shares, the outstanding warrants and stock options were anti-dilutive for the purposes of calculating diluted earnings (loss) for the three months ended February 29, 2008

If all preferred shares were converted, and all warrants and options were exercised, there would be a total of 76,198,696 common shares outstanding at February 29, 2008 (November 30, 2007 – 77,652,997). As a result of the exercise of all warrants and options, the Company would receive cash of \$15.9 million (November 30, 2007 - \$17.2 million).

5 Financial Instruments

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

Credit Risk

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 February 29, 2008, 64% of its accounts receivable was with national and international government clients. Due to the low risk nature of the government clients and a history of excellent collections, provisions for doubtful accounts are made on a customer by customer basis, based on ongoing customer discussions.

The Company is exposed to non-performance by counterparties to foreign currency forward contracts. These counterparties are major financial institutions and to date, no such counterparty has failed to meet its financial obligations to the Company. Management does not believe there is a significant risk of non-performance by these counterparties because the positions with and the credit rating of these counterparties are monitored.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)
Three Months Ended February 29, 2008 and February 28, 2007

In thousands of U.S. dollars

| | February 29, 2008 | November 30, 2007 |
|---------------------------------|------------------------------|------------------------------|
| Trade accounts receivable | \$ 4,307 | \$ 7,570 |
| Unbilled revenue | 5,411 | 5,312 |
| Other | 274 | 182 |
| Allowance for doubtful accounts | (9) | (9) |
| | <u>\$ 9,983</u> | <u>\$ 13,055</u> |

The aging of accounts receivable at the reporting date was:

In thousands of U.S. dollars

| | February 29, 2008 | November 30, 2007 |
|-------------------------------|------------------------------|------------------------------|
| Current | \$ 3,428 | \$ 5,965 |
| Past due (61 – 90 days) | 273 | 576 |
| Past due greater than 90 days | 606 | 1,029 |
| | <u>\$ 4,307</u> | <u>\$ 7,570</u> |

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

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holding of financial instruments.

Foreign exchange risk

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates. The Company is exposed to foreign currency fluctuations mainly on its accounts receivable and future cash flows related to contracts denominated in a foreign currency. The Company's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures. The Company's objective is to manage and control exposures and secure the Company's profitability on existing contracts and therefore, the Company's policy is to hedge the majority of its foreign currency exposure. The Company does not utilize derivative financial instruments for trading or speculative purposes. The Company formally documents all relationships between derivative financial instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm contractually related commitments on projects.

The Company did not designate its foreign exchange forward contracts as a hedge of underlying assets, liabilities, firm commitments or anticipated transactions in accordance with CICA Handbook Section 3865, *Hedges*, and accordingly did not use hedge accounting. As a result of this, the foreign exchange forward contracts are recorded on the consolidated balance sheet at fair value in other receivables when the contracts are in a gain position and in other accrued liabilities when the contracts are in a loss position. The fair value of the foreign exchange forward contracts was a recorded asset in other receivables of \$26,000 at February 29, 2008 and a recorded liability in accounts payable and accrued liabilities of \$137,000 at November 30, 2007.

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three Months Ended February 29, 2008 and February 28, 2007

Changes in fair value of these contracts are recognized as gains or losses in the consolidated statement of operations.

The forward foreign exchange contracts primarily require the Company to sell certain foreign currencies for Canadian dollars at contractual rates. The Company had the following forward foreign exchange contracts:

| In thousands of dollars | | | | February 29, 2008 | |
|-------------------------|----------|----------|----------------|--------------------------|------------|
| Type | Notional | Currency | Maturity | Equivalent to US Dollars | Fair Value |
| Sell | 150 | GBP | March 2008 | 300 | \$ 3 |
| Sell | 200 | GBP | April 2008 | 400 | 4 |
| Sell | 100 | GBP | May 2008 | 200 | 3 |
| Sell | 500 | GBP | June 2008 | 1,000 | 15 |
| Sell | 50 | GBP | August 2008 | 100 | 2 |
| Sell | 150 | GBP | September 2008 | 299 | 5 |
| Sell | 76 | USD | March 2008 | 74 | (2) |
| Sell | 105 | AUD | March 2008 | 96 | (3) |
| Sell | 333 | AUD | May 2008 | 309 | - |
| | | | | | \$ 27 |

| In thousands of dollars | | | | November 30, 2007 | |
|-------------------------|----------|----------|----------------|--------------------------|------------|
| Type | Notional | Currency | Maturity | Equivalent to US Dollars | Fair Value |
| Sell | 330 | GBP | February 2008 | 666 | (11) |
| Sell | 100 | GBP | March 2008 | 197 | (8) |
| Sell | 100 | GBP | April 2008 | 197 | (8) |
| Sell | 100 | GBP | May 2008 | 197 | (8) |
| Sell | 500 | GBP | June 2008 | 980 | (41) |
| Sell | 50 | GBP | August 2008 | 98 | (4) |
| Sell | 150 | GBP | September 2008 | 293 | (12) |
| Sell | 1,100 | USD | January 2008 | 1,074 | (25) |
| Sell | 600 | USD | February 2008 | 600 | - |
| Sell | 500 | USD | March 2008 | 475 | (25) |
| | | | | | \$ (142) |

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 \$75,000. A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would also impact the reporting currency balance sheet values with an offsetting adjustment of approximately \$600,000 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 \$1,600 increase in the loss of the Company for this quarter.

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three Months Ended February 29, 2008 and February 28, 2007

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet liabilities when due. The Company has operating lines of credit of CAD \$2,000,000 and US \$600,000. At February 29, 2008, the Company utilization's of its lines of credit was CAD \$308,000 (2007 - \$265,000) and US \$150,000 (2007 – US \$520,000). All of the Company's financial liabilities, other than capital lease obligations, have contractual maturities of less than 45 days.

The table below analyzes the following liabilities which will settle as indicated based on the remaining periods at February 29, 2008 to the contractual maturity date. The amounts disclosed in this table are the contractual undiscounted cash flows. Balances within twelve months equal the carrying balance as the impact of discounting is not significant.

| Payments due by period | Total | Less than 1 year | 1 to 3 years | 4 to 5 years | After 5 years |
|--------------------------------------|-----------------|-------------------------|---------------------|---------------------|----------------------|
| <i>In thousands of U.S. dollars</i> | | | | | |
| Facility leases | \$ 4,518 | \$ 769 | \$ 1,496 | \$ 1,053 | \$ 1,200 |
| Capital equipment leases | 289 | 89 | 148 | 52 | - |
| Operating equipment leases | 89 | 36 | 53 | - | - |
| Total contractual obligations | <u>\$ 4,896</u> | <u>\$ 894</u> | <u>\$ 1,697</u> | <u>\$ 1,105</u> | <u>\$ 1,200</u> |

Fair values

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

The fair values of the Company's forward foreign exchange contracts are based on the current market values of similar contracts with the same remaining duration as if the contracts had been entered into on February 29, 2008.

6 Capital structure management

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management defines capital as the Company's total shareholders' equity excluding accumulated other comprehensive income. The Company reviews on a semi-annual basis whether any dividends should be paid.

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The Company has certain credit facilities with a Canadian chartered bank, which consist of an operating line, a foreign exchange forward contract facility and standby letters of credit. The operating line bears interest at the chartered bank's prime lending rate plus 0.5% with interest payable monthly. The Company also has an operating line with a U.S. chartered bank which bears interest at the bank's prime lending rate plus 0.5%. The maximum amount available to the Company under the operating lines are CAD \$2,000,000 and US \$600,000. The credit facilities are collateralized by a general assignment of book debts, a general security agreement and general security agreements, from each of Offshore Systems Ltd., Mapcon Mapping Ltd. and Mapcon Mapping Inc. In addition, the Company is required to meet certain covenants as outlined in the credit facilities agreement. The Company was in compliance with these covenants at February 29, 2008 and November 30, 2007.

There were no changes in the Company's approach to capital management during the period. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

7 Segmented information

The Company's reportable segments are International Systems Operations, U.S. Systems Operations, Mapping Operations and Corporate and Public Company costs. Information about the Company's reportable segments is as follows:

In thousands of U.S. dollars

Three Months Ended February 29, 2008

| | International Systems Operations | U.S. Systems Operations | Mapping Operations | Corporate and Public Company Costs | Total |
|--|--|-------------------------------|-----------------------|---|----------|
| Revenue | \$ 2,479 | \$ 2,824 | \$ 505 | \$ - | \$ 5,808 |
| Gross profit | 1,311 | 773 | 104 | - | 2,188 |
| Technology Partnerships Canada | 152 | - | - | - | 152 |
| Interest expense | - | 14 | - | 10 | 24 |
| Income tax expense (recovery) | - | (112) | - | 18 | (94) |
| Net earnings (loss) | 172 | 324 | (216) | (813) | (533) |
| Equipment and furnishings expenditures | 10 | 22 | 4 | 7 | 43 |
| Intangible expenditures | 1 | 47 | 1 | 41 | 90 |
| Amortization | \$ 62 | \$ 92 | \$ 41 | \$ 4 | \$ 199 |

In thousands of U.S. dollars

Three Months Ended February 28, 2007

| | International Systems Operations | U.S. Systems Operations | Mapping Operations | Corporate and Public Company Costs | Total |
|--|--|-------------------------------|-----------------------|---|----------|
| Revenue | \$ 700 | \$ 2,348 | \$ 523 | \$ - | \$ 3,571 |
| Gross profit | 37 | 520 | 112 | - | 669 |
| Technology Partnerships Canada - net | 30 | - | - | - | 30 |
| Interest expense | - | - | - | 22 | 22 |
| Income tax expense (recovery) | - | 54 | (12) | 30 | 72 |
| Net earnings (loss) | (1,156) | 79 | (208) | (704) | (1,989) |
| Equipment and furnishings expenditures | 14 | 6 | 7 | - | 27 |
| Intangible expenditures | 10 | 7 | 5 | - | 22 |
| Amortization | \$ 50 | \$ 77 | \$ 36 | \$ 1 | \$ 164 |

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In thousands of U.S. dollars

| Total assets employed | International | U.S. | Mapping | Corporate | Total |
|-------------------------|-----------------------|-----------------------|------------|--------------------------------|-----------|
| | Systems Operations | Systems Operations | Operations | and Public Company Costs | |
| As at February 29, 2008 | \$ 8,618 | \$ 11,770 | \$ 2,749 | \$ 543 | \$ 23,680 |
| As at November 30, 2007 | \$ 8,704 | \$ 13,859 | \$ 3,648 | \$ 137 | \$ 26,348 |

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

In thousands of U.S. dollars

| | For the three months ended | |
|-----------------------|----------------------------|---------------------|
| | February 29 2008 | February 28 2007 |
| United States | \$ 2,947 | \$ 2,578 |
| Europe | 1,212 | 353 |
| Australia/New Zealand | 1,028 | 156 |
| Canada | 621 | 484 |
| Total | \$ 5,808 | \$ 3,571 |

Geographically, equipment and furnishings and intangible and other assets are reported based on location. At February 29, 2008 and November 30, 2007, all of the Company's equipment and furnishings and intangible and other assets were located in Canada and the U.S. as follows:

In thousands of U.S. dollars

| | February 29, 2008 | | |
|-----------------------------|-------------------|----------|-----------|
| | Canada | U.S. | Total |
| Equipment and furnishings | \$ 1,573 | \$ 306 | \$ 1,879 |
| Intangible and other assets | 325 | 515 | 840 |
| Goodwill | - | 8,300 | 8,300 |
| Total | \$ 1,898 | \$ 9,121 | \$ 11,019 |

In thousands of U.S. dollars

| | November 30, 2007 | | |
|-----------------------------|-------------------|----------|-----------|
| | Canada | U.S. | Total |
| Equipment and furnishings | \$ 1,588 | \$ 326 | \$ 1,914 |
| Intangible and other assets | 300 | 561 | 861 |
| Goodwill | - | 8,300 | 8,300 |
| Total | \$ 1,888 | \$ 9,187 | \$ 11,075 |

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8 Restructuring Charges

During the fourth quarter of 2007, the Company reduced its headcount by three persons who were principally involved in sales and administration. The Company recorded a personnel restructuring charge of \$331,000 consisting of severance and certain other benefit costs. The Company paid \$111,000 of these restructuring charges in the first quarter of 2008. All of the remaining 2007 restructuring cost will be paid by November 30, 2008.

9 Comparative figures

Certain comparative amounts have been reclassified to conform to the current presentation. Certain business and development costs were previously included under general and administration expenses.