



## **OSI Geospatial Inc.**

**Consolidated Financial Statements  
November 30, 2008 and 2007  
(expressed in U.S. dollars)**

(Prepared in accordance with Canadian Generally Accepted Accounting Principles)

## **AUDITORS' REPORT**

To the Shareholders of OSI Geospatial Inc.:

We have audited the consolidated balance sheet of OSI Geospatial Inc. as at November 30, 2008 and the consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of OSI Geospatial Inc. as at November 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements of OSI Geospatial Inc. as at November 30, 2007 and for the year then ended were audited by other auditors whose report dated February 5, 2008 expressed an opinion without reservation on those financial statements.

"Deloitte & Touche LLP"  
Chartered Accountants  
Licensed Public Accountants

Ottawa, Canada,  
February 19, 2009

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# OSI Geospatial Inc.

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

## Consolidated Balance Sheets

As at November 30, 2008 and 2007

In thousands of U.S. dollars

	2008	2007
<b>Assets</b>		
<b>Current assets</b>		
Accounts receivable and unbilled revenue (note 6)	\$ 9,038	\$ 13,055
Inventory (note 7)	1,137	1,216
Prepaid expenses and deposits	314	502
Current portion of future income tax asset (note 16)	274	132
	<u>10,763</u>	<u>14,905</u>
<b>Deferred development costs</b>	353	97
<b>Future income tax asset</b> (note 16)	665	271
<b>Equipment and furnishings</b> (note 8)	1,402	1,914
<b>Intangible and other assets</b> (note 9)	592	861
<b>Goodwill</b> (note 5)	8,300	8,300
	<u>\$ 22,075</u>	<u>\$ 26,348</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 11)	\$ 1,629	\$ 822
Accounts payable and accrued liabilities (note 10)	3,652	5,585
Income taxes payable	8	179
Unearned revenue	207	392
Current portion of deferred rent	33	38
Current portion of future income tax liability (note 16)	-	25
Current portion of capital lease obligations (note 12)	70	46
	<u>5,599</u>	<u>7,087</u>
<b>Deferred rent</b>	243	347
<b>Capital lease obligation</b> (note 12)	125	200
<b>Unearned revenue</b>	234	-
<b>Future income tax liability</b> (note 16)	-	100
	<u>6,201</u>	<u>7,734</u>
<b>Commitments and contingencies</b> (notes 14 and 15)		
<b>Shareholders' Equity</b>		
Issued and outstanding		
Class A, Series A preference shares (note 13b)	19	19
Class B, Series 2 preference shares (notes 13c and 13g)	4,542	4,542
Common shares (note 13d)	21,293	21,293
	<u>25,854</u>	<u>25,854</u>
<b>Warrants</b> (note 13e)	4,181	4,618
<b>Contributed surplus</b>	2,138	1,679
<b>Accumulated deficit</b>	(18,486)	(16,564)
<b>Accumulated other comprehensive income</b>	2,187	3,027
	<u>15,874</u>	<u>18,614</u>
	<u>\$ 22,075</u>	<u>\$ 26,348</u>

On behalf of the Board

"Raymond Johnston"

Director

"Donald Young"

Director

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

**OSI Geospatial Inc.**  
**Consolidated Statements of Operations**  
**For the years ended November 30, 2008 and 2007**

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

	<b>2008</b>	<b>2007</b>
<b>Revenue</b>		
Marine systems	\$ 11,343	\$ 10,219
Land and air systems	10,057	10,703
Mapping	4,098	4,404
	<u>25,498</u>	<u>25,326</u>
<b>Cost of sales</b>	<u>16,290</u>	<u>15,560</u>
<b>Gross profit</b>	<u>9,208</u>	<u>9,766</u>
<b>Expenses (income)</b>		
General and administrative	5,429	6,175
Sales and marketing	3,917	3,859
Engineering	1,144	1,361
Technology Partnerships Canada royalty (note 14)	532	471
Amortization	479	326
Interest expense	136	70
Interest income	(7)	(7)
Foreign exchange loss	31	316
Loss on disposal of equipment and furnishings	28	9
	<u>11,689</u>	<u>12,580</u>
<b>Net loss before income taxes</b>	<u>(2,481)</u>	<u>(2,814)</u>
Future income tax recovery	(661)	(298)
Current income tax (recovery) expense	(236)	358
<b>Income tax (recovery) expense</b> (note 16)	<u>(897)</u>	<u>60</u>
<b>Net loss</b>	<u>\$ (1,584)</u>	<u>\$ (2,874)</u>
<b>Net loss available to common shareholders</b> (note 13g)	<u>\$ (2,143)</u>	<u>\$ (3,588)</u>
<b>Loss per share</b> (note 13g)		
Basic	\$ (0.05)	\$ (0.09)
Diluted	\$ (0.05)	\$ (0.09)
<b>Weighted average number of common shares outstanding</b> (note 13g)		
Basic	46,956,439	41,096,261
Diluted	46,956,439	41,096,261

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

# OSI Geospatial Inc.

## Consolidated Statements of Shareholders' Equity For the years ended November 30, 2008 and 2007

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

	2008		2007	
	Number	Amount	Number	Amount
<b>Class A preference shares</b>				
Balance at beginning and end of year	30,262	\$ 19	30,262	\$ 19
<b>Class B preference shares</b>				
Balance at beginning of year	178,530	\$ 4,542	279,840	\$ 7,115
Class B preference shares converted to common shares (note 13c)	-	-	(101,310)	(2,573)
Balance at end of year	178,530	\$ 4,542	178,530	\$ 4,542
<b>Common shares</b>				
Balance at beginning of year	46,956,439	\$ 21,293	35,137,046	\$ 15,887
Shares issued to Liddy shareholders (note 5)	-	-	300,000	129
Shares issued (note 13d)	-	-	5,560,000	3,060
Share issue costs, net of tax benefit	-	-	-	(356)
Class B preference shares converted to common shares (note 13c)	-	-	5,959,393	2,573
Balance at end of year	46,956,439	\$ 21,293	46,956,439	\$ 21,293
<b>Warrants</b>				
Balance at beginning of year	16,568,368	\$ 4,618	13,788,368	\$ 4,286
Warrants issued – net of issue costs	-	-	2,780,000	332
Warrants expired (note 13e)	(1,393,301)	(437)	-	-
Balance at end of year	15,175,067	\$ 4,181	16,568,368	\$ 4,618
<b>Contributed surplus</b>				
Balance at beginning of year		\$ 1,679		\$ 1,343
Preference B Series 1 warrants expired		437		-
Share based broker compensation		-		74
Stock-based compensation		22		262
Balance at end of year		\$ 2,138		\$ 1,679
<b>Accumulated deficit</b>				
Balance at beginning of year		\$ (16,564)		\$ (13,296)
Dividends on Class B preference shares		(338)		(382)
Tax expense on dividends		-		(12)
Net loss for the year		(1,584)		(2,874)
Balance at end of year		\$ (18,486)		\$ (16,564)
<b>Accumulated other comprehensive income</b>				
Balance at beginning of year		\$ 3,027		\$ 2,427
Unrealized (loss) gain on translating financial statements of self-sustaining foreign operations		(840)		600
Balance at end of year		\$ 2,187		\$ 3,027
<b>Total accumulated deficit and accumulated other comprehensive income</b>		\$ (16,299)		\$ (13,537)
<b>Total shareholders' equity</b>		\$ 15,874		\$ 18,614

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

# OSI Geospatial Inc.

## Consolidated Statements of Comprehensive Loss For the years ended November 30, 2008 and 2007

In thousands of U.S. dollars	2008	2007
Net loss	\$ (1,584)	\$ (2,874)
Unrealized (loss) gain on translation of self-sustaining foreign operations	<u>(840)</u>	<u>600</u>
<b>Comprehensive loss for the year</b>	<b><u>\$ (2,424)</u></b>	<b><u>\$ (2,274)</u></b>

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

# OSI Geospatial Inc.

## Consolidated Statements of Cash Flows

### For the years ended November 30, 2008 and 2007

In thousands of U.S. dollars

2008 2007

#### Cash flows from/(used in) operating activities

Net loss for the year	\$ (1,584)	\$ (2,874)
Items not affecting cash		
Amortization	696	554
Loss on disposal of intangible assets and equipment and furnishings	28	9
Stock-based compensation	22	262
Future income taxes	(661)	(298)
	<u>(1,499)</u>	<u>(2,347)</u>
Changes in non-cash working capital items		
Accounts receivable and unbilled revenue	3,429	69
Inventory	(141)	47
Prepaid expenses and deposits	(182)	138
Accounts payable and accrued liabilities	(1,518)	459
Income taxes payable	(178)	86
Unearned revenue	155	(275)
Deferred rent	(41)	367
	<u>1,524</u>	<u>891</u>
	<u>25</u>	<u>(1,456)</u>

#### Cash flows used in investing activities

Purchase of Liddy International Inc. (note 5)	-	(25)
Development costs deferred	(309)	(97)
Additions to equipment and furnishings	(164)	(400)
Additions to leaseholds	(11)	(663)
Additions to intangible and other assets	(95)	(247)
	<u>(579)</u>	<u>(1,432)</u>

#### Cash flows from financing activities

Advances from (repayments of) bank indebtedness	974	(103)
Capital lease financing	-	246
Repayment of capital lease obligations	(49)	-
Issue of common shares, net of issue costs	-	2,812
Issue of warrants	-	332
Class B preference share dividends declared and paid	(338)	(382)
	<u>587</u>	<u>2,905</u>

#### Effect of foreign exchange on cash balances

	<u>(33)</u>	<u>(17)</u>
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#### Decrease in cash and cash equivalents

	-	-
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#### Cash and cash equivalents – beginning of year

	-	-
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#### Cash and cash equivalents – end of year

	<u>\$ -</u>	<u>\$ -</u>
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(supplemental cash flow information refer to note 20)

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

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

### 1 Basis of presentation

These audited consolidated financial statements have been prepared by management and include the accounts of OSI Geospatial Inc. and its wholly owned subsidiaries, collectively referred to as "OSI Geospatial" or "the Company". The 2008 and 2007 consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") and all amounts herein have been expressed in United States ("U.S.") dollars unless otherwise noted. The Company terminated the registration of its common shares in the U.S. with the Securities Exchange Commission during the fourth quarter ending November 30, 2008 and as a result the reconciliation of Canadian and U.S. generally accepted accounting principles note disclosure is no longer required.

### 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 digital land map data and electronic nautical chart data.

### 3 Accounting changes

#### a) Changes in accounting policies

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.

#### Financial Instruments – Recognition and Measurement

CICA Handbook section 3862, *Financial Instruments – Disclosures*, and CICA Handbook section 3863, *Financial Instruments - Presentation*, replace CICA Handbook section 3861, *Financial Instruments – Disclosure and Presentation*. These sections 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 limited to providing 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     |
| • Capital lease obligations                | Other liabilities     |

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

### Held for trading

Held for trading financial assets and liabilities are typically acquired for resale. These financial assets and liabilities are measured at fair value with changes in fair value flowing through the statement of operations.

### Loans and receivables

Loans and receivables are recorded initially at fair value and are then accounted for at amortized cost using the effective interest method.

### Other liabilities

Other liabilities are recorded initially at fair value and are then accounted for at amortized cost using the effective interest method. Other liabilities include all financial liabilities, other than derivative instruments.

### Embedded derivatives

Derivatives embedded in other financial instruments or contracts are separated from their host contract and accounted for as derivatives when: (a) their economic characteristics and risks are not closely related to those of the host contract; (b) the terms of the embedded derivative are the same as those of a free standing derivative; and (c) the combined instrument or contract is not measured at fair value with changes in fair value recognized in other income. As at November 30, 2008 and 2007, the Company does not have any outstanding contracts or financial instruments with embedded derivatives.

### b) Recent 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 replaces CICA Handbook section 3030, *Inventories*. This section will result in 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. Accordingly, the Company will adopt the new section for its fiscal year beginning December 1, 2008. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

The CICA has issued CICA Handbook section 3064, *Goodwill and Intangible Assets*, which replaces CICA Handbook section 3062, *Goodwill and Other Intangibles*, and CICA Handbook section 3450, *Research and Development Costs*. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including the development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licenses, intellectual property, market knowledge and trademarks. This section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new section for its fiscal year beginning December 1, 2008. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

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

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

The CICA has issued CICA Handbook section 1601, *Consolidated Financial Statements*, and CICA Handbook section 1602, *Non-controlling Interests*, which replace CICA Handbook section 1600, *Consolidated Financial Statements*. CICA Handbook section 1601 establishes standards for the preparation of consolidated financial statements and CICA Handbook section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements. These sections apply to annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company plans to adopt the new section for its fiscal year beginning December 1, 2011. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

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

#### 4 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of significance accounting principles used in the preparation of these consolidated financial statements.

##### a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated on consolidation.

##### b) Foreign currency translation

The Company's Canadian subsidiaries' functional currency is the Canadian Dollar. The Company's United States subsidiaries' functional currency is the United States Dollar ("U.S.").

Monetary assets and liabilities denominated in foreign currencies are valued at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at historical rates. Revenue and expenses are translated at the average exchange rate prevailing during the period. Foreign currency translation gains and losses are included in income in the period in which they occur.

The cumulative foreign currency translation adjustment included under accumulated other comprehensive income within shareholders' equity on the consolidated balance sheets relates to the unrealized foreign currency translation gains or losses of Canadian subsidiaries. Financial statements of Canadian subsidiaries, all of which are self-sustaining, are translated into U.S. dollars using the current rate method. Under the current rate method, assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date. Revenue and expenses are translated at the average exchange rate prevailing during the period.

##### c) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires the Company's management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the years reported. Significant areas requiring the use of estimates include revenue recognition, contingencies, valuation of goodwill, inventory, allowance for doubtful accounts, future income tax assets, stock-based compensation, valuation of intangibles and asset impairments. Actual results could differ from these estimates.

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

### d) Cash and cash equivalents

Cash and cash equivalents consist of cash and deposit instruments with an initial maturity of three months or less.

### e) Accounts receivable

The Company maintains an allowance for doubtful accounts against its accounts receivable for estimated losses that may arise if any of its customers are unable to make required payments. Management specifically analyzes the age of outstanding customer balances, historical bad debts, customer credit-worthiness and changes in customer payment terms when making estimates of the noncollectability of the Company's accounts receivable. If the Company determines that the financial condition of any of its customers deteriorates, increases in the allowance may be made.

### f) Inventory

Materials and components are stated at the lower of cost and net realizable value as determined by the first-in first-out method. Work-in-process and manufactured parts are stated at the cost of materials and direct labour applied to the product and the applicable share of overhead. Finished goods are stated at the lower of cost and net realizable value. The Company assesses the need for inventory write-downs based on its assessment of estimated replacement or net realizable value using assumptions about future demand and market conditions. If market conditions differ from those originally estimated by the Company, an additional inventory write-down may be required.

### g) Research and development costs

The Company incurs costs on activities that relate to the research and development of new products. Research costs are expensed in the period incurred.

Product development costs include investigative and development expenditures incurred on specific potential products. These costs are expensed in the period incurred unless, in the opinion of management, the deferral criteria are satisfied in all material respects, in which case development expenditures are capitalized. These costs are amortized, commencing when the products are released, over the estimated life of the related products.

### h) Equipment and furnishings

Equipment, furniture and fixtures, and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided using the methods and rates indicated below based on the assets' estimated useful lives as follows:

	<b>Method</b>	<b>Percentage</b>
Equipment – Canadian operations	Declining balance	20 – 25
Equipment – U.S. operations	Straight line	33
Furniture and fixtures - Canadian operations	Declining balance	20
Furniture and fixtures– U.S. operations	Straight line	25
Leasehold improvements	Straight line	10

An impairment loss is recognized when the undiscounted cash flows expected from use and eventual disposition of the asset are less than the carrying amount of the asset. An impairment charge is recorded to reduce the carrying value of the asset to its fair value.

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

### i) Intangible and other assets

Intangible and other assets are recorded at cost less accumulated amortization. Amortization is provided using the methods and rates indicated below based on the assets' estimated useful lives as follows:

	<b>Method</b>	<b>Percentage</b>
Computer software – Canadian operations	Declining balance	33
Computer software – U.S. operations	Straight line	33
Customer contracts	Straight line	33 – 100
Customer relationships	Straight line	10 – 25
Security clearance	Straight line	17
Licenses and patents	Straight line	10

An impairment loss is recognized when the undiscounted cash flows expected from use and eventual disposition of the asset are less than the carrying amount of the asset. An impairment charge is recorded to reduce the carrying value of the asset to its fair value.

### j) Leases

Leases are classified as either capital or operating leases. A lease that transfers substantially all benefits and risks incidental to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a capital lease, an asset and a lease obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of such lease. Assets recorded under the capital leases are amortized over the estimated useful lives of the respective assets on commencement of use of the related assets.

### k) Goodwill

Acquisitions are accounted for using the purchase method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition. The excess of the purchase price over such fair value is recorded as goodwill. The Company evaluates, on at least an annual basis, the carrying amounts of goodwill for impairment. To accomplish this, the Company compares the fair value of the reporting unit to the carrying amount. If the carrying value of the reporting unit were to exceed its fair value, the Company would perform the second step of the impairment test. In the second step, the Company would compare the fair value of the reporting unit goodwill to the carrying amount and any excess would be written off. Any impairment of goodwill would be recognized as an expense in the period of impairment, and subsequent reversals of impairment are prohibited. Based on the testing performed as of November 30, 2008 and 2007, there was no impairment.

### l) Lease inducements

Lease inducements are recorded on the balance sheet as deferred rent and are amortized on a straight line basis against rent expense over 10 years which is the economic life of the lease.

### m) Income taxes

The Company accounts for income taxes using the liability method of tax allocation. Under the liability method, future income tax assets and liabilities are determined based on differences between their financial reporting and tax bases and are measured using substantially enacted tax rates and laws expected to be in effect when the differences are expected to reverse. The Company provides a valuation allowance against future tax assets and liabilities to the extent that the Company does not consider them to be more likely than not of being realized.

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

### n) Revenue recognition

#### *International Systems Operations and U.S. Systems Operations*

The Company recognizes revenue from the sale of systems and software licenses upon the transfer of title and software locks to the customer, so long as persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, collection is reasonably assured, and there are no ongoing obligations of the Company to provide future services with the exception of warranties and maintenance. The Company uses the residual method to recognize revenue on delivered elements when a license agreement includes one or more elements to be delivered at a future date if evidence of the fair value of all undelivered elements exists. If an undelivered element for the arrangement exists under the license arrangement, revenue related to the undelivered element is deferred based on vendor-specific objective evidence ("VSOE") of the fair value of the undelivered element. If VSOE of fair value does not exist for all undelivered elements, all revenue is deferred until sufficient evidence exists or all elements are delivered.

The Company recognizes revenue from the sales of hardware products upon the transfer of title of the hardware product to the customer so long as persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collection is reasonably assured.

The Company also enters into contracts that are primarily fixed fee arrangements to render specific consulting and software modification services. The percentage of completion method is applied to these more complex contracts that involve the provision of services relating to the design or building of complex systems that require significant modification and that are essential to the functionality of other elements in the arrangement. Under this method, revenue is recognized using the percentage of completion basis and is calculated based on actual labour dollars incurred compared to the estimated total labour dollars for the services under the arrangement, so long as persuasive evidence of an arrangement exists, the price is fixed or determinable, and collection is reasonably assured. If the Company does not have a sufficient basis to measure progress towards completion, revenue is recognized when final acceptance is received by the Company from the customer. Anticipated losses on these contracts are expensed when identified.

Service revenues consist of revenues from consulting, implementation, training, integration services and research and development services. These services are set forth separately in the contractual arrangements such that the total price of the customer arrangement is expected to vary as a result of the inclusion or exclusion of these services. For those contracts where the services are not essential to the functionality of any other element of the transaction, the Company determines VSOE of fair value for these services based upon normal pricing and discounting practices for these services when sold separately. These services contracts are primarily time and material based contracts. Revenue from these services is recognized at the time such services are rendered by the Company so long as persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collection is reasonably assured.

The Company's multiple-element sales arrangements include arrangements where software licenses and the associated post contract customer support ("PCS") are sold together. The Company endeavours to establish VSOE of the fair value of the undelivered PCS element based on the contracted price for standalone PCS services previously provided. The Company's multiple-element sales arrangements may include rights for the customer to renew PCS after the bundled term ends. These rights are irrevocable to the customer's benefit, are for specified prices, are consistent with the initial price in the original multiple-element sales arrangement, and the customer is not subject to any economic or other penalty for failure to renew. Further, the renewal PCS options are for services comparable to the bundled PCS.

PCS revenue associated with systems and software licenses is recognized rateably over the term of the PCS period, so long as persuasive evidence of an arrangement exists, the price is fixed or determinable, and collection is reasonably assured. PCS revenue may include software license updates, rights to unspecified software product revisions addressing latent defects, maintenance releases and patches released during the term of the PCS period. PCS revenue may also include hardware maintenance and upgrades throughout the

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

PCS period including maintaining the continual performance standards of the hardware, making modifications, alterations and repairs as required and other hardware related support services.

Revenue under bill-and-hold arrangements is recognized when risks of ownership have been passed on to the customer, there is a signed contract with the customer, the customer has a substantial business purpose for ordering the goods on a bill-and-hold basis, a fixed delivery schedule has been established with the customer, and the Company does not retain any specific performance obligations such that the earnings process is not complete. Goods held under such arrangements are segregated, ready for shipment and not subject to being used to fill other orders. The customers are charged additional fees for storage and other associated costs until shipment occurs. There has been no revenue recognized under the bill-and-hold arrangement for the fiscal years ending November 30, 2008 and 2007.

### ***Mapping Operations***

Revenue from mapping services is recognized using the proportional performance method of accounting, whereby revenue in the period are based on the output completed to total units of work to be completed of the project for each segment of the project. A provision is made for the entire amount of future estimated losses, if any, on contracts in progress.

Revenue from the sale of mapping products is recorded at the time of delivery of the product to the customer so long as persuasive evidence exists of an agreement with the customer, the price is fixed or determinable, and collection is reasonably assured.

#### **o) Unbilled revenue**

Unbilled revenue is revenue that has been recognized using the percentage of completion or the proportional performance methods of accounting less amounts billed to the customer in accordance with the milestone terms of the contract. Unbilled revenue is reduced when customers are invoiced and the respective accounts receivable is recorded.

#### **p) Unearned revenue**

Unearned revenue is amounts that have been billed to the customer but have not been recognized in revenue.

#### **q) Government assistance**

Government assistance is recorded when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions necessary to obtain the government assistance. Government assistance towards current research expenditures is recorded as a reduction of expenses in the consolidated statements of operations. The liability to repay government assistance is recognized as an expense in the period in which conditions arise that cause the government assistance to be repayable.

#### **r) Stock-based compensation**

The Company has stock option plans as described in note 13. The Company uses the fair value method to account for such plans. Under this method, the Company measures the fair value of stock-based awards as of the grant date and recognizes the cost as an expense on a straight-line basis over the applicable vesting period with a corresponding increase in contributed surplus. Upon the exercise of stock options, share capital is increased by the amount paid by the employees as well as the amounts previously added to contributed surplus when compensation costs were charged to earnings.

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

### s) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted loss per share. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period. Stock options and warrants are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

### t) Guarantees

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

### u) Derivative financial instruments

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

Changes in fair value of foreign currency denominated derivative financial instruments used to hedge anticipated or committed foreign currency exposures are recognized as an adjustment to the related operating costs or revenue when the hedged transaction is recorded. The Company did not designate its foreign exchange forward contracts as a hedge of underlying assets, liabilities, firm commitments or anticipated transactions in accordance with CICA Handbook Section 3865, *Hedges*, and accordingly did not use hedge accounting. As a result of this, the foreign exchange forward contracts are recorded on the consolidated balance sheet at fair value in other receivables when the contracts are in a gain position and in other accrued liabilities when the contracts are in a loss position. The Company purchases foreign exchange forward contracts to mitigate the exposure to sales and the related accounts receivable to customers denominated in U.S. dollars, UK pounds, Australian dollars and Euros.

## 5 Acquisitions and goodwill

### a) Liddy International Inc.

On April 23, 2007, the Company through its subsidiary CHI Systems, Inc., acquired the assets of Liddy International Inc. ("Liddy"), a United States defence contracting company and established Layered Security Solutions ("LSS"). LSS provides business continuity solutions against hazards and has the capability to develop deterrence, response and recovery strategies designed to deal with global threats to business and government. Under the terms of the agreement, the Company paid approximately \$154,000 for assets and goodwill of Liddy, of which \$25,000 was paid in cash with the balance paid by the issuance of 300,000 common shares of the Company of which 200,000 common shares are held in escrow subject to the satisfaction of certain contractual provisions.

The following table summarizes the fair value of the assets acquired by the Company at April 23, 2007, the date of acquisition. The acquisition was accounted for using the purchase method whereby assets acquired

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

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were recorded at their fair values at April 23, 2007. The excess of the purchase price over the fair market value was recorded as goodwill.

In thousands of U.S. dollars

### Assets

Furniture and fixtures	\$	8
Computer equipment		17
Goodwill		170
<b>Total assets acquired</b>		<u>195</u>
Cash and common share consideration		154
Direct acquisition costs incurred by the Company		41
<b>Total acquisition costs</b>	\$	195
Less fair value of net identifiable assets acquired		<u>25</u>
<b>Goodwill</b>	\$	<u>170</u>

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

In thousands of U.S. dollars	November 30,	
	2008	2007
Opening balance	\$ 8,300	\$ 8,130
Acquisitions during the year	-	170
Impairment during the year	-	-
	<u>\$ 8,300</u>	<u>\$ 8,300</u>

## 6 Accounts receivable and unbilled revenue

In thousands of U.S. dollars

	November 30,	
	2008	2007
Trade	\$ 5,583	\$ 7,570
Unbilled revenue	3,380	5,312
Other	83	182
Allowance for doubtful accounts	<u>(8)</u>	<u>(9)</u>
	<u>\$ 9,038</u>	<u>\$ 13,055</u>

As at November 30, 2008, government contract trade receivables were \$2,656,000 (2007 - \$5,404,000) and unbilled governments contract revenues were \$3,324,000 (2007 - \$5,003,000).

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements November 30, 2008 and 2007

### 7 Inventory

In thousands of U.S. dollars

	November 30,	
	2008	2007
Materials and components	\$ 969	\$ 1,108
Finished goods	245	204
Provision for inventory obsolescence	(77)	(96)
	<u>\$ 1,137</u>	<u>\$ 1,216</u>

### 8 Equipment and furnishings

In thousands of U.S. dollars

	November 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Equipment and vehicles	\$ 4,305	\$ 3,531	\$ 774
Furniture and fixtures	635	502	133
Leasehold improvements	633	138	495
	<u>\$ 5,573</u>	<u>\$ 4,171</u>	<u>\$ 1,402</u>

In thousands of U.S. dollars

	November 30, 2007		
	Cost	Accumulated Amortization	Net Book Value
Equipment and vehicles	\$ 5,468	\$ 4,399	\$ 1,069
Furniture and fixtures	728	554	174
Leasehold improvements	751	80	671
	<u>\$ 6,947</u>	<u>\$ 5,033</u>	<u>\$ 1,914</u>

At November 30, 2008, equipment and furnishings included assets financed by capital leases in the amount of \$260,784 (2007 - \$260,784) and accumulated amortization of \$118,308 (2007 - nil).

### 9 Intangible and other assets

In thousands of U.S. dollars

	November 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 1,436	\$ 1,066	\$ 370
Customer contracts	288	288	-
Customer relationships	160	88	72
Security clearance	275	138	137
Licenses and patents	53	40	13
	<u>\$ 2,212</u>	<u>\$ 1,620</u>	<u>\$ 592</u>

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements November 30, 2008 and 2007

In thousands of U.S. dollars

November 30, 2007

	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 1,583	\$ 1,050	\$ 533
Customer contracts	288	286	2
Customer relationships	160	64	96
Security clearance	275	92	183
Licenses and patents	85	38	47
	<u>\$ 2,391</u>	<u>\$ 1,530</u>	<u>\$ 861</u>

The aggregate amortization expense for intangible assets for the fiscal year was \$296,000 (2007 - \$219,000).

### 10 Accounts payable and accrued liabilities

In thousands of U.S. dollars

November 30,

	2008	2007
Trade payables	\$ 1,465	\$ 1,798
Accrued employee compensation	675	1,542
Accrued employee benefits and payroll deductions	180	217
Accrued royalties (note 14)	546	472
Other accrued liabilities	786	1,556
	<u>\$ 3,652</u>	<u>\$ 5,585</u>

### 11 Credit facilities

At November 30, 2008, the Company had total borrowing capacity under its Canadian operating line of credit of CAD \$3.0 million. The credit facility is collateralized by a general assignment of book debts and a general security agreement. This facility is, in part, guaranteed by Export Development Canada. The operating line bears interest at the chartered bank's prime lending rate plus 1.0% with interest payable monthly. The prime lending rate at November 30, 2008 was 5.00% (2007 – 6.25%). Funds drawn on the operating lines and the standby letters of credit are repayable on demand.

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 Company is required to meet certain covenants as outlined in the credit facilities agreement. Similar to the six months ended May 31, 2008 and the nine months ended August 31, 2008, the Company has not met the interest coverage ratio covenant for the year ended November 30, 2008. As at November 30, 2008, the Company has drawn on its operating line of credit in the amount of CAD \$1.5 million. Management expects to receive a waiver from the bank for the year ended November 30, 2008 similar to the waiver received for the six months ended May 31, 2008 and for the nine months ended August 31, 2008. The Company was in compliance with the banking covenants held with another major Canadian chartered bank at November 30, 2007.

The Company also has an operating line of credit of \$1.2 million with a U.S. chartered bank which bears interest at the bank's prime lending rate plus 0.5%. The prime lending rate at November 30, 2008 was 4.5%

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

(2006 – 7.50%). As at November 30, 2008, the Company has drawn on its U.S. operating line of credit in the amount of \$691,000.

The Company utilizes letters of credit to back certain performance obligations with its customers. As of November 30, 2008 there were two letters of credit issued and as of November 30, 2007 no letters of credit were issued.

The Company has a foreign exchange facility with a Canadian chartered bank whereby it can enter into forward foreign exchange contracts. The maximum facility is based on a bank formula for deemed risk and is calculated using recent volatility in the currency of the contract as well as the length of the contract. At November 30, 2008, our foreign exchange facility would enable the Company to enter into USD denominated forward foreign exchange contracts for approximately \$8.4 million. This facility is insured through insurance solutions provided by Export Development Canada. As at November 30, 2008, the Company has drawn on it forward foreign exchange contract facility in the amount of \$1.7 million (2007 - \$4.9 million). A foreign exchange loss on these contracts of \$24,000 (2007 - \$142,000) has been included in other liabilities.

### 12 Capital lease obligation

Finance leases have been established for the purchase of certain equipment, furnishings and software with terms ranging from three to five years. The lease obligations are capitalized at the lease inception at the lower of fair value of the leased property and the present value of the minimum lease payments. The weighted average interest rate implicit in the leases is approximately 4% (2007 – 4%).

Commitments in relation to capital leases are payable as follows:

In thousands of U.S. dollars	November 30,	
	2008	2007
Within one year	\$ 89	\$ 89
Later than one year but less than five years	141	222
Minimum lease payments	230	311
Future financing charges	(35)	(65)
Recognized as a liability	195	246
Less: current portion	(70)	(46)
Long term portion of capital lease obligation	\$ 125	\$ 200

Future minimum lease repayments required over the term of the leases at November 30, 2008 are as follows:

In thousands of U.S. dollars	November 30,	
2009	\$	89
2010		79
2011		30
2012		30
2013		2

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

### 13 Capital stock

#### a. Authorized

100,000,000 Class A preference shares with no par value, issuable in series, of which:

10,000,000 shares are designated Series A voting non-cumulative, redeemable at the option of the Company, convertible at a ratio of 1:1, 1% preference shares

100,000,000 Class B preference shares with a par value of \$50 each, issuable in series, of which:

10,000,000 shares are designated Series 1 voting, cumulative, redeemable at the option of the Company, convertible to common shares at a ratio of 1:45.5, 6% preference shares, and

10,000,000 shares are designated Series 2 voting, cumulative, redeemable at the option of the Company, convertible to common shares at a ratio of 1:58.82, 7% preference shares

Unlimited Class C preference shares without par value, issuable in series

Unlimited common shares without par value

#### b. Class A preference shares

The Company has 30,262 (November 30, 2007 – 30,262) Class A preference shares outstanding. These Class A preference shares are being held in escrow but are no longer subject to any escrow restrictions and may be converted at any time into common shares of the Company, by notice in writing from the holders.

#### c. Class B Series 2 preference shares

Each Series 2 preference share entitles the holder to one vote either in person or by proxy at any general meeting of the shareholders of the Company. The Company has the right to require the shareholders of the preference shares to convert each such share into 58.8235 common shares if (i) at any time after 13 months following the issuance of the preference shares, the closing trade price of the Company's common shares exceeds CAD \$2.13 for at least 20 consecutive trading days, or (ii) at any time, the Company completes a firm public underwritten offering of its common shares for more than CAD \$40 million at a price per common share greater than CAD \$1.70. The preference shares are redeemable at the option of the Company at any time after April 11, 2008, the third anniversary of the issuance date, for an amount equal to the original issuance price plus a premium of 20% of the original issue price. The preference shares are not subject to any right of redemption at the option of the holder.

During the fiscal year 2008, no preference shares were converted into common shares (2007 – 101,310 preference shares were converted into 5,959,393 common shares). For fiscal year 2007, the Class B preference shares were reduced, and the common shares were increased by \$2.6 million, the carrying value of the shares converted.

#### d. Common shares

On July 31, 2007, the Company closed a private placement offering resulting in the placement of 5,560,000 units (the "Units") of the Company at a price of \$0.65 per Unit, for gross proceeds of \$3.4 million. Each Unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.80 per common share for a period of 24 months expiring July 31, 2009.

The gross proceeds from the private placement were allocated as follows: \$3.1 million was allocated to the 5,560,000 common shares issued and \$332,000 was allocated to the 2,780,000 warrants issued. The warrants were valued using the Black-Scholes model. Share issue costs associated with the private placement amounted to \$356,000 and included a \$74,000 broker compensation warrant entitling the broker to purchase up to 333,600 Units of the Company at a price of \$0.65 per Unit for a period of 24 months from the closing of the offering.

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

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An additional 300,000 common shares were issued as part of the Liddy acquisition in fiscal 2007 (note 5a).

### e. 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.

The following warrants are outstanding at November 30, 2008:

In Canadian dollars

<b>Number of Warrants</b>	<b>Exercise Price</b>	<b>Weighted average remaining contractual life in years</b>
12,395,067	\$0.85	1.36
2,780,000	\$0.80	0.67
15,175,067	\$0.84	2.06

### f. Stock option plans

The Company has established three stock option plans under which stock options to purchase common shares may be granted to directors, officers and employees of the Company and to any other person or Company permitted by the applicable regulatory authorities to purchase unissued common shares. The number of common shares authorized for grant under the Company's stock option plans is 10,930,732 of which 4,274,494 are available for future granting. The exercise price of stock options granted pursuant to the plans may not be less than the market price of the common shares at the time of grant. The plans provide that stock options may be granted with vesting periods and expiry dates at the discretion of the board of directors. Stock options granted to directors, management and employees vest over periods ranging from immediately to five years.

A summary of the status of the Company's stock option plans at November 30 is as follows:

In Canadian dollars

	<b>2008</b>		<b>2007</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>
Outstanding - beginning of year	3,596,166	\$ 0.80	3,417,584	\$ 0.95
Granted	-	-	1,150,000	0.55
Forfeited	(163,000)	0.89	(273,000)	0.90
Expired	-	-	(698,418)	1.08
Outstanding - end of year	3,433,166	\$ 0.79	3,596,166	\$ 0.80
Exercisable – end of year	3,422,402	\$ 0.79	3,531,582	\$ 0.80

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements November 30, 2008 and 2007

A summary of the Company's stock options outstanding and exercisable at November 30, 2008 is as follows:

In Canadian dollars					
Options outstanding				Options exercisable	
Range of Exercise prices	Number outstanding at November 30, 2008	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at November 30, 2008	Weighted average exercise price
\$ 0.46 – 0.63	980,000	3.72	\$ 0.53	969,236	\$ 0.52
0.64 – 0.96	1,583,166	1.94	0.85	1,583,166	0.85
0.97 – 1.21	870,000	1.72	0.99	870,000	0.99
<b>\$ 0.46 – 1.21</b>	<b>3,433,166</b>	<b>2.37</b>	<b>\$ 0.79</b>	<b>3,422,402</b>	<b>\$ 0.79</b>

A summary of the Company's stock options outstanding and exercisable at November 30, 2007 is as follows:

In Canadian dollars					
Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding at November 30, 2007	Weighted average remaining contractual life (years)	Weighted average exercise price	Number outstanding at November 30, 2007	Weighted average exercise price
\$ 0.46 – 0.63	980,000	4.72	\$ 0.53	915,416	\$ 0.52
0.64 – 0.96	1,725,166	2.94	0.86	1,725,166	0.86
0.97 – 1.21	891,000	2.72	0.99	891,000	0.99
<b>\$ 0.46 – 1.21</b>	<b>3,596,166</b>	<b>3.37</b>	<b>\$ 0.80</b>	<b>3,531,582</b>	<b>\$ 0.80</b>

### Stock-based compensation

For the year ended November 30, 2008, the Company incurred non-cash stock-based compensation expense of \$23,000 (2007 - \$262,000) related to stock options granted in 2007. Of the options granted in the year ended November 30, 2007, 1,046,000 options vested immediately, 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 the offsetting amount was recorded in contributed surplus.

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

	2008	2007
Risk-free interest rate	N/A	3.96%
Volatility	N/A	47%
Estimated average option lives	N/A	5 years
Dividend yield	N/A	0.0%

Option valuation models require the input of highly variable assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the input assumptions can materially affect the fair value estimate, the Black-Scholes model does not necessarily provide a reliable single measure of the fair value of the Company's stock options.

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

### Shareholder rights plan

On April 18, 2001, the Board of Directors of the Company adopted a shareholder rights plan (the Rights Plan). The Rights Plan was approved by the Toronto Stock Exchange in accordance with its policies. On March 19, 2007, the Board of Directors carried a resolution regarding the continued existence of the Rights Plan as amended and restated as of March 19, 2007, subject to receipt of shareholder approval, for an additional three year period. The continued existence of the Rights Plan was approved by the shareholders of the Company by ordinary resolution at the annual general meeting of the Company held on April 19, 2007.

The objectives of the Rights Plan are to ensure, to the extent possible, that all shareholders of the Company are treated equally and fairly in connection with any take-over offer for the Company. Take-over offers may not always result in shareholders receiving equal or fair treatment or full value for their investment. In addition, current Canadian securities legislation only requires a take-over offer to remain open for 35 days. The Board believes that this period may be insufficient for the shareholders to evaluate a bid, or for the Board to pursue alternatives that could maximize shareholder value and to make informed recommendations to shareholders.

The Rights Plan is designed to discourage discriminatory or unfair take-over offers for the Company and gives the board time, if appropriate, to pursue alternatives to maximize shareholder value in the event of an unsolicited take-over bid for the Company. The Rights Plan will encourage an offeror to proceed by way of a permitted bid or to approach the Board of Directors with a view to negotiation by creating the potential for substantial dilution of the offeror's position. The permitted bid provisions of the Rights Plan are designed to ensure that, in any take-over bid, all shareholders are treated equally, receive the maximum value for their investment and are given adequate time to properly assess the take-over bid on a fully informed basis.

### **g. Loss per share**

In thousands of U.S. dollars, except share related data	Years ended November 30,	
	2008	2007
<b>Basic loss per share</b>		
Net loss	\$ (1,584)	\$ (2,874)
Less:		
Class B Series 2 preference share dividends (*A)	559	714
Loss available to common shareholders	\$ (2,143)	\$ (3,588)
Weighted average number of common shares outstanding	46,956,439	41,096,261
Basic loss per share	\$ (0.05)	\$ (0.09)

(\*A) Dividends of \$559,000 (2007 - \$714,000) are included which represents the dividends earned by the shareholders of Class B Series 2 cumulative preference shares. The dividends of \$338,000 earned in November 2007 were declared and paid in December 2007. As at November 30, 2008, there were \$556,000 (2007 - \$338,000) of dividends in arrears for the Class B Series 2 cumulative preference shares.

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements November 30, 2008 and 2007

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

	Years ended November 30,	
	2008	2007
<b>Diluted loss per share</b>		
Net loss	\$ (1,584)	\$ (2,874)
Less:		
Class B Series 2 preference share dividends (*A)	559	714
Loss available to common shareholders	\$ (2,143)	\$ (3,588)
Weighted average number of common shares outstanding	46,956,439	41,096,261
Dilutive effect of Class A preference shares – Series A (*1)	-	-
Dilutive effect of Class B preference shares – Series 2 (*1)	-	-
Dilutive effect of warrants (*1)	-	-
Dilutive effect of stock options (*1)	-	-
Adjusted weighted average number of common shares outstanding	46,956,439	41,096,261
Diluted loss per share	\$ (0.05)	\$ (0.09)

(\*A) Dividends of \$559,000 (2007 - \$714,000) are included which represents the dividends earned by the shareholders of Class B Series 2 cumulative preference shares. The dividends of \$338,000 earned in November 2007 were declared and paid in December 2007. As at November 30, 2008, there were \$556,000 (2007 - \$338,000) of dividends in arrears for the Class B Series 2 cumulative preference shares.

(\*1) The Class A preference shares – Series A, Class B preference shares Series 2, stock options and outstanding warrants were anti-dilutive for the purposes of calculating diluted earnings per share for the years ended November 30, 2008 and 2007.

### 14 Royalties to Technology Partnerships Canada

The Company is required to pay a royalty of 1.4% on annual gross revenue of its subsidiary, Offshore Systems Ltd., for the period January 1, 2006 to December 31, 2008 and a royalty of 2.5% on annual gross revenue in Offshore Systems Ltd. for the period January 1, 2009 to December 31, 2013. The Company commenced payment of these royalties effective February 2007. The Company has paid royalties of \$238,000 to date (2007 – \$178,000) and has accrued royalties of \$254,000 at November 30, 2008 (November 30, 2007 - \$150,000). Royalty payments will continue until the cumulative royalties paid or payable to December 31, 2013 are at least \$5.3 million or until December 31, 2017.

In addition, the Company is required to pay a royalty of 3% on annual gross revenue of its subsidiary, Offshore Systems Ltd., for the period December 1, 1999 to November 30, 2008. The Company commenced payment of these royalties effective June 2001. The Company has paid royalties of \$2.1 million to date (2007 – \$1.7 million) and has accrued royalties of \$292,000 at November 30, 2008 (November 30, 2007 - \$322,000). Royalty payments will continue until the cumulative royalties paid or payable to November 30, 2008 are at least \$6.8 million or until November 30, 2014.

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

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Technology Partnerships Canada royalties paid and accrued are as follows:

In thousands of U.S. dollars	Years ended November 30,	
	2008	2007
Royalties paid	\$ 429	\$ 476
Accrued royalties – current	\$ 546	\$ 472

If the Company causes an event of default, as defined in the agreement, Technology Partnerships Canada can suspend or terminate any obligation to contribute to the costs of the project or require the Company to repay all or part of the contributions made, together with interest, from the date of demand.

### 15 Commitments and contingencies

The Company has entered into a one year guarantee for one of the Company's subsidiaries, CHI Systems, Inc. ("CHI"). The Company has guaranteed CHI's bank line of credit that was put in place by the previous owners prior to OSI Geospatial's acquisition of CHI. The maximum potential amount of future payments the Company could be required to make under this guarantee is \$1,200,000. At November 30, 2008, the carrying amount of CHI's line of credit was \$691,000 (2007 - \$520,000).

The company has entered into operating leases for its office premises in Canada, United States and for certain equipment. Minimum lease payments required under the remaining terms of the leases are as follows:

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	\$ 3,431	\$ 731	\$ 1,231	\$ 807	\$ 662
Equipment leases	82	36	41	5	-
Total contractual obligations	\$ 3,513	\$ 767	\$ 1,272	\$ 812	\$ 662

For the fiscal year ended November 30, 2008, the Company paid basic rent of \$929,000 (2007 - \$809,000). In addition to basic rent, the Company is required to pay a portion of certain costs and property taxes for the above commitments. In 2008, the Company paid \$89,000 (2007 - \$110,000) for these costs.

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.

In the ordinary course of business, the Company enters into standard contracts which include indemnification provisions. Indemnifications cover customers for losses suffered or incurred by them with respect to the Company's products or services. The maximum amount of indemnification the Company could be required to make under these agreements is generally limited to the contract value. The Company estimates the fair value of its indemnification obligation to be insignificant, based upon its history of litigation. Accordingly, the Company has no liabilities recorded for indemnification under these agreements as of November 30, 2008 and 2007.

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

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

### 16 Income taxes

The Company is subject to Canadian federal, British Columbia and Ontario provincial taxes in Canada. The Company is also subject to federal income taxes in the U.S and state taxes in Pennsylvania, Utah, California, Virginia and Florida.

Loss before income taxes consisted of the following:

In thousands of U.S. dollars	2008	2007
Canadian earnings (loss)	\$ 414	\$ (2,450)
U.S. loss	(2,895)	(364)
	<u>\$ (2,481)</u>	<u>\$ (2,814)</u>

Income tax (recovery) expense consisted of the following:

In thousands of U.S. dollars	2008	2007
Canadian income tax expense	\$ 74	\$ 103
U.S. income tax recovery	(971)	(43)
	<u>\$ (897)</u>	<u>\$ 60</u>

The Company has non-capital losses for Canadian income tax purposes of approximately \$2,671,000 (2007 - \$3,936,000) which are available for carry forward to reduce future years' taxable income. These income tax losses expire as follows:

In thousands of U.S. dollars	2008	2007
2014	\$ 179	\$ 222
2015	1,157	1,431
2026	718	949
2027	403	1,334
2028	214	-

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

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The Company has net operating losses for U.S. income tax purposes of approximately \$3,264,000 (2007 - \$929,000), which are available for carry forward to reduce future years' taxable income. These income tax losses expire as follows:

In thousands of U.S. dollars	2008	2007
2020	\$ 188	\$ 188
2021	27	27
2024	108	-
2026	327	327
2027	370	387
2028	2,244	-

The Company also has investment tax credits for Canadian income tax purposes of approximately \$2,439,000 (2007 - \$2,657,000), which can be used to offset future income taxes otherwise payable and expire as follows:

In thousands of U.S. dollars	2008	2007
2011	\$ 118	\$ 152
2012	103	192
2013	161	200
2014	392	485
2015	486	601
2016	196	221
2017	118	146
2026	305	397
2027	212	263
2028	348	-

The Company has capital losses for Canadian income tax purposes of approximately \$287,000, which are available for carry forward to reduce future years' income from capital gains. These capital losses carry forward indefinitely.

The Company has un-deducted scientific research and experimental development expenses for Canadian income tax purposes of approximately \$10,563,000 (2007- \$8,608,000), which are available for carry forward to reduce future years' income for tax purposes. These expenses carry forward indefinitely.

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements November 30, 2008 and 2007

The net future tax consists of the following:

In thousands of U.S. dollars	2008	2007
<b>Future tax assets</b>		
Non-capital loss carry-forwards and net operating losses	\$ 2,040	\$ 1,574
Net capital loss carry-forwards	38	54
Interest deduction carry-forwards	428	314
Scientific research and experimental development costs	2,220	2,625
Share issue costs	169	395
Investment tax credits	1,928	2,009
Equipment and furnishings	420	1,115
Accrued operating expenses	142	132
	<u>7,385</u>	<u>8,218</u>
Valuation allowance	(6,446)	(7,815)
<b>Future tax assets</b>	939	\$ 403
Less: current portion	(274)	(132)
<b>Future tax assets – long term</b>	<u>\$ 665</u>	<u>\$ 271</u>
<b>Future tax liabilities</b>		
Change in tax accounting method	\$ -	\$ 25
Accrued operating expenses	49	-
Intangible assets	48	74
Equipment and furnishings	23	26
<b>Future tax liabilities</b>	120	125
Valuation allowance	(120)	-
Less: current portion	-	(25)
<b>Future tax liabilities – long term</b>	<u>\$ -</u>	<u>\$ 100</u>
<b>Future tax assets</b>	939	403
<b>Future tax liabilities</b>	-	(125)
<b>Net future tax</b>	<u>\$ 939</u>	<u>\$ 278</u>

The Company decreased its valuation allowance in 2008 against future income tax assets to reflect the amount of the future tax benefit that was more likely than not to be realized. A valuation allowance continues to be provided against future income tax assets for which the more likely than not criteria of future realization has not been met. Although the Company believes that its tax estimates are reasonable, the ultimate tax determination involves significant judgment that could become subject to audit by tax authorities in the ordinary course of business.

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

A reconciliation of the combined Canadian federal and provincial income tax rate with the Company's effective income tax rate is as follows:

In thousands of U.S. dollars	2008	2007
Expected statutory rate	33.72%	34.12%
Expected recovery for income taxes	\$ (837)	\$ (961)
Change in tax rates applied to valuation allowance	570	138
Change in valuation allowance	(1,489)	2,399
Foreign tax differentials	(185)	(21)
Foreign exchange effect on valuation allowance	1,339	(993)
Investment tax credits and share issue cost adjustments	(328)	(332)
Withholding taxes	74	103
Part VI.1 tax deduction	-	(12)
Non-deductible expenses and other	(41)	(261)
Income tax (recovery) expense	\$ (897)	\$ 60

### 17 Segmented information

The Company operates in four segments: International Systems Operations, U.S. Systems Operations, Mapping Operations and Corporate and Public Company costs. Operating segments are identified as components of the Company for which separate discrete financial information is available for evaluation by the chief operating decision maker regarding how to allocate resources and assess performance. The Company's chief operating decision maker is the Chief Executive Officer. The Company's reportable segments are as outlined below which are defined by their primary type of service offerings. Accounting policies used by these segments are the same as those described in the significant accounting policies as disclosed in note 4.

In thousands of U.S. dollars

2008

	International Systems Operations \$	U.S. Systems Operations \$	Mapping Operations \$	Corporate and Public Company Costs \$	Total \$
Revenue	10,203	11,197	4,098	-	25,498
Gross profit	5,054	3,113	1,041	-	9,208
Technology Partnerships Canada royalty	532	-	-	-	532
Interest expense	24	56	-	56	136
Amortization	250	267	162	17	696
Income tax (recovery) expense	-	(971)	-	74	(897)
Net earnings (loss)	333	1,437	(238)	(3,116)	(1,584)
Equipment and furnishings expenditures	85	66	9	15	175
Intangible expenditures	3	48	3	41	95

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

In thousands of U.S. dollars

2007

	International Systems Operations \$	U.S. Systems Operations \$	Mapping Operations \$	Corporate and Public Company Costs \$	Total \$
Revenue	8,214	12,708	4,404	-	25,326
Gross profit	4,070	4,204	1,492	-	9,766
Technology Partnerships Canada royalty	471	-	-	-	471
Interest expense	19	3	1	47	70
Amortization	236	162	148	8	554
Income tax expense (recovery)	-	87	(130)	103	60
Net (loss) earnings	(1,206)	1,959	63	(3,690)	(2,874)
Equipment and furnishings expenditures	594	193	219	57	1,063
Intangible expenditures	39	136	70	2	247

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 November 30, 2008	6,787	11,947	3,214	127	22,075
As at November 30, 2007	8,704	13,859	3,648	137	26,348

In thousands of U.S. dollars

Goodwill

	International Systems Operations \$	U.S. Systems Operations \$	Mapping Operations \$	Corporate and Public Company Costs \$	Total \$
As at November 30, 2008	-	7,898	402	-	8,300
As at November 30, 2007	-	7,898	402	-	8,300

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

In thousands of U.S. dollars

2008

2007

United States	\$	11,965	\$	15,678
Canada		3,597		2,839
United Kingdom		3,596		4,645
Australia		3,587		677
Europe		1,221		1,254
Brazil		923		-
New Zealand		499		233
Other		110		-
Total	\$	25,498	\$	25,326

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

Approximately 35% of revenue for the year ended November 30, 2008 (2007 - 41%) is derived from the three largest customers at 14%, 13% and 8%, respectively (2007 - 18%, 13%, 11%). For the year ended November 30, 2008, the two largest customers are International Systems operations customers and the third largest customer is a U.S. Systems operations customer. For the year ended November 30, 2007, the largest customer is an International Systems operations customer and the second and third largest customers are U.S. Systems operations customers.

Geographically, equipment and furnishings and intangible and other assets are reported based on location. At November 30, 2008 and 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

November 30, 2008

	Canada	U.S.	Total
Equipment and furnishings	\$ 1,153	\$ 249	\$ 1,402
Intangible and other assets	201	391	592
Goodwill	-	8,300	8,300
Total	\$ 1,354	\$ 8,940	\$ 10,294

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

## 18 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

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's accounts receivable and its foreign exchange contracts. The Company provides credit to its customers in the normal course of its operations. The Company's credit risk review includes performing credit evaluations of the financial condition of significant customers. The Company's customers are, for the most part, national and international government clients and large public customers. A significant portion of the Company's accounts receivable is from long-time customers and at November 30, 2008, 48% (2007 - 71%) of its accounts receivable was with national and international government clients and 39% (2007 - 7%) of its accounts receivable was with large international public companies. Due to the low risk nature of the government clients and large international public companies and a history of excellent collections, provisions for doubtful accounts are made on a customer by customer basis, based on ongoing customer discussions.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at November 30, 2008 was \$9,038,000 (2007 - 13,055,000) as disclosed in note 6.

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements November 30, 2008 and 2007

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

In thousands of U.S. dollars

	2008		2007	
Current	\$	4,953	\$	5,965
61 – 90 days		232		1,017
Greater than 90 days		398		588
	\$	5,583	\$	7,570

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

### Market risk

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

#### *Foreign exchange risk*

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates. The Company is exposed to foreign currency fluctuations mainly on its accounts receivable 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 liability in accounts payable and accrued liabilities of \$24,000 at November 30, 2008 (2007 – \$142,000). Changes in fair value of these contracts are recognized as gains or losses in the consolidated statement of operations.

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

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

In thousands of dollars				November 30, 2008	
Type	Notional	Currency	Maturity	Equivalent to US Dollars	Fair Value \$
Sell	195	GBP	December 2008	300	3
Sell	300	USD	December 2008	255	(45)
Sell	230	AUD	December 2008	150	4
Sell	25	GBP	January 2009	40	3
Sell	460	USD	January 2009	380	(78)
Buy	(300)	USD	January 2009	(248)	54
Sell	350	AUD	January 2009	229	6
Sell	150	GBP	February 2009	236	10
Sell	300	USD	February 2009	249	(49)
Sell	200	GBP	March 2009	319	19
Buy	(300)	USD	March 2009	(249)	49
					(24)

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 \$6,000 (2007 – \$4,000). A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would have decreased (increased) the reporting currency earnings from Canadian operations by a total of \$175,000 (2007 - \$325,000). A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would impact the reporting currency balance sheet values with an offsetting adjustment of approximately \$473,000 (2007 – \$552,000) to other comprehensive income.

### Interest rate risk

The Company is exposed to interest rate risk on its operating line of credit. A 1% increase (decrease) in the interest rate would have resulted in approximately \$13,000 (2007 – \$8,000) increase (decrease) in the loss of the Company.

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 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, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The Company has operating lines of credit of CAD \$3.0 million and U.S. \$1.2 million. At November 30, 2008, the Company utilized CAD \$1.5 million (2007 - CAD \$265,000) and U.S. \$691,000 (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 November 30, 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.

<b>Payments due by period</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>4 to 5 years</b>	<b>After 5 years</b>
In thousands of U.S. dollars					
Facility leases	3,431	731	1,231	807	662
Capital equipment leases	230	89	109	32	-
Operating equipment leases	82	35	42	5	-
<b>Total contractual obligations</b>	<b>3,743</b>	<b>855</b>	<b>1,382</b>	<b>844</b>	<b>662</b>

### Fair values

The Company's financial instruments consist of bank indebtedness, accounts receivable, and 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 November 30, 2008.

The carrying amounts of each of the financial instruments are:

In thousands of U.S. dollars			
	<b>2008</b>		<b>2007</b>
Held for trading	\$ (1,629)	\$	(822)
Loans and receivables	5,583		7,570
Held for trading	(24)		(142)
Other liabilities	(3,847)		(5,831)

# OSI Geospatial Inc.

## Notes to Consolidated Financial Statements

November 30, 2008 and 2007

### 19 Capital structure management

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company reviews on a semi-annual basis whether any dividends should be paid.

The Company monitors capital on a basis consistent with others in the industry based on total debt to shareholders' equity. Management defines capital as the Company's total shareholders' equity excluding accumulated other comprehensive income and total debt is defined as bank indebtedness and capital lease obligations.

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

### 20 Supplemental cash flow information

In thousands of U.S. dollars	2008	2007
Cash paid during the year for interest	\$ 136	\$ 70
Cash paid during the year for income taxes	\$ -	\$ -
Cash received during the year for interest	\$ 7	\$ 14

### 21 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. All of the 2007 restructuring charges were paid by November 30, 2008.

In thousands of U.S. dollars	2008	2007
Opening balance	\$ 331	\$ -
Accrual during the year	-	331
Payments during the year	(331)	-
	\$ -	\$ 331

### 22 Change in accounting estimate

During the second quarter ending May 31, 2008, management with the input of the Company's independent tax advisors performed an in-depth tax planning policy review and undertook a complete review of the Company's current tax methodology. Based on this review, revisions to the Company's tax policies were implemented in the second quarter ending May 31, 2008. This resulted in a tax recovery in the amount of \$317,000 during the second quarter ending May 31, 2008.

### 23 Subsequent events

On December 1, 2008, the Board of Directors declared the semi-annual dividend of \$3,000 (December 13, 2007 - \$332,000) on the Class B Preference Share – Series 2.