

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)

In thousands of U.S. dollars, except share related data	Three months ended	
	February 29 2008	February 28 2007
Revenue		
Marine systems	\$ 2,513	\$ 700
Land and air systems	2,790	2,348
Mapping	505	523
	<hr/>	<hr/>
	5,808	3,571
Cost of sales	<hr/>	<hr/>
	3,620	2,902
	<hr/>	<hr/>
Gross profit	2,188	669
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
	<hr/>	<hr/>
	2,815	2,586
	<hr/>	<hr/>
Net loss before income taxes	(627)	(1,917)
	<hr/>	<hr/>
Future income tax (recovery)	-	(30)
Current income tax (recovery) expense	(94)	102
	<hr/>	<hr/>
Income tax (recovery) expense	(94)	72
	<hr/>	<hr/>
Net loss	\$ (533)	\$ (1,989)
	<hr/>	<hr/>
Accumulated deficit, beginning of period	(16,564)	(13,296)
Dividends on Class B preference shares	(338)	-
Tax expense on dividends	(39)	-
	<hr/>	<hr/>
Accumulated deficit, end of period	\$ (17,474)	\$ (15,285)
	<hr/>	<hr/>
Net loss attributable to common shareholders (note 4c)	\$ (692)	\$ (2,180)
	<hr/>	<hr/>
Loss per share (note 4c) - basic and diluted	\$ (0.01)	\$ (0.06)
	<hr/>	<hr/>
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)

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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.

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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.

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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	<u>3,535,166</u>	<u>0.80</u>
Exercisable – end of period	<u>3,489,957</u>	<u>0.80</u>

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.

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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:

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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.

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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.

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

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.