



Financial Report FY2008 Fourth Quarter and Year End

ended November 30, 2008

OSI Geospatial Inc.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

for the year ended November 30, 2008

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Management's Discussion and Analysis
Year ended November 30, 2008 and 2007
(expressed in U.S. dollars)

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

The following discussion and analysis provides a review of activities, results of operations, and financial condition of OSI Geospatial Inc. for the fiscal year and fourth quarter ended November 30, 2008 in comparison with those for the fiscal year and fourth quarter ended November 30, 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 audited annual consolidated financial statements prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"), including the notes thereto, for the fiscal year ended November 30, 2008.

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 February 19, 2009.

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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.

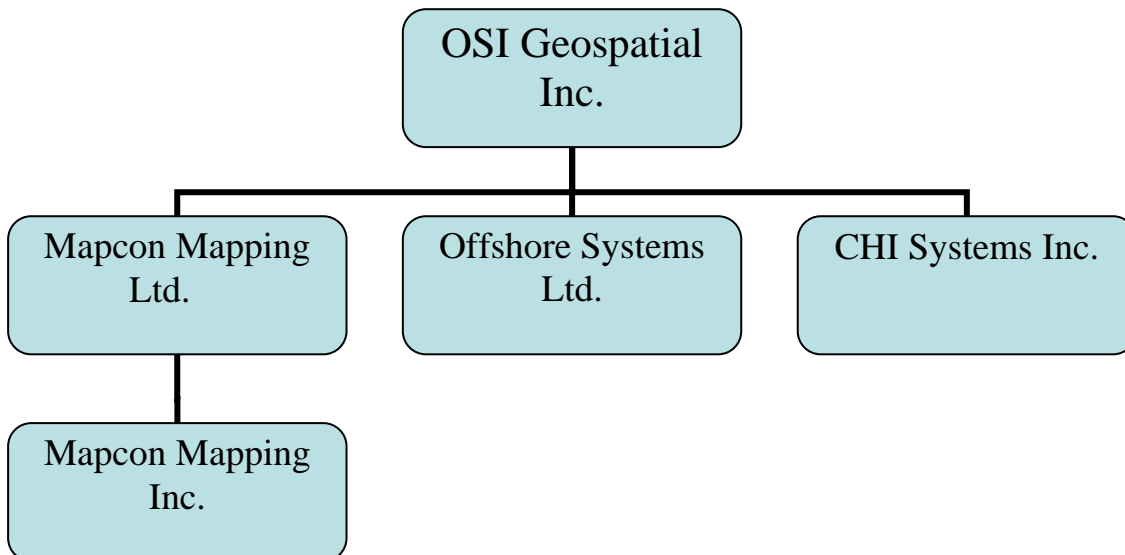
Headquartered in Ottawa, the Company is a globally focused organization with offices across North America and a sales office in the United Kingdom. The Company became a public company in 1990, and is currently listed on the Toronto Stock Exchange (symbol: OSI).

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®, C3CORE 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 System (W-AIS), Asset Control and Tracking system (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 audited consolidated financial statements for the years ended November 30, 2008 and 2007.

Operations:	For the Year Ended November 30	
In thousands of U.S. dollars, except per share related data	2008	2007
	\$	\$
Revenue	25,498	25,326
Gross profit	9,208	9,766
Gross profit percentage	36%	39%
Net (loss) earnings	(1,584)	(2,874)
Net loss available to common shareholders	(2,143)	(3,588)
Loss per share – basic and diluted	(0.05)	(0.09)
Weighted average common shares outstanding – basic	46,956,439	41,096,261
Weighted average common shares outstanding – diluted	46,956,439	41,096,261
<u>Dividends declared per share</u>		
Class A Preference Shares – Series A	–	–
Class B Preference Shares – Series 2	\$1.81	\$1.64
Common Shares	–	–

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

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

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The increase in revenue for the year ended November 30, 2008 as compared to the years ended November 30, 2007 and 2006 is largely due to the delivery schedules of existing contracts and the timing of new contracts that are awarded.

The lower gross profit percentage for the year ended November 30, 2008 as compared to the year ended November 30, 2007 is largely due to the mix of revenue. 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.

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

During the year ended November 30, 2008 the Company experienced delays in project execution of contracts signed in prior years and in the signing of new contracts and contract options. As a result, the Company adjusted the size of its workforce and curtailed variable spending over the course of the past fiscal year. The full impact of these changes will not be realized until the fiscal year ended November 30, 2009.

The recent economic uncertainty has not affected the Company to date, either in a positive or negative way. The Company's sales strategy's focuses on markets such as military command and control, homeland security, and maritime defence that to date have not been impacted by the recent economic downturn. To date, there are no indications that government spending in the Company's niches in the defence market has been curtailed. The Company is aware of only one minor delay in project execution of an existing project for the fiscal year 2009 and has not had any contract cancellations as a result of current economic conditions.

Financial Position:

In thousands of U.S. dollars	For the year ended November 30	
	2008	2007
	\$	\$
Working capital ⁽¹⁾	5,164	7,818
Current assets	10,763	14,905
Long term assets	11,312	11,443
Total assets	22,075	26,348
Current liabilities	5,599	7,087
Long term liabilities	602	647
Total liabilities	6,201	7,734
Shareholders' equity	15,874	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.

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RESULTS OF OPERATIONS – November 30 2008 compared to November 30, 2007

Overall Performance

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

	2008	2007	2008 to 2007
Net loss before income taxes	\$ (2,481)	\$ (2,814)	\$ 333
Net loss	\$ (1,584)	\$ (2,874)	\$ 1,290
Net loss available to common shareholders	\$ (2,143)	\$ (3,588)	\$ 1,445
Loss per share – basic	\$ (0.05)	\$ (0.09)	\$ 0.04
Loss per share – diluted	\$ (0.05)	\$ (0.09)	\$ 0.04

The net loss reported in the year ended November 30, 2008 was largely driven by the mix of contracts executed in the fiscal year, the delay in contract awards, and expansion of staffing complement in 2007 in anticipation of growth in sales for 2008. The lower net loss before income taxes is mainly due to an increase in revenue generated by International systems operations and a decrease in general and administration expenses.

Backlog

Firm backlog consists of firm, fixed, or signed orders issued and executable subsequent to the balance sheet date. Firm backlog as at November 30, 2008 was \$46 million compared to \$49 million at November 30, 2007. Of the \$46 million firm backlog, \$11 million is expected to be executed in fiscal 2009 and \$35 million is expected to be executed in fiscal year 2010 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 and cannot be reconciled to any GAAP measurements. The Company discloses this non-GAAP measure as we believe it provides more insight into our performance specifically regarding revenue available for periods subsequent to November 30, 2008.

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.

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Revenue

In thousands of U.S. dollars	2008	% of total revenue	2007	% of total revenue	2008 to 2007
Marine systems	\$ 11,343	45%	\$ 10,219	40%	\$ 1,124
Land and air systems	10,057	39%	10,703	42%	(646)
Mapping	4,098	16%	4,404	18%	(306)
	<u>\$ 25,498</u>	<u>100%</u>	<u>\$ 25,326</u>	<u>100%</u>	<u>\$ 172</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 line, 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 45% and 40% of the revenue for the years ended November 30, 2008 and 2007, respectively. Our land and air systems through our U.S. Systems operations delivered 39% and 42% of the revenue for the years ended November 30, 2008 and 2007 respectively. Mapping delivered 16% and 18% of the revenue for the years ended November 30, 2008 and 2007, respectively.

Our results are primarily affected by the level, timing, and duration of customer orders and customer product delivery requirements. The main customers in fiscal 2008 were the Royal Australian Navy, the Royal Navy of the United Kingdom, and the U.S. Navy. Revenue from these customers accounted for 35% of the consolidated revenue. The main customers in fiscal 2007 were the Royal Navy of the United Kingdom, the U.S. Army and the U.S. Navy. Revenue from these customers accounted for 41% of the consolidated revenue.

Revenue by Segment

In thousands of U.S. dollars	2008	% of total revenue	2007	% of total revenue	2008 to 2007
International Systems operations	\$ 10,203	40%	\$ 8,214	33%	\$ 1,989
U.S. Systems operations	11,197	44%	12,708	50%	(1,511)
Mapping operations	4,098	16%	4,404	17%	(306)
	<u>\$ 25,498</u>	<u>100%</u>	<u>\$ 25,326</u>	<u>100%</u>	<u>\$ 172</u>

Revenue from International Systems operations for the year ended November 30, 2008 increased by 24% as compared to the year ended November 30, 2007 due to, the delivery and installation schedules of existing contracts, timing of new contracts awarded, and, and the general growth in the segment.

Revenue from U.S. Systems operations for the year ended November 30, 2008 decreased by 12% as compared to the year ended November 30, 2007. The decrease in revenue is due to delays in project execution as a result of changes in customer schedules and the timing of new contracts awarded to the business unit.

Revenue from Mapping operations for the year ended November 30, 2008 decreased by 7% as compared to the year ended November 30, 2007. The decrease is the result of poor flight conditions which resulted in lower production levels during the third and fourth quarters of 2008.

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.

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Gross Profit

In thousands of U.S. dollars	2008	2007	2008 to 2007
Gross profit	\$ 9,208	\$ 9,766	\$ (558)
Gross profit percentage	36%	39%	(3)%

Gross profit decreased by 6% in the year ended November 30, 2008 compared to the year ended November 30, 2007 and the gross profit percentage was 3% lower period-over-period. The reduced gross profit and gross profit percentage compared to the prior fiscal year is largely due to the mix of revenue. 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 the U.S. and International Systems operations.

Gross Profit by Segment

In thousands of U.S. dollars	2008	2007	2008 to 2007
Gross profit:			
International Systems operations	\$ 5,054	\$ 4,070	\$ 984
U.S. Systems operations	3,113	4,204	(1,091)
Mapping operations	1,041	1,492	(451)
Consolidated operations	<u>\$ 9,208</u>	<u>\$ 9,766</u>	<u>\$ (558)</u>

Gross profit percentage:

International Systems operations	50%	50%	- %
U.S. Systems operations	28%	33%	(5)%
Mapping operations	25%	34%	(9)%
Consolidated operations	<u>36%</u>	<u>39%</u>	<u>(3)%</u>

Gross profit from the International Systems operations for the year ended November 30, 2008 increased 24% and gross profit percentage was the same when compared to the prior year. The increase in fiscal 2008 is mainly the result of higher revenues in the International Systems operations.

Gross profit from the U.S. Systems operations for the year ended November 30, 2008 decreased 26% and gross profit percentage was 5% lower when compared to the prior year. The decrease in revenues is due to delays in project execution as a result of changes in customer schedules and delays in the timing of new contracts awarded.

Gross profit from the Mapping operations for the year ended November 30, 2008 decreased 30% and gross profit percentage was 9% lower when compared to the prior year. The decrease in gross profit was largely as a result of lower revenues for the fiscal year ended November 30, 2008 compared to the fiscal year ended November 30, 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.

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

Operating Expenses

In thousands of U.S. dollars	2008	% of total revenue	2007	% of total revenue	2008 to 2007
General and administrative	\$ 5,429	21%	\$ 6,175	24%	\$ (746)
Engineering	1,144	4%	1,361	5%	(217)
Sales and marketing	3,917	15%	3,859	15%	58

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 12% for the fiscal year ended November 30, 2008 compared to the previous fiscal year. G&A expenses for the fiscal year ended November 30, 2007 included a one-time accrual of estimated settlement costs relating to the lawsuit with Triathlon Ltd., severance costs associated with restructuring in the fourth quarter of 2007 as well as costs associated with the relocation of corporate headquarters to Ottawa, Ontario.

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

Engineering expenses decreased by 16% for fiscal 2008 compared to the previous year. The decrease is related to engineering staff and related costs being charged to cost of sales to support specific customer orders during the year. The decrease is also due to capitalizing a portion of development-related costs of \$256,000 in fiscal 2008. 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 2% for fiscal 2008 compared to the previous year. There was little change in S&M staffing levels and costs incurred between the two fiscal years. 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 Union, other NATO 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 are expected to yield orders in subsequent fiscal years.

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Amortization

In thousands of U.S. dollars	2008	2007	2008 to 2007
Amortization	\$ 696	\$ 554	\$ 142

Total amortization increased by 26% in fiscal 2008 reflecting the mix of equipment and furnishings at November 30, 2008. For the years ended November 30, 2008 and 2007, a portion of the depreciation, \$217,000 and \$228,000 respectively, was included in cost of sales for equipment used in revenue-generating activities.

Interest expense

In thousands of U.S. dollars	2008	2007	2008 to 2007
Interest expense	\$ 136	\$ 70	\$ 66

Interest expense increased in fiscal 2008 as compared to fiscal 2007. The Company increased its utilization of its credit facility during fiscal 2008. The increase is also due to the interest incurred on capital lease obligations.

Interest income

In thousands of U.S. dollars	2008	2007	2008 to 2007
Interest income	\$ 7	\$ 7	\$ -

Interest income for fiscal years 2008 and 2007 was minimal as the Company did not have surplus funds to invest.

Foreign Exchange

In thousands of U.S. dollars	2008	2007	2008 to 2007
Foreign exchange loss	\$ 31	\$ 316	\$ 285

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. The Company minimized the exposure to foreign exchange fluctuations through the use of foreign exchange forward contracts.

Technology Partnerships Canada

In thousands of U.S. dollars	2008	2007	2008 to 2007
Royalty	\$ 532	\$ 471	\$ 61

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 Ltd., for

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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.

Income Taxes

In thousands of U.S. dollars	2008	2007	2008 to 2007
Future income tax (recovery)	\$ (661)	\$ (298)	\$ 363
Current income tax (recovery) expense	(236)	358	594
	<u>\$ (897)</u>	<u>\$ 60</u>	<u>\$ 957</u>

Based on the information available at the time of the issue of the audited annual financial statements for the year ended November 30, 2008, we estimated that we would not have sufficient taxable earnings in Canada in future periods to utilize a portion of our \$2.7 million Canadian non-capital losses carried forward, \$10.6 million scientific research and experimental development costs and other Canadian tax balances.

We have recognized a future income tax recovery in the year ended November 30, 2008 related to temporary timing differences between accounting income and income for tax purposes in our U.S. subsidiaries as we believe that it is more likely than not that these differences will be realized in future fiscal years. In accordance with Canadian GAAP, we have provided a valuation allowance against future tax assets where realization did not meet the requirements of "more likely than not" under the liability method of tax allocation. We continue to evaluate our taxable position quarterly and consider factors such as estimated taxable income, the history of losses for tax purposes, and the growth of the Company, among others.

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

In thousands of U.S. dollars	2008	2007	2008 to 2007
Current assets	10,763	14,905	(4,142)
Current liabilities	5,599	7,087	(1,488)
Working capital ⁽¹⁾	5,164	7,818	(2,654)

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

We strive to maintain cash-contributing profitable operations that provide an adequate liquidity and capital resource base for growth. We believe that cash flow from operating activities, together with lines of credit borrowings of Canadian \$3.0 million and U.S. \$1.2 million available under our revolving credit facilities, will be sufficient to fund currently anticipated working capital, planned capital spending, and debt service requirements for the next 12 months.

At November 30, 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 mainly 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 an accrual of estimated settlement costs relating to the lawsuit with Triathlon Ltd.

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We have credit facilities consisting of an operating line, 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 November 30, 2008, we had borrowings of \$1.6 million against our operating lines. We have operating lines 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. During fiscal 2008, we utilized the facility which increased interest expense for the year. We utilize our forward exchange contract facility to reduce our exposure to exchange rate movements.

In December 2007, we declared and paid the semi-annual dividends earned in November 2007 in the amount of Canadian \$1.75 per share to the Class B Series 2 preference shareholders. In July 2008, we declared and paid partial semi-annual dividends in the amount of Canadian \$0.0175 per share to the Class B Series 2 preference shareholders during the year ended November 30, 2008. On December 1, 2008, the Board of Directors declared partial semi-annual dividend in the amount of Canadian \$0.0175 per share on the Class B Series 2 preference shareholders. The partial dividends were paid in accordance with the Company's Articles of Incorporation and to preserve our financial resources in light of the current market conditions. The Company will be assessing its financial resources on a regular basis to determine when we can increase or reinstate the dividends.

We are required to meet certain covenants as outlined in our credit facilities agreement with a major Canadian chartered bank. Compliance with these covenants is measured on a quarterly basis. For the periods ending May 31, 2008, August 31, 2008 and November 30, 2008, we did not meet the interest coverage ratio covenant. For the periods ended May 31, 2008 and August 31, 2008 we received a waiver from the bank. We expect to receive a waiver from the bank for the period ended November 30, 2008. We expect our operating performance in 2009 will allow us to remedy this deficiency.

Cash Flows

In thousands of U.S. dollars	2008	2007	2008 to 2007
Cash flows provided by (used in):			
Operating activities	\$ 25	\$ (1,456)	\$ 1,481
Investing activities	(579)	(1,432)	853
Financing activities	587	2,905	(2,318)
Effect of foreign exchange on cash	(33)	(17)	16

Cash flows provided by operating activities for the year ended November 30, 2008 was the result of the net loss for the year ended November 30, 2008 which was reduced by amortization and stock-based compensation and a decrease in accounts receivable offset by a decrease in accounts payable and accrued liabilities.

Cash flows used in investing activities for the year ended November 30, 2008 was 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 year ended November 30, 2008 was the result of an increase in the operating line of credit offset by the payment of the semi-annual dividends on our class B Preference shares.

As a result of the above mentioned changes, the line of credit utilization increased by \$974,000 for the year ended November 30, 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

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facility only for known or reasonably certain future foreign currency transactions. As at November 30, 2008, we had entered into foreign exchange forward contracts in the amount of U.S. \$570,000, £460,000, and AUD \$580,000.

Capital Resources

At November 30, 2008, we had a short-term credit facility of CAD \$3.0 million with a major Canadian chartered bank that bears interest at the chartered bank's prime lending rate plus 1.0% and a short-term credit facility of \$1.2 million with a U.S. chartered bank which bears interest at the bank's prime lending rate plus 0.5%. 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

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

Payments due by period	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
In thousands of 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	-
Total contractual obligations	\$ 3,743	\$ 855	\$ 1,382	\$ 844	\$ 662

OFF BALANCE SHEET ARRANGEMENTS

Guarantees

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

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.

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.

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TRANSACTIONS WITH RELATED PARTIES

There were no related party transactions for the fiscal years ending November 30, 2008 and 2007.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian GAAP requires the Company's management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the years reported. Significant areas requiring the use of estimates include valuation of goodwill and intangible assets, future income tax assets, and revenue recognition. Management reviews its estimates based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates.

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

Valuation of goodwill and intangible assets impairment

In November 2008 and 2007, the Company performed impairment tests for goodwill and intangible assets with indefinite useful lives, and determined that these assets were not impaired. The impairment test involves considerable use of judgment, and requires management to make estimates and assumptions. The fair values of the reporting units are derived from certain valuation models, which consider various factors such as cost of capital, discount rates, the Company's stock price, future earnings and earnings multiples. Changes in estimates and assumptions can affect the reported value of goodwill and intangible assets with indefinite useful lives.

Future income tax assets

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

Revenue recognition

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

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and productivity. The Company has developed methods and systems to provide dependable expenditure estimates for its long-term contracts.

REVIEW OF THE FOURTH QUARTER ENDING NOVEMBER 30, 2008

In thousands of U.S. dollars	2008	% of total revenue	2007	% of total revenue
Revenue				
Marine systems	\$ 3,409	49	3,952	48
Land and air systems	2,576	37	3,409	41
Mapping	933	14	915	11
	<u>6,918</u>	<u>100</u>	<u>8,276</u>	<u>100</u>
Cost of sales	4,121	60	4,683	57
Gross profit	<u>2,797</u>	<u>40</u>	<u>3,593</u>	<u>43</u>
Expenses				
General and administrative	1,096	16	1,925	23
Sales and marketing	943	13	1,607	19
Engineering	277	4	260	3
Technology Partnerships Canada royalty	151	2	195	2
Depreciation and amortization	104	2	106	1
Interest expense	29	-	22	-
Interest income	(5)	-	-	-
Foreign exchange (gain) loss	(38)	-	251	2
Loss on sale of fixed assets	-	-	9	-
	<u>2,557</u>	<u>37</u>	<u>4,375</u>	<u>52</u>
Income gain (loss) before income taxes	240	3	(782)	(9)
Income tax (recovery) expense	(541)	(8)	16	-
Net income (loss)	<u>\$ 781</u>	<u>11</u>	<u>\$ (798)</u>	<u>(9)</u>
Net income (loss) available to common shareholders	<u>\$ 692</u>		<u>\$ (960)</u>	
Earnings (loss) per share				
Basic	\$ 0.01		\$ (0.02)	
Diluted	\$ 0.01		\$ (0.02)	

Overall Performance

For the three months ended November 30, 2008, we reported a net gain of \$782,000 compared to a net loss of \$798,000 for the three months ended November 30, 2007. The net gain attributable to common shareholders was \$656,000 compared to a net loss of \$960,000 for the three months ended November 30, 2007.

Our results for the three months ended November 30, 2008 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 lower gross profit percentage for the three months ended November 30, 2008 as compared to the three months ended November 30, 2007 is largely due to the mix of revenue. The decrease in the gross

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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.

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

G&A decreased by 43% for the three months ended November 30, 2008 compared to the three months ended November 30, 2007. G&A expenses for the three months ended November 30, 2007 included a one-time accrual of estimated settlement costs relating to the lawsuit with Triathlon Ltd., severance costs associated with restructuring in the fourth quarter of 2007 as well as costs associated with the relocation of corporate headquarters to Ottawa, Ontario.

S&M expenses decreased by 41% for the three months ended November 30, 2008 compared to the three months ended November 30, 2007. S&M expenses for the three months ended November 30, 2007 included one-time costs including severance costs due to reorganization and costs associated with the relocation of sales and marketing personnel to the new headquarters in Ottawa, Ontario.

SELECTED QUARTERLY DATA (UNAUDITED)

In thousands of U.S. dollars

For the three months ended	November 30 2008	August 31 2008	May 31 2008	February 29 2008
Revenue	\$ 6,918	\$ 6,243	\$ 6,529	\$ 5,808
Gross profit	2,797	2,204	2,019	2,188
Gross profit percentage	40%	35%	31%	38%
Net earnings (loss)	781	(691)	(1,141)	(533)
Net earnings (loss) available to common shareholders	692	(847)	(1,296)	(692)
Loss per share – basic	0.01	(0.02)	(0.03)	(0.01)
Loss per share – diluted	0.01	(0.02)	(0.03)	(0.01)

For the three months ended	November 30 2007	August 31 2007	May 31 2007	February 28 2007
Revenue	\$ 8,275	\$ 7,342	\$ 6,138	\$ 3,571
Gross profit	3,594	3,048	2,455	669
Gross profit percentage	43%	42%	40%	19%
Net (loss) earnings	(798)	279	(366)	(1,989)
Net (loss) earnings available to common shareholders	(960)	109	(557)	(2,180)
Loss per share – basic and diluted	(0.02)	0.00	(0.02)	(0.06)
Loss per share – basic and diluted	(0.02)	0.00	(0.02)	(0.06)

CRITICAL ACCOUNTING POLICIES

Financial statement preparation requires that we use estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses, and the related disclosure of contingent liabilities.

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Our accounting policies are described in note 4 to our audited consolidated financial statements. The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements:

Revenue

International Systems Operations and US 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.

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PCS revenue associated with systems and software licenses is recognized rateably over the term of the PCS period, so long as persuasive evidence of an arrangement exists, the price is fixed or determinable, and collection is reasonably assured. PCS revenue may include software license updates, rights to unspecified software product revisions addressing latent defects, maintenance releases and patches released during the term of the PCS period. PCS revenue may also include hardware maintenance and upgrades throughout the PCS period including maintaining the continual performance standards of the hardware, making modifications, alterations and repairs as required and other hardware related support services.

Revenue under bill-and-hold arrangements is recognized when risks of ownership have been passed on to the customer, there is a signed contract with the customer, the customer has a substantial business purpose for ordering the goods on a bill-and-hold basis, a fixed delivery schedule has been established with the customer, and the Company does not retain any specific performance obligations such that the earnings process is not complete. Goods held under such arrangements are segregated, ready for shipment and not subject to being used to fill other orders. The customers are charged additional fees for storage and other associated costs until shipment occurs.

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.

Income Taxes

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

Goodwill

Acquisitions are accounted for using the purchase method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition. The excess of the purchase price over such fair value is recorded as goodwill. The Company evaluates, on at least an annual basis, the carrying amounts of goodwill for impairment. To accomplish this, the Company compares the fair value of the reporting unit to the carrying amount. If the carrying value of the reporting unit were to exceed its fair value, the Company would perform the second step of the impairment test. In the second step, the Company would compare the fair value of the reporting unit goodwill to the carrying amount and any excess would be written off. Any impairment of goodwill would be recognized as an expense in the period of impairment, and subsequent reversals of impairment are prohibited. The Company performs its testing for impairment of

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goodwill and other intangible assets related to the CHI Systems Inc. acquisition as of November 30 of each year. Based on testing performed as of November 30, 2008 and 2007, there was no impairment.

Stock-based Compensation and Other Stock-based Payments

We have established three stock option plans under which stock options to purchase common shares may be granted to directors, officers, and employees of the Company and to any other person or Company permitted by the applicable regulatory authorities to purchase unissued common shares. The fair value of the stock options is estimated using the Black-Scholes option pricing model, using weighted-average assumptions for the following: dividend yield, volatility rate, risk-free interest rate, and expected average life. The Company measures the fair value of stock-based awards as of the grant date and recognizes the cost as an expense on a straight-line basis over the applicable vesting period with a corresponding increase in contributed surplus. Upon the exercise of stock options, share capital is increased by the amount paid by the employees as well as the amounts previously added to contributed surplus when compensation costs were charged to earnings.

Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses that may arise if any of our customers are unable to make required payments. Management specifically analyzes the age of outstanding customer balances, historical bad debts, customer credit-worthiness, and changes in customer payment terms when making estimates of the uncollectibility of our accounts receivable. If we determine that the financial condition of any of our customers deteriorates, increases in the allowance may be made. We review the unbilled revenue balance on a regular basis to assess our fair market value and provide an allowance against any amounts that are impaired.

Inventory

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

The CICA has issued CICA Handbook section 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

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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 will adopt the new section for its fiscal year beginning December 1, 2011. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

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

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

CHANGES IN ACCOUNTING POLICIES

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.

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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 |

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.

FINANCIAL INSTRUMENTS AND OTHER 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 –

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\$13,055,000). The Company is exposed to non-performance by counterparties to foreign currency forward contracts. These counterparties are major financial institutions and to date, no such counterparty has failed to meet its financial obligations to the Company. Management does not believe there is a significant risk of non-performance by these counterparties because the positions with and the credit 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.

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 also 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.

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 -

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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.

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

	2008	2007
Held for trading	\$ (1,629)	\$ (822)
Loans and receivables	5,583	7,570
Held for trading	(24)	(142)
Other liabilities	(3,847)	(5,831)

DISCLOSURE OF OUTSTANDING SHARE DATA

As at February 19, 2009, we had 46,956,439 issued and outstanding common shares and 3,433,166 outstanding stock options. As at February 19, 2009, 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 10,532,027 common shares. Also at February 19, 2009, 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 year ended November 30, 2008 designed to ensure that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in Canadian securities legislations. The Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the effectiveness of the Company's disclosure controls and procedures as of November 30, 2008, have concluded that the Company's disclosure controls and procedures were adequate and effective.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing and maintaining internal controls over financial reporting. The Chief Executive Officer and the Chief Financial Officer have designed internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Company has not formally evaluated the operating effectiveness of internal controls over financial reporting.

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

RISKS AND UNCERTAINTIES

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

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

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

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

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

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

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

For the year ended November 30, 2008 approximately 35% of our revenue was from the Royal Australian Navy, the Royal Navy of the United Kingdom, and the U.S. Army. Approximately 41% of our revenue for the year ended November 30, 2007 was from the Royal Navy of the United Kingdom, the U.S. Army and the U.S. Navy. Therefore, any significant disruption or deterioration of any of our relationships with these entities' governments would significantly reduce our revenues. These governments may choose to use other competing corporations for their navigational equipment. In addition, a shift in government spending to other programs in which we are not involved could have severe consequences for our results of operations.

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Our product lines are not broadly diversified.

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

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

In the year ended November 30, 2008, approximately 86% of our revenues were from international customers, including governmental customers: 47% from the U.S. and 39% from other international countries. We have focused our expansion efforts for the future on the American, European and Australasian markets. As a result, we expect that international sales will continue to account for a significant portion of our revenues for the foreseeable future. As a result, we are subject to the risks of doing business internationally, including those risks related to:

- changes in regulatory requirements;
- domestic and foreign government policies, including requirements to expend a portion of program funds locally and governmental industrial co-operation requirements;
- fluctuations in foreign currency exchange rates;
- the complexity and necessity of dealing with foreign representatives and consultants;
- imposition of tariffs or embargoes, export controls, and other trade restrictions; and
- compliance with a variety of foreign laws.

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

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

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

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

To the extent the Company engages in competitive bidding and are unable to win particular contracts, it not only incur substantial costs in the bidding process that could negatively affect the

OSI Geospatial Inc.

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Company's operating results, but it may be precluded from operating in the market for services that are provided under those contracts for a number of years. Even if the Company wins a particular contract through competitive bidding, its profit margins may be depressed as a result of the costs incurred through the bidding process.

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

Exposure to exchange rate fluctuations exists because a significant portion of our trade receivables and revenue transactions are in U.S. dollars, Australian dollars, British pounds and euros. For the year ended November 30, 2008, approximately 30% of the Company's revenues and 48% of our expenses were transacted in Canadian dollars. During the same period, approximately 8% and 6% of the Company's revenues were transacted in British pounds and Australian dollars, respectively. We expect that British pound and Australian dollar sales will continue to account for a material portion of our revenues for the foreseeable future. As a result, exchange rate fluctuations may affect our revenue and earnings growth materially in the future. In order to reduce the impact of foreign exchange volatility, we utilize our foreign exchange forward contract facility. As at November 30, 2008, we had entered into foreign exchange forward contracts in the amount of U.S. \$460,000, £570,000, and \$580,000 AUD.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A majority of the Company's contracts are firm fixed price contracts. There is a risk in every firm fixed price contract that the Company will be unable to deliver to the customer within the time specified or at a

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cost to the Company which is less than the contract price. In the absence of any amendments to the original firm fixed price contract to increase the price of the contract or extend the delivery times, customers may be in a position to terminate the contract, demand repayment or impose penalties on the Company. A significant cost overrun or delay in delivery to the customer could adversely affect the Company's business and operating results.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- improve our financial and management controls, reporting systems, and procedures;
- add and integrate new senior management personnel;
- improve our licensing models and procedures;
- hire, train, and retain qualified employees;
- maintain sufficient working capital;

OSI Geospatial Inc.

Management's Discussion and Analysis
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- control expenses;
- diversify channel sales strategies; and
- invest in our internal networking infrastructure and facilities.

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

Third parties may claim that we infringe their proprietary rights.

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

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

We may not be able to protect our proprietary information.

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

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

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

OSI Geospatial Inc.

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(expressed in U.S. dollars)

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

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

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

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

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

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

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

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



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

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
Assets		
Current assets		
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
	<hr/> 10,763	<hr/> 14,905
Deferred development costs	353	97
Future income tax asset (note 16)	665	271
Equipment and furnishings (note 8)	1,402	1,914
Intangible and other assets (note 9)	592	861
Goodwill (note 5)	8,300	8,300
	<hr/> \$ 22,075	<hr/> \$ 26,348
Liabilities		
Current liabilities		
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
	<hr/> 5,599	<hr/> 7,087
Deferred rent	243	347
Capital lease obligation (note 12)	125	200
Unearned revenue	234	-
Future income tax liability (note 16)	-	100
	<hr/> 6,201	<hr/> 7,734
Commitments and contingencies (notes 14 and 15)		
Shareholders' Equity		
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
	<hr/> 25,854	<hr/> 25,854
Warrants (note 13e)	4,181	4,618
Contributed surplus	2,138	1,679
Accumulated deficit	(18,486)	(16,564)
Accumulated other comprehensive income	2,187	3,027
	<hr/> 15,874	<hr/> 18,614
	<hr/> \$ 22,075	<hr/> \$ 26,348

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

	2008	2007
Revenue		
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>
Cost of sales	<u>16,290</u>	<u>15,560</u>
Gross profit	<u>9,208</u>	<u>9,766</u>
Expenses (income)		
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>
Net loss before income taxes	<u>(2,481)</u>	<u>(2,814)</u>
Future income tax recovery	(661)	(298)
Current income tax (recovery) expense	(236)	358
Income tax (recovery) expense (note 16)	<u>(897)</u>	<u>60</u>
Net loss	<u>\$ (1,584)</u>	<u>\$ (2,874)</u>
Net loss available to common shareholders (note 13g)	<u>\$ (2,143)</u>	<u>\$ (3,588)</u>
Loss per share (note 13g)		
Basic	\$ (0.05)	\$ (0.09)
Diluted	\$ (0.05)	\$ (0.09)
Weighted average number of common shares outstanding (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
Class A preference shares				
Balance at beginning and end of year	30,262	\$ 19	30,262	\$ 19
Class B preference shares				
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
Common shares				
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
Warrants				
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
Contributed surplus				
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
Accumulated deficit				
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)
Accumulated other comprehensive income				
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
Total accumulated deficit and accumulated other comprehensive income		\$ (16,299)		\$ (13,537)
Total shareholders' equity		\$ 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>
Comprehensive loss for the year	<u>\$ (2,424)</u>	<u>\$ (2,274)</u>

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>
--	-------------	-------------

Decrease in cash and cash equivalents

	-	-
--	---	---

Cash and cash equivalents – beginning of year

	-	-
--	---	---

Cash and cash equivalents – end of year

	<u>\$ -</u>	<u>\$ -</u>
--	-------------	-------------

(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:

	Method	Percentage
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:

	Method	Percentage
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
Total assets acquired		<u>195</u>
Cash and common share consideration		154
Direct acquisition costs incurred by the Company		41
Total acquisition costs	\$	195
Less fair value of net identifiable assets acquired		<u>25</u>
Goodwill	\$	<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)
	\$ 1,137	\$ 1,216

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
	\$ 5,573	\$ 4,171	\$ 1,402

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
	\$ 6,947	\$ 5,033	\$ 1,914

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
	\$ 2,212	\$ 1,620	\$ 592

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%

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(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

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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.

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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

Number of Warrants	Exercise Price	Weighted average remaining contractual life in years
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

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
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

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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
\$ 0.46 – 1.21	3,433,166	2.37	\$ 0.79	3,422,402	\$ 0.79

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
\$ 0.46 – 1.21	3,596,166	3.37	\$ 0.80	3,531,582	\$ 0.80

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.

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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
Basic loss per share		
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.

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

	Years ended November 30,	
	2008	2007
Diluted loss per share		
Net loss	\$ (1,584)	\$ (2,874)
Less:		
Class B Series 2 preference share dividends (*A)	559	714
Loss available to common shareholders	<u>\$ (2,143)</u>	<u>\$ (3,588)</u>
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	<u>46,956,439</u>	<u>41,096,261</u>
Diluted loss per share	<u>\$ (0.05)</u>	<u>\$ (0.09)</u>

(*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.

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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.

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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	-

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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.

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The net future tax consists of the following:

In thousands of U.S. dollars	2008	2007
Future tax assets		
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)
Future tax assets	939	\$ 403
Less: current portion	(274)	(132)
Future tax assets – long term	<u>\$ 665</u>	<u>\$ 271</u>
Future tax liabilities		
Change in tax accounting method	\$ -	\$ 25
Accrued operating expenses	49	-
Intangible assets	48	74
Equipment and furnishings	23	26
	<u>120</u>	<u>125</u>
Valuation allowance	(120)	-
Less: current portion	-	(25)
Future tax liabilities – long term	<u>\$ -</u>	<u>\$ 100</u>
Future tax assets	939	403
Future tax liabilities	<u>-</u>	<u>(125)</u>
Net future tax	<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.

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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

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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

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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.

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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.

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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.

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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.

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
Capital equipment leases	230	89	109	32	-
Operating equipment leases	82	35	42	5	-
Total contractual obligations	3,743	855	1,382	844	662

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	
	2008	2007
Held for trading	\$ (1,629)	\$ (822)
Loans and receivables	5,583	7,570
Held for trading	(24)	(142)
Other liabilities	(3,847)	(5,831)

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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.