



Interim Financial Report 2008 Third Fiscal Quarter

ended August 31, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three and nine months ended August 31, 2008

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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 and nine months ended August 31, 2008 in comparison with those for the three and nine months ended August 31, 2007. References to "OSI Geospatial", "the Company", "we", "us", and "our" refer to OSI Geospatial Inc. and its subsidiaries, as applicable. The following discussion should be read in conjunction with our unaudited consolidated interim financial statements, including the notes thereto, for the three and nine months ended August 31, 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 includes statements regarding the future achievement of corporate objectives, advancement of additional project interests, analysis and development of acquisition opportunities, various project interests and other matters. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these forward-looking statements. These risks include risks related to the effects of general economic conditions, changing foreign exchange rates, actions by government authorities, uncertainties associated with contract negotiations, and industry supply, as well as other factors discussed below and those risks which are discussed under the heading "Risks and Uncertainties". Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

ECPINS and COP-IDS are registered trademarks of Offshore Systems Ltd., an OSI Geospatial company. IGEN and C3CORE are registered trademarks of CHI Systems Inc., an OSI Geospatial company. Other Company brand, product and service names are for identification purposes only and may be either trademarks, service marks or registered trademarks of their respective owners. Data subject to change without notice

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

This management's discussion and analysis is dated October 8, 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.

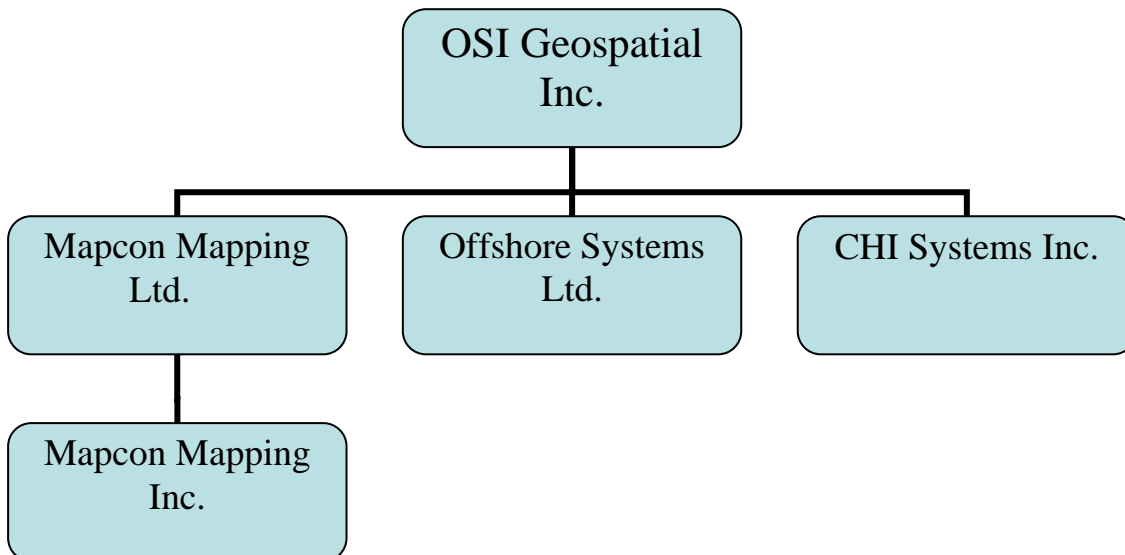
Headquartered in Ottawa, the Company is a globally focused organization with offices across North America and a sales office in the United Kingdom. The Company became a public company in 1990, and is currently listed on the Toronto Stock Exchange (symbol: OSI).

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 four 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®, C3COR and iGEN™ to grow our market share, expand our customer base and enter into adjacent

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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 nine months ended August 31, 2008.

Operations:	For the nine months ended August 31	
	2008	2007
In thousands of U.S. dollars except share related data		
	\$	\$
Revenue	18,580	17,050
Gross profit	6,411	6,172
Gross profit percentage	35%	36%
Net loss	(2,365)	(2,076)
Net loss attributable to common shareholders	(3,162)	(2,628)
Loss per share – basic and diluted	(0.07)	(0.07)
Weighted average common shares outstanding – basic and diluted	46,956,439	39,635,112

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 and year-to-date results.

The higher gross profit and lower gross profit percentage for the nine months ended August 31, 2008 as compared to the nine months ended August 31, 2007 is largely due to the mix of revenue. The increase in gross profit is largely as a result of an increase in the revenue generated by International Systems operations. The decrease in the gross profit percentage is due to a decrease in higher margin software revenue and an increase in lower margin hardware and systems revenue generated by International Systems operations for the nine months ended August 31, 2008 as compared to the nine months ended August 31, 2007.

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

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competitiveness on these contracts, we may elect to reduce our usual margins on the third-party components.

Financial Position:	At August 31, 2008	At November 30, 2007
In thousands of U.S. dollars		
	\$	\$
Working capital ⁽¹⁾	4,847	7,818
Current assets	10,536	14,905
Long term assets	11,354	11,443
Total assets	21,890	26,348
Current liabilities	5,689	7,087
Long term liabilities	497	647
Total liabilities	6,186	7,734
Shareholders' equity	15,704	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 and nine months ended August 31, 2008 as compared to three and nine months ended August 31, 2007

Overall Performance

Three months ended August 31	2008	2007	2008 to 2007
In thousands of U.S. dollars			
Net (loss) earnings before income taxes	\$ (700)	\$ 332	\$ (1,032)
Net (loss) earnings	\$ (691)	\$ 279	\$ (970)
Net (loss) earnings attributable to common shareholders	\$ (847)	\$ 109	\$ (956)
Loss per share – basic and diluted	(0.02)	0.00	(0.02)

Nine months ended August 31	2008	2007	2008 to 2007
In thousands of U.S. dollars			
Net loss before income taxes	\$ (2,721)	\$ (2,032)	\$ (689)
Net loss	\$ (2,365)	\$ (2,076)	\$ (289)
Net loss attributable to common shareholders	\$ (3,162)	\$ (2,628)	\$ (534)
Loss per share – basic and diluted	(0.07)	(0.07)	0.00

The higher net loss reported for the nine months ended August 31, 2008 compared to August 31, 2007 was largely driven by the mix of contracts executed in the period. The higher net loss is mainly due to a decrease in higher margin software revenue and an increase in lower margin hardware and systems revenue generated by International Systems operations for the nine months ended August 31, 2008 as compared to the nine months ended August 31, 2007.

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Backlog

Firm backlog consists of firm, fixed, or signed orders issued and executable subsequent to the balance sheet date. Firm backlog as at August 31, 2008 was \$53 million compared to \$46 million at August 31, 2007. Of the \$53 million firm backlog, \$6 million is expected to be executed in fiscal 2008 and \$47 million is expected to be executed in fiscal year 2009 and beyond.

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 our firm backlog and revenue from quarter to quarter.

Multi-year contracts with government agencies have a termination-for-convenience clause because governments approve budget expenditures on an annual basis. This allows contracts to be terminated by the contracting government agency should future budget funding not be approved. In International Systems operations and U.S. Systems operations, the termination-for-convenience clause has not been exercised by any of our customers. 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 August 31	2008	% of total revenue	2007	% of total revenue	2008 to 2007
In thousands of U.S. dollars					
Marine systems	\$ 3,101	50	\$ 3,124	42	\$ (23)
Land and air systems	2,221	35	2,627	36	(406)
Mapping	921	15	1,591	22	(670)
	<u>\$ 6,243</u>	<u>100</u>	<u>\$ 7,342</u>	<u>100</u>	<u>\$ (1,099)</u>

Nine months ended August 31	2008	% of total revenue	2007	% of total revenue	2008 to 2007
In thousands of U.S. dollars					
Marine systems	\$ 7,934	43	\$ 6,267	37	\$ 1,667
Land and air systems	7,481	40	7,294	43	187
Mapping	3,165	17	3,489	20	(324)
	<u>\$ 18,580</u>	<u>100</u>	<u>\$ 17,050</u>	<u>100</u>	<u>\$ 1,530</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 37% of the revenue for the nine months ended August 31, 2008 and August 31, 2007, respectively. Land and air systems through our U.S. Systems operations delivered 40% and 43% of the revenue for the nine months ended August 31, 2008 and

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August 31, 2007, respectively. Mapping delivered 17% and 20% of the revenue for the nine months ended August 31, 2008 and August 31, 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 nine months ended August 31, 2008 were the Royal Australian Navy, the Department of Homeland Security, Defense Advanced Research Projects Agency, U.S. Army and the Royal Navy of the U.K. Revenue from these customers accounted for 52% of the consolidated revenue. The main customers for our products and services for the nine months ended August 31, 2007 were the U.S. Army, the Royal Navy of the U.K, the Defense Threat Reduction Agency, the Defense Advanced Research Projects Agency, the Royal Australian Navy and the U.S. Navy. Revenue from these customers accounted for 58% of the consolidated revenue.

Revenue by Segment

Three months ended August 31	2008	% of total revenue	2007	% of total revenue	2008 to 2007
In thousands of U.S. dollars					
International Systems operations	\$ 2,687	43	\$ 2,390	32	\$ 297
U.S. Systems operations	2,635	42	3,361	46	(726)
Mapping operations	921	15	1,591	22	(670)
	<u>\$ 6,243</u>	<u>100</u>	<u>\$ 7,342</u>	<u>100</u>	<u>\$ (1,099)</u>

Nine months ended August 31	2008	% of total revenue	2007	% of total revenue	2008 to 2007
In thousands of U.S. dollars					
International Systems operations	\$ 6,965	38	\$ 5,533	33	\$ 1,432
U.S. Systems operations	8,450	45	8,028	47	422
Mapping operations	3,165	17	3,489	20	(324)
	<u>\$ 18,580</u>	<u>100</u>	<u>\$ 17,050</u>	<u>100</u>	<u>\$ 1,530</u>

Revenue from the International Systems operations for the three months ended August 31, 2008 increased by 12% and for the nine months ended August 31, 2008 increased by 26% over the same periods from the prior year. The increase in revenues for the three and nine months ended August 31, 2008 is due to the general growth in the segment, timing of new contracts awarded and the delivery and installation schedules for existing contracts.

Revenue from the U.S. Systems operations for the three months ended August 31, 2008 decreased by 22% and for the nine months ended August 31, 2008 increased by 5% over the same periods from the prior year. The decrease in revenues for the three months ended August 31, 2008 is due to delays in project execution as a result of changes in customer schedules and is due to the timing of new contracts awarded to the Layered Security Solutions business unit. Changes in customer priorities resulted in delays in the award of new contracts to the Company.

Revenue from the Mapping operations for the three months ended August 31, 2008 decreased by 42% and for the nine months ended August 31, 2008 decreased by 9% over the same periods from the prior year. These decreases are the result of poor flight conditions during the second quarter ended May 31, 2008 which in turn resulted in lower production levels in the third quarter ended August 31, 2008.

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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 August 31	2008	2007	2008 to 2007
In thousands of U.S. dollars			
Gross profit	\$ 2,204	\$ 3,048	\$ (844)
Gross profit percentage	35%	42%	(7)%

Nine months ended August 31	2008	2007	2008 to 2007
In thousands of U.S. dollars			
Gross profit	\$ 6,411	\$ 6,172	\$ 239
Gross profit percentage	35%	36%	1%

Gross profit decreased by 28% in the three months ended August 31, 2008 compared to the three months ended August 31, 2007 and the gross profit percentage was 7 percentage points lower period-over-period. Gross profit increased by 4% in the nine months ended August 31, 2008 compared to the nine months ended August 31, 2007 and the gross profit percentage was 1 percentage point lower period-over-period.

The increased gross profit for the nine months end August 31, 2008 compared to the prior fiscal year was mainly due to the acquisition of the Layered Security Solutions ("LSS") business unit in April 2007. The gross margins earned on LSS's contracts are more favourable compared to other revenue streams of U.S. Systems operations. LSS's higher gross profit margins were offset somewhat with a decrease in higher margin software revenue and an increase in lower margin hardware and systems revenue generated by International Systems operations for the nine months ended August 31, 2008 as compared to the nine months ended August 31, 2007.

Gross Profit by Segment

Three months ended August 31	2008	2007	2008 to 2007
In thousands of U.S. dollars			
Gross profit:			
International Systems operations	\$ 1,241	\$ 1,331	\$ (90)
U.S. Systems operations	729	1,127	(398)
Mapping operations	234	590	(356)
	<u>\$ 2,204</u>	<u>\$ 3,048</u>	<u>\$ (844)</u>

Gross profit percentage:

International Systems operations	46%	56%	(10)%
U.S. Systems operations	28%	34%	(6)%
Mapping operations	25%	37%	(12)%
	<u>35%</u>	<u>42%</u>	<u>(7)%</u>

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Nine months ended August 31	2008	2007	2008 to 2007
In thousands of U.S. dollars			
Gross profit:			
International Systems operations	\$ 3,064	\$ 2,915	\$ 149
U.S. Systems operations	2,543	2,092	451
Mapping operations	804	1,165	(361)
	\$ 6,411	\$ 6,172	\$ 239

Gross profit percentage:

International Systems operations	44%	53%	(9)%
U.S. Systems operations	30%	26%	4%
Mapping operations	25%	33%	(8)%
	35%	36%	(1)%

Gross profit from the International Systems operations decreased by \$90,000 and gross profit percentage was 10% lower for the three months ended August 31, 2008 when compared to the three months ended August 31, 2007. Gross profit increased by \$149,000 and gross profit percentage decreased 9% for the nine months ended August 31, 2008 when compared to the nine months ended August 31, 2007. The decrease in the third quarter of 2008 is the result of a decrease in higher margin software revenue and an increase in lower margin hardware and systems revenue compared to the three months ended August 31, 2007.

Gross profit from the U.S. Systems operations decreased by \$398,000 and gross profit percentage was 6% lower for the three months ended August 31, 2008 when compared to the three months ended August 31, 2007. Gross profit increased by \$451,000 and gross profit percentage increased by 4% for the nine months ended August 31, 2008 when compared to the nine months ended August 31, 2007. The decrease in the third quarter of 2008 is the result of lower higher margin marine navigation revenue to U.S. customers compared to the three months ended August 31, 2007. The increase for the nine months ended August 31, 2008 compared to the nine months ended August 31, 2007 was mainly due to the acquisition of the Layered Security Solutions ("LSS") business unit in April 2007. The margins earned on LSS's contracts are more favourable compared to other revenue streams of U.S. Systems operations.

Gross profit from the Mapping operations decreased by \$356,000 and gross profit percentage was 12% lower for the three months ended August 31, 2008 when compared to the three months ended August 31, 2007. Gross profit decreased by \$361,000 and gross profit percentage decreased by 8% for the nine months ended August 31, 2008 when compared to the nine months ended August 31, 2007. The decrease in gross profit was largely as a result of lower revenues for the three and nine months ended August 31, 2008 compared to the three and nine months ended August 31, 2007. 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 relies 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

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where the primary customer driver is quality will generally have higher margins than projects where the primary driver is price.

Operating Expenses

Three months ended August 31	2008	% of total revenue	2007	% of total revenue	2008 to 2007
In thousands of U.S. dollars					
General and administrative	\$ 1,388	22%	\$ 1,451	20%	\$ (63)
Engineering	297	5%	231	3%	66
Sales and marketing	899	14%	755	10%	144

Nine months ended August 31	2008	% of total revenue	2007	% of total revenue	2008 to 2007
In thousands of U.S. dollars					
General and administrative	\$ 4,334	23%	\$ 4,150	24%	\$ 184
Engineering	867	5%	1,101	6%	(234)
Sales and marketing	2,974	16%	2,351	14%	623

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

G&A decreased by 4% and increased by 4% for three and nine months ended August 31, 2008, respectively, compared to the three months and nine months ended August 31, 2007. The increase in G&A for the nine months ended August 31, 2008 compared to the nine months ended August 31, 2007 is due to costs associated with the relocation of staff to corporate headquarters in Ottawa, Ontario, severance costs associated with restructuring and additional professional fees relating to responding to the Securities Exchange Commission (SEC) inquiry pertaining to software revenue recognition. The SEC completed their questions during the second quarter and there was no impact on the Company's reported results.

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 increased by 29% and decreased by 21% for the three and nine months ended August 31, 2008, respectively, compared to the three and nine months ended August 31, 2007. The decrease in engineering costs for the nine months ended August 31, 2008 compared to the nine months ended August 31, 2007 is due to capitalizing development-related costs of \$256,000 and due to the reallocation of wages to cost of sales based on contracted engineering services. 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 19% and 27% for the three and nine months ended August 31, 2008, respectively, compared to the three and nine months ended August 31, 2007. The increases in S&M

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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 August 31	2008	2007	2008 to 2007
In thousands of U.S. dollars			
Amortization	\$ 165	\$ 133	\$ 32
Nine months ended August 31	2008	2007	2008 to 2007
In thousands of U.S. dollars			
Amortization	\$ 532	\$ 380	\$ 152

Total amortization increased by 24% and 40% for the three and nine months ended August 31, 2008, respectively, compared to the three and nine months ended August 31, 2007. For the three months ended August 31, 2008 and 2007, a portion of the amortization, \$54,000 and \$58,000, respectively, was included in cost of sales for equipment used in revenue-generating activities. For the nine months ended August 31, 2008 and 2007, a portion of the amortization, \$158,000 and \$160,000, respectively, was included in cost of sales for equipment used in revenue-generating activities.

Interest expense

Three months ended August 31	2008	2007	2008 to 2007
In thousands of U.S. dollars			
Interest expense	\$ 42	\$ 22	\$ 20
Nine months ended August 31	2008	2007	2008 to 2007
In thousands of U.S. dollars			
Interest expense	\$ 107	\$ 48	\$ 59

Interest expense increased by \$20,000 and \$59,000 for the three and nine months ended August 31, 2008, respectively, as compared to the three and nine months ended August 31, 2007. These increases are due to the utilization of the Company's credit facility during the three and nine months ended August 31, 2008 and due to the interest incurred on capital lease obligations.

Interest income

Three months ended August 31	2008	2007	2008 to 2007
In thousands of U.S. dollars			
Interest income	\$ -	\$ -	\$ -

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<u>Nine months ended August 31</u>	<u>2008</u>	<u>2007</u>	<u>2008 to 2007</u>
In thousands of U.S. dollars			
Interest income	\$ 3	\$ 7	\$ (5)

Interest income decreased 100% and 71% for the three and nine months ended August 31, 2008, respectively, as compared to the three and nine months ended August 31, 2007. The Company did not have surplus funds to invest during these periods.

Foreign Exchange

<u>Three months ended August 31</u>	<u>2008</u>	<u>2007</u>	<u>2008 to 2007</u>
In thousands of U.S. dollars			
Foreign exchange loss	\$ 31	\$ 43	\$ (12)

<u>Nine months ended August 31</u>	<u>2008</u>	<u>2007</u>	<u>2008 to 2007</u>
In thousands of U.S. dollars			
Foreign exchange loss	\$ 69	\$ 65	\$ 4

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 nine months ended August 31, 2008 as compared to the nine months ended August 31, 2007.

Technology Partnerships Canada

<u>Three months ended August 31</u>	<u>2008</u>	<u>2007</u>	<u>2008 to 2007</u>
In thousands of U.S. dollars			
Royalty	\$ 136	\$ 139	\$ (3)

<u>Nine months ended August 31</u>	<u>2008</u>	<u>2007</u>	<u>2008 to 2007</u>
In thousands of U.S. dollars			
Royalty	\$ 381	\$ 276	\$ (105)

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 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.

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Income Taxes

Three months ended August 31	2008	2007	2008 to 2007
In thousands of U.S. dollars			
Future income tax recovery	\$ -	\$ (10)	\$ (10)
Current income tax (recovery) expense	(9)	63	72
	<u>\$ (9)</u>	<u>\$ 53</u>	<u>\$ 62</u>

Nine months ended August 31	2008	2007	2008 to 2007
In thousands of U.S. dollars			
Future income tax recovery	\$ (38)	\$ (59)	\$ (21)
Current income tax (recovery) expense	(318)	103	421
	<u>\$ (356)</u>	<u>\$ 44</u>	<u>\$ 400</u>

Based on the information available at the time of the issue of the interim financial statements for the three and nine months ended August 31, 2008, we estimated that we would not have sufficient taxable earnings in Canada in future periods to utilize a portion of our \$5.3 million Canadian non-capital losses carried forward, \$10.2 million scientific research and experimental development costs and other Canadian tax asset balances.

We have recognized a future tax recovery for the nine months ended August 31, 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.

For the three and nine months ended August 31, 2008, a current income tax recovery was recognized. This current income tax recovery is mainly due to the reduction in the U.S. Systems operations taxable income.

LIQUIDITY AND CAPITAL RESOURCES - August 31, 2008 compared to November 30, 2007

In thousands of U.S. dollars	August 31, 2008	November 30, 2007	2008 to 2007
Current assets	\$ 10,536	\$ 14,905	(4,369)
Current liabilities	5,689	7,087	(1,398)
Working capital ⁽¹⁾	4,847	7,818	(2,971)

⁽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 \$3.0 million and U.S. \$1.2 million available under our revolving credit

OSI Geospatial Inc.

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

facilities, will be sufficient to fund currently anticipated working capital, planned capital spending, and debt service requirements for the next 12 months.

At August 31, 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 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 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 August 31, 2008, we had borrowings of \$1.4 million against our operating lines. We have an operating line of Canadian \$3.0 million available with a Canadian chartered bank collateralized by accounts receivable and U.S. \$1.2 million with a U.S. chartered bank. We utilize our forward exchange contract facility to reduce our exposure to exchange rate movements.

Cash Flows

Three months ended August 31	2008	2007	2008 to 2007
In thousands of U.S. dollars			
Cash flows provided by (used in):			
Operating activities	\$ 220	\$ (1,383)	\$ 1,603
Investing activities	(186)	(651)	465
Financing activities	(46)	2,214	(2,260)
Effect of foreign exchange on cash	12	22	(10)
<hr/>			
Nine months ended August 31	2008	2007	2008 to 2007
In thousands of U.S. dollars			
Cash flows provided by (used in):			
Operating activities	\$ 556	\$ (837)	\$ 1,393
Investing activities	(627)	(821)	194
Financing activities	102	1,858	(1,756)
Effect of foreign exchange on cash	(31)	2	(33)

Cash flows provided by operating activities for the three months ended August 31, 2008 was the result of the net loss for the three months ended August 31, 2008 which was reduced by amortization, stock-based compensation and future income taxes and was the result of an increase in accounts payable and accrued liabilities offset by a decrease in accounts receivable and inventory.

Cash flows used in investing activities for the three months ended August 31, 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 August 31, 2008 were the result of the repayment of the operating line of credit and the capital lease obligations.

Cash flows provided by operating activities for the nine months ended August 31, 2008 was the result of the net loss for the nine months ended August 31, 2008 which was reduced by amortization and stock-based compensation and was the result of an increase in accounts payable and accrued liabilities and an increase in income taxes receivable offset by a decrease in accounts receivable and inventory.

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Cash flows used in investing activities for the nine months ended August 31, 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 provided by financing activities for the nine months ended August 31, 2008 were the result of an increase in the operating line of credit offset by the semi-annual dividends on our class B preference shares of November 30, 2007 shares paid in December 2007.

As a result of the above mentioned changes, the line of credit utilization decreased by \$29,000 for the three months ended August 31, 2008, and increased by \$473,000 for the nine months ended August 31, 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 August 31, 2008, we had entered into forward exchange contracts in the amount of £650,000, U.S. \$785,000 and AUD \$162,000.

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

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	\$ 3,948	\$ 561	\$ 1,396	\$ 879	\$ 1,112
Capital equipment leases	252	89	116	47	
Operating equipment leases	97	38	51	8	-
Total contractual obligations	\$ 4,297	\$ 688	\$ 1,563	\$ 934	\$ 1,112

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. The maximum potential amount of future payments the Company could be required to make under this guarantee is \$1.2 million. At August 31, 2008, the carrying amount of the liability was \$552,000.

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.

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Management's Discussion and Analysis

For the three and nine months ended August 31, 2008

(expressed in U.S. dollars)

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

The Company is not currently engaged in any proposed transactions.

SELECTED QUARTERLY DATA

In thousands of U.S. dollars

For the three months ended	August 31 2008	May 31 2008	February 29 2008	November 30 2007
Revenue	\$ 6,243	\$ 6,529	\$ 5,808	\$ 8,276
Gross profit	2,204	2,019	2,188	3,593
Gross profit percentage	35%	31%	38%	43%
Net earnings (loss)	(691)	(1,141)	(533)	(798)
Net earnings (loss) attributable to common shareholders	(847)	(1,455)	(692)	(960)
Loss per share – basic	(0.02)	(0.03)	(0.01)	(0.02)
Loss per share – diluted	(0.02)	(0.03)	(0.01)	(0.02)

For the three months ended	August 31 2007	May 31 2007	February 28 2007	November 30 2006
Revenue	\$ 7,342	\$ 6,138	\$ 3,571	\$ 10,018
Gross profit	3,048	2,455	669	5,461
Gross profit percentage	42%	40%	19%	55%
Net earnings (loss)	279	(366)	(1,989)	2,785
Net earnings (loss) attributable to common shareholders	109	(748)	(2,180)	2,560
Loss per share – basic	0.00	(0.02)	(0.06)	0.08
Loss per share – diluted	0.00	(0.02)	(0.06)	0.05

OSI Geospatial Inc.

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(expressed in U.S. dollars)

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.

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

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

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.

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(expressed in U.S. dollars)

At August 31, 2008, the Company has 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 650,000	1.9155 to 2.0105	September 19, 2008 to March 25, 2009
USD 785,000	1.015 to 1.0665	September 15, 2008 to January 22, 2009
AUD 162,000	0.8937 to 0.9012	September 17, 2008 to November 15, 2008

DISCLOSURE OF OUTSTANDING SHARE DATA

As at October 8, 2008, we had 46,956,439 issued and outstanding common shares and 3,736,166 outstanding stock options. As at October 8, 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 October 8, 2008, we had 15,175,067 outstanding common share purchase warrants convertible to common shares at a conversion ratio of 1:1, representing 15,175,067 common shares.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintained a set of disclosure controls and procedures during the three and nine months ended August 31, 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 and nine month period ended August 31, 2008 that have materially affected, or are reasonably likely to materially affect the design and operation of these disclosure controls and procedures.

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 August 31, 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.

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three and nine months ended August 31, 2008

(expressed in U.S. dollars)

RISKS AND UNCERTAINTIES

The primary risks and uncertainties that affect and may affect the Company and its 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.

OSI Geospatial Inc.

**Interim Consolidated Financial Statements (Unaudited)
Three and Nine Months ended August 31, 2008 and 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	August 31, 2008	November 30, 2007
Assets		
Current assets		
Accounts receivable and unbilled revenue	\$ 8,736	\$ 13,055
Income taxes receivable	146	-
Inventory	1,037	1,216
Prepaid expenses and deposits	481	502
Current portion of future income tax asset	136	132
	<hr/> 10,536	<hr/> 14,905
Deferred development costs	465	97
Future income tax asset	234	271
Equipment and furnishings	1,666	1,914
Intangible and other assets	689	861
Goodwill	8,300	8,300
	<hr/> \$ 21,890	<hr/> \$ 26,348
Liabilities		
Current liabilities		
Bank indebtedness	\$ 1,241	\$ 822
Accounts payable and accrued liabilities	3,766	5,585
Income taxes payable	-	179
Unearned revenue	579	392
Current portion of deferred rent	35	38
Current portion of future income tax liability	-	25
Current portion of capital lease obligations	68	46
	<hr/> 5,689	<hr/> 7,087
Deferred rent	296	347
Capital lease obligation	146	200
Future income tax liability	55	100
	<hr/> 6,186	<hr/> 7,734
Commitments and contingencies (note 11)		
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	2,134	1,679
Accumulated deficit	(19,267)	(16,564)
Accumulated other comprehensive income	2,802	3,027
	<hr/> 15,704	<hr/> 18,614
	<hr/> \$ 21,890	<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 August 31,		Nine months ended August 31,	
	2008	2007	2008	2007
Revenue				
Marine systems	\$ 3,101	\$ 3,124	\$ 7,934	\$ 6,267
Land and air systems	2,221	2,627	7,481	7,294
Mapping	921	1,591	3,165	3,489
	6,243	7,342	18,580	17,050
Cost of sales	4,039	4,294	12,169	10,878
Gross profit	2,204	3,048	6,411	6,172
Expenses (income)				
General and administrative	1,388	1,451	4,334	4,150
Engineering	297	231	867	1,101
Sales and marketing	899	755	2,974	2,351
Amortization	111	75	375	220
Interest expense	42	22	107	48
Interest income	-	-	(3)	(7)
Foreign exchange loss	31	43	69	65
Loss on disposal of intangible and other assets	-	-	28	-
Technology Partnerships Canada royalty	136	139	381	276
	2,904	2,716	9,132	8,204
Net (loss) earnings before income taxes	(700)	332	(2,721)	(2,032)
Future income tax recovery	-	(10)	(38)	(59)
Current income tax (recovery) expense	(9)	63	(318)	103
Income tax (recovery) expense	(9)	53	(356)	44
Net (loss) earnings	\$ (691)	\$ 279	\$ (2,365)	\$ (2,076)
Accumulated deficit, beginning of period	\$ (18,615)	\$ (16,085)	\$ (16,564)	\$ (13,296)
Dividends on Class B preference shares	-	-	(338)	(382)
Tax recovery (expense) on dividends	39	-	-	(52)
Accumulated deficit, end of period	\$ (19,267)	\$ (15,806)	\$ (19,267)	\$ (15,806)
Net (loss) earnings available to common shareholders (note 6c)	\$ (847)	\$ 109	\$ (3,162)	\$ (2,628)
Loss per share (note 6c) - basic and diluted	\$ (0.02)	\$ 0.00	\$ (0.07)	\$ (0.07)
Weighted average number of common shares outstanding (note 6c) – basic and diluted	46,956,439	42,377,958	46,956,439	39,635,112

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

OSI Geospatial Inc.

Consolidated Statements of Comprehensive Loss (unaudited)

In thousands of U.S. dollars	Three months ended August 31,		Nine months ended August 31,	
	2008	2007	2008	2007
Net (loss) earnings	\$ (691)	\$ 279	\$ (2,365)	\$ (2,076)
Unrealized loss on translation of self-sustaining foreign operations	(244)	(343)	(225)	(181)
Comprehensive loss	\$ (935)	\$ (64)	\$ (2,590)	\$ (2,257)

OSI Geospatial Inc.

Consolidated Statements of Accumulated Other Comprehensive Income (unaudited)

In thousands of U.S. dollars	August 31,	November 30,
	2008	2007
Accumulated other comprehensive income, beginning of the period	\$ 3,027	\$ 2,427
Unrealized (loss) gain on translating financial statements of self-sustaining foreign operations	(225)	600
Accumulated other comprehensive income, end of period	\$ 2,802	\$ 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	Three Months ended August 31,		Nine months ended August 31,	
	2008	2007	2008	2007
Cash flows (used in)/from operating activities				
Net (loss) earnings for the period	\$ (691)	\$ 279	\$ (2,365)	\$ (2,076)
Items not affecting cash				
Amortization	165	129	532	377
Loss on disposal of intangible and other assets	-	-	28	-
Stock-based compensation	24	5	34	145
Future income taxes	-	(83)	(38)	(177)
	(502)	330	(1,809)	(1,731)
Changes in non-cash working capital items				
Accounts receivable	329	(2,644)	4,040	2,504
Inventory	367	96	117	(155)
Prepaid expenses and deposits	129	75	3	36
Accounts payable and accrued liabilities	(597)	367	(1,660)	(1,381)
Income taxes receivable/payable	-	87	(321)	(143)
Unearned revenue	504	(57)	218	(330)
Deferred rent	(10)	363	(32)	363
	722	(1,713)	2,365	894
	220	(1,383)	556	(837)
Cash flows used in investing activities				
Purchase of the assets Liddy International Inc.	-	-	-	(25)
Deferred development costs	(138)	-	(384)	-
Additions to equipment and furnishings	(48)	(111)	(139)	(225)
Additions to leaseholds	-	(540)	(10)	(540)
Additions to intangible and other assets	-	-	(94)	(31)
	(186)	(651)	(627)	(821)
Cash flows (used in)/ from financing activities				
Advances from (repayment of) operating line of credit	(29)	(548)	473	(904)
Issue of common shares	-	2,812	-	2,812
Issue of warrants	-	332	-	332
Repayment of capital lease obligation	(17)	-	(33)	-
Class B preference share dividends, net of tax	-	(382)	(338)	(382)
	(46)	2,214	102	1,858
Effect of foreign exchange on cash balances				
	12	22	(31)	2
Increase in cash and cash equivalents				
	-	202	-	202
Cash and cash equivalents – beginning of period				
	-	-	-	-
Cash and cash equivalents – end of period				
	\$ -	\$ 202	\$ -	\$ 202

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

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2008 and 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 Canadian generally accepted accounting principles ("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 4.

The annual and interim consolidated financial statements originally issued for May 31, 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 2007 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 Changes in accounting policy

International Financial Reporting Standards ("IFRS")

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

3 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 digital land map data and electronic nautical chart data.

4 Adoption of new accounting standards

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

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2008 and 2007

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.

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 |

5 Credit facilities

Effective July 9, 2008, the Company moved its credit facilities to another major Canadian chartered bank. The financing agreement consists of an operating line, a foreign exchange forward contract facility and standby letters of credit. The maximum amount available to the Company under the operating line is CAD \$3,000,000. At August 31, 2008, the Company had available borrowing capacity under its operating line of CAD \$2,100,000. The credit facilities are collateralized by a general assignment of book debts and a general security agreement. These facilities are insured through insurance solutions provided by Export Development Canada. The operating line bears interest at the chartered bank’s prime lending rate plus 1.0% with interest payable monthly. Funds drawn on the operating lines and the standby letters of credit are repayable on demand. The Company also has an operating line of \$1,200,000 with a U.S. chartered bank which bears interest at the bank’s prime lending rate plus 0.5%.

The Company is required to meet certain covenants as outlined in the credit facilities agreement. Similar to the three and six months ended May 31, 2008, the Company has not met the interest coverage ratio covenant for the three and nine months ended August 31, 2008. Management expects to receive a waiver from the bank for the three and nine months ended August 31, 2008 similar to the waiver received for the three and six months ended May 31, 2008. The Company was in compliance with these covenants at November 30, 2007.

6 Capital stock

a) Warrants

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

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2008 and 2007

b) Stock option plans

A summary of the status of the Company's stock option plans at August 31, 2008 is as follows:

In Canadian dollars

	Number of shares	Weighted average exercise price
Outstanding at November 30, 2007	3,596,166	0.80
Granted	300,000	0.45
Forfeited	(160,000)	0.89
Expired	-	-
Outstanding at August 31, 2008	<u>3,736,166</u>	<u>0.77</u>
Exercisable at August 31, 2008	<u>3,721,096</u>	<u>0.77</u>

Stock-based compensation

For the three and nine months ended August 31, 2008, the Company incurred non-cash stock-based compensation expense of \$24,000 and \$34,000, respectively (three and nine months ended August 31, 2007 - \$5,000 and \$145,000, respectively) related to 300,000 stock options granted on July 28, 2008 and 104,000 stock options granted on April 19, 2007. The options granted on July 28, 2008 vested immediately. Of the 104,000 stock options granted, 52,000 vested over one year and 52,000 will vest over two years from the grant date. The expense is included in general and administrative costs.

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

	<u>2008</u>	<u>2007</u>
Risk-free interest rate	3.30%	4.09%
Volatility	51%	49%
Estimated average option lives	5 years	5 years
Dividend yield	0.0%	0.0%

c) Loss per share

In thousands of U.S. dollars, except share related data

For the three months ended August 31,

Loss per share – basic and diluted	<u>2008</u>		<u>2007</u>	
Net (loss) earnings for the period	\$	(691)	\$	279
Less:				
Class B Series 2 preference share dividends (*A)		156		170
Net (loss) earnings available to common shareholders	\$	(847)	\$	109
Weighted average number of common shares outstanding – basic and diluted		46,956,439		42,377,958
Loss per share – basic and diluted	\$	(0.02)	\$	0.00

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In thousands of U.S. dollars, except share related data	For the nine months ended August 31,	
Loss per share – basic and diluted	2008	2007
Net loss for the period	\$ (2,365)	\$ (2,076)
Less:		
Class B Series 2 preference share dividends (*A)	797	552
Net loss available to common shareholders	\$ (3,162)	\$ (2,628)
Weighted average number of common shares outstanding – basic and diluted	46,956,439	39,635,112
Loss per share – basic and diluted	\$ (0.07)	\$ (0.07)

(*A) Dividends of \$156,000 and \$797,000 (2007 - \$170,000 and \$552,000) for the three and nine months ended August 31, 2008, respectively, are included which represents the dividends earned by the shareholders of Class B Series 2 cumulative preference shares. As at August 31, 2008 there were \$309,000 (2007 - \$nil) of dividends in arrears for the Class B Series 2 cumulative preference shares.

The preference shares, the outstanding warrants and stock options were anti-dilutive for the purposes of calculating diluted loss for the three and nine months ended August 31, 2008 and therefore excluded from the diluted loss per share calculation.

If all preferred shares were converted, and all warrants and options were exercised, there would be a total of 76,399,696 common shares outstanding at August 31, 2008 (November 30, 2007 – 77,652,997). As a result of the exercise of all warrants and options, the Company would receive cash of \$14.7 million (November 30, 2007 - \$17.2 million).

7 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 August 31, 2008, 57% of its accounts receivable was with national and international government clients and 18% of its accounts receivable was with large international public companies. 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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In thousands of U.S. dollars

	August 31, 2008	November 30, 2007
Trade accounts receivable	\$ 4,496	\$ 7,570
Unbilled revenue	4,125	5,312
Other	124	182
Allowance for doubtful accounts	(9)	(9)
	<u>\$ 8,736</u>	<u>\$ 13,055</u>

The aging of the trade accounts receivable at the reporting date was:

In thousands of U.S. dollars

	August 31, 2008	November 30, 2007
Current	\$ 3,717	\$ 5,965
61 – 90 days	467	1,017
Greater than 90 days	312	588
	<u>\$ 4,496</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 \$21,000 at August 31, 2008 and a recorded liability in accounts payable and accrued liabilities of \$142,000 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				August 31, 2008	
Type	Notional	Currency	Maturity	Equivalent to US Dollars	Fair Value
Sell	325	GBP	September 2008	585	20
Sell	350	USD	September 2008	350	(15)
Sell	42	AUD	September 2008	36	2
Sell	100	GBP	October 2008	179	8
Buy	(270)	GBP	October 2008	(491)	(12)
Sell	265	USD	October 2008	265	(12)
Buy	(100)	USD	October 2008	(100)	-
Buy	100	GBP	November 2008	181	-
Sell	210	USD	November 2008	210	(3)
Sell	120	AUD	November 2008	101	-
Sell	70	GBP	December 2008	126	-
Sell	200	USD	December 2008	200	-
Sell	25	GBP	January 2009	45	3
Sell	160	USD	January 2009	160	(7)
Buy	(300)	USD	January 2009	(300)	13
Sell	100	GBP	February 2009	178	8
Sell	200	GBP	March 2009	356	16
				\$	21

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 \$10,000. 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 \$342,000 to other comprehensive income.

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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 \$3,000 increase (decrease) in the loss of the Company.

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 \$3,000,000 and U.S. \$1,200,000. At August 31, 2008, the Company utilized CAD \$880,000 (2007 - CAD \$265,000) and U.S. \$552,000 (2007 - U.S. \$520,000) of its lines of credit. 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 August 31, 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	\$ 3,948	\$ 561	\$ 1,396	\$ 879	\$ 1,112
Capital equipment leases	252	89	116	47	-
Operating equipment leases	97	38	51	8	-
Total contractual obligations	<u>\$ 4,297</u>	<u>\$ 688</u>	<u>\$ 1,563</u>	<u>\$ 934</u>	<u>\$ 1,112</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 August 31, 2008.

8 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.

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 1.0% 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%. In

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Three and Nine Months Ended August 31, 2008 and 2007

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 August 31, 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.

9 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 August 31, 2008

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 2,687	\$ 2,635	\$ 921	\$ -	\$ 6,243
Gross profit	1,241	729	234	-	2,204
Technology Partnerships Canada	136	-	-	-	136
Interest expense	10	14	-	18	42
Income tax expense (recovery)	-	21	-	(30)	(9)
Net earnings (loss)	142	(37)	(76)	(720)	(691)
Equipment and furnishings expenditures	23	21	4	-	48
Intangible expenditures	-	-	-	-	-
Amortization	64	56	41	4	165

In thousands of U.S. dollars

Nine Months Ended August 31, 2008

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 6,965	\$ 8,450	\$ 3,165	\$ -	\$ 18,580
Gross profit	3,064	2,543	804	-	6,411
Technology Partnerships Canada	381	-	-	-	381
Interest expense	21	43	-	43	107
Income tax expense (recovery)	-	(395)	-	39	(356)
Net earnings (loss)	(515)	887	(229)	(2,508)	(2,365)
Equipment and furnishings expenditures	66	66	9	8	149
Intangible expenditures	2	48	3	41	94
Amortization	193	204	123	12	532

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Three and Nine Months Ended August 31, 2008 and 2007

In thousands of U.S. dollars

Three Months Ended August 31, 2007

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 2,390	\$ 3,361	\$ 1,591	\$ -	\$ 7,342
Gross profit	1,331	1,127	590	-	3,048
Technology Partnerships Canada	139	-	-	-	139
Interest expense	-	7	-	15	22
Income tax expense (recovery)	-	(6)	36	23	53
Net earnings (loss)	287	578	194	(780)	279
Equipment and furnishings expenditures	441	15	170	25	651
Intangible expenditures	5	(12)	6	1	-
Amortization	56	43	28	2	129

In thousands of U.S. dollars

Nine Months Ended August 31, 2007

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 5,533	\$ 8,028	\$ 3,489	\$ -	\$ 17,050
Gross profit	2,915	2,092	1,165	-	6,172
Technology Partnerships Canada - net	276	-	-	-	276
Interest expense	-	8	-	40	48
Income tax expense (recovery)	-	(17)	(25)	86	44
Net earnings (loss)	(656)	859	117	(2,396)	(2,076)
Equipment and furnishings expenditures	489	58	183	35	765
Intangible expenditures	15	(3)	18	1	31
Amortization	159	113	101	4	377

In thousands of U.S. dollars

Total assets employed	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
As at August 31, 2008	\$ 6,250	\$ 11,843	\$ 3,612	\$ 185	\$ 21,890
As at November 30, 2007	\$ 8,704	\$ 13,859	\$ 3,648	\$ 137	\$ 26,348

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Three and Nine Months Ended August 31, 2008 and 2007

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

In thousands of U.S. dollars	Three months ended August 31,		Nine months ended August 31,	
	2008	2007	2008	2007
United States	\$ 2,723	\$ 4,235	\$ 9,332	\$ 9,773
Australia	974	1,025	2,441	1,177
New Zealand	163	60	347	343
Canada	663	820	1,979	2,424
United Kingdom	1,009	1,166	2,213	3,297
Europe	276	-	1,319	-
Other	435	36	949	36
Total	\$ 6,243	\$ 7,342	\$ 18,580	\$ 17,050

Geographically, equipment and furnishings and intangible and other assets are reported based on location. At August 31, 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	August 31, 2008		
	Canada	U.S.	Total
Equipment and furnishings	\$ 1,378	\$ 288	\$ 1,666
Intangible and other assets	256	433	689
Goodwill	-	8,300	8,300
Total	\$ 1,634	\$ 9,021	\$ 10,655

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

10 Restructuring charges

During the fourth quarter of fiscal year 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. For the three and nine months ended August 31, 2008, the Company paid \$75,000 and \$270,000 of these restructuring charges, respectively. All of the remaining 2007 restructuring charges are expected to be paid by November 30, 2008.

11 Commitments and contingencies

In July 2002, two of the Company's subsidiaries, Offshore Systems Ltd. and Mapcon Mapping Ltd., and four employees became subject to a lawsuit for an undisclosed amount by Triathlon Ltd., a former subsidiary of MacDonald, Dettwiler and Associates Ltd., related to the use of confidential information and breach of fiduciary duty. On August 13, 2008, a settlement was reached and this lawsuit was settled for an undisclosed amount. The Company adequately accrued for this settlement in November 2007.

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12 Subsequent event

On October 8, 2008, the Board of Directors rescinded the 300,000 stock options granted in the three months ended August 31, 2008. These stock options were granted contrary to a clause in the 1998 Stock Option plan.

13 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.