



OSI Geospatial Inc.

**Interim Consolidated Financial Statements (Unaudited)
Three months ended February 28, 2009 and February 29, 2008
(expressed in Canadian dollars)**

(Prepared in accordance with Canadian Generally Accepted Accounting Principles)

OSI Geospatial Inc.

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

Consolidated Balance Sheets (unaudited)

| In thousands of Canadian dollars – (note 2a) | February 28 2009 | November 30 2008 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets | | |
| Accounts receivable and unbilled revenue | \$ 8,980 | \$ 11,183 |
| Inventory (note 6) | 1,049 | 1,407 |
| Prepaid expenses and deposits | 620 | 388 |
| Current portion of future income tax asset | 480 | 338 |
| | <hr/> 11,129 | <hr/> 13,316 |
| Deferred development costs | 460 | 437 |
| Future income tax asset | 865 | 823 |
| Equipment and furnishings | 1,680 | 1,735 |
| Intangible and other assets | 677 | 732 |
| Goodwill | 10,547 | 10,269 |
| | <hr/> \$ 25,358 | <hr/> \$ 27,312 |
| Liabilities | | |
| Current liabilities | | |
| Bank indebtedness | \$ 1,862 | \$ 2,015 |
| Accounts payable and accrued liabilities | 3,126 | 4,519 |
| Income taxes payable | 15 | 9 |
| Unearned revenue | 294 | 256 |
| Current portion of deferred rent | 37 | 41 |
| Current portion of capital lease obligations | 93 | 88 |
| | <hr/> 5,427 | <hr/> 6,928 |
| Deferred rent | 294 | 347 |
| Capital lease obligation | 123 | 156 |
| Unearned revenue | 262 | 290 |
| | <hr/> 6,106 | <hr/> 7,721 |
| Shareholders' Equity | | |
| Issued and outstanding | | |
| Class A, Series A preference shares | 30 | 30 |
| Class B, Series 2 preference shares | 5,731 | 5,731 |
| Common shares | 29,748 | 29,748 |
| | <hr/> 35,509 | <hr/> 35,509 |
| Warrants (note 7a) | 4,898 | 4,898 |
| Contributed surplus | 2,674 | 2,674 |
| Accumulated deficit | (24,821) | (24,121) |
| Accumulated other comprehensive income | 992 | 631 |
| | <hr/> 19,252 | <hr/> 19,591 |
| | <hr/> \$ 25,358 | <hr/> \$ 27,312 |

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

OSI Geospatial Inc.

Consolidated Statements of Loss and Deficit (unaudited)

| | Three months ended | |
|---|---------------------|---------------------|
| | February 28 2009 | February 29 2008 |
| In thousands of Canadian dollars, except share related data – (note 2a) | | |
| Revenue | | |
| Marine systems | \$ 2,098 | \$ 2,506 |
| Land and air systems | 3,367 | 2,806 |
| Mapping | 259 | 503 |
| | <u>5,724</u> | <u>5,815</u> |
| Cost of sales | <u>4,005</u> | <u>3,633</u> |
| Gross profit | <u>1,719</u> | <u>2,182</u> |
| Expenses (income) | | |
| General and administrative | 1,209 | 1,245 |
| Sales and marketing | 813 | 914 |
| Engineering | 301 | 262 |
| Amortization | 113 | 150 |
| Interest expense | 31 | 34 |
| Interest income | - | (3) |
| Foreign exchange loss | - | 35 |
| Loss on disposal of intangibles and other assets | - | 28 |
| Technology Partnerships Canada royalty | 96 | 152 |
| | <u>2,563</u> | <u>2,817</u> |
| Net loss before income taxes | <u>(844)</u> | <u>(635)</u> |
| Future income tax (recovery) | (152) | - |
| Current income tax expense (recovery) | 5 | (94) |
| Income tax (recovery) | <u>(147)</u> | <u>(94)</u> |
| Net loss | <u>\$ (697)</u> | <u>\$ (541)</u> |
| Accumulated deficit, beginning of period | (24,121) | (22,420) |
| Dividends on Class B preference shares | (3) | (332) |
| Tax expense on dividends | - | (39) |
| Accumulated deficit, end of period | <u>\$ (24,821)</u> | <u>\$ (23,332)</u> |
| Net loss attributable to common shareholders (note 7c) | <u>\$ (853)</u> | <u>\$ (697)</u> |
| Loss per share (note 7c) - basic and diluted | \$ (0.02) | \$ (0.01) |
| Weighted average number of common shares outstanding (note 7c) – basic and diluted | 46,956,439 | 46,956,439 |

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

OSI Geospatial Inc.

Consolidated Statements of Comprehensive Loss (unaudited)

| In thousands of Canadian dollars – (note 2a) | Three months ended | |
|--|---------------------|---------------------|
| | February 28 2009 | February 29 2008 |
| Net loss | \$ (697) | \$ (541) |
| Other comprehensive income (loss), net of taxes | | |
| Unrealized gain (loss) on translation of self-sustaining foreign operations | 361 | (153) |
| Comprehensive loss | <u>\$ (336)</u> | <u>\$ (694)</u> |

OSI Geospatial Inc.

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

| In thousands of Canadian dollars – (note 2a) | February 29 2009 | November 30 2008 |
|---|---|---------------------|
| | Accumulated other comprehensive income (loss), beginning of the period | \$ 631 |
| Unrealized gain on translating financial statements of self- sustaining foreign operations | 361 | 2,640 |
| Accumulated other comprehensive income, end of period | <u>\$ 992</u> | <u>\$ 631</u> |

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

OSI Geospatial Inc.

Consolidated Statements of Cash Flows (unaudited)

| In thousands of Canadian dollars – (note 2a) | For the three months ended | |
|--|----------------------------|---------------------|
| | February 28 2009 | February 29 2008 |
| Cash flows from operating activities | | |
| Net loss for the period | \$ (697) | \$ (541) |
| Items not affecting cash | | |
| Amortization | 161 | 200 |
| Loss on disposal of equipment and furnishings | - | 29 |
| Stock-based compensation | - | 5 |
| Future income taxes | (152) | - |
| | <u>(688)</u> | <u>(307)</u> |
| Changes in non-cash operating working capital items | | |
| Accounts receivable | 2,014 | 3,140 |
| Inventory | 356 | (32) |
| Prepaid expenses and deposits | (220) | (300) |
| Accounts payable and accrued liabilities | (1,331) | (1,838) |
| Income taxes payable | 5 | (91) |
| Deferred rent | (10) | (12) |
| Unearned revenue | 10 | (33) |
| | <u>824</u> | <u>834</u> |
| | <u>136</u> | <u>527</u> |
| Cash flows used in investing activities | | |
| Development costs deferred | (18) | (87) |
| Additions to equipment and furnishings | (30) | (72) |
| Additions to leaseholds | - | (9) |
| Additions to intangibles and other assets | (2) | (55) |
| | <u>(50)</u> | <u>(223)</u> |
| Cash flows used in financing activities | | |
| Repayment to operating line of credit | (66) | (9) |
| Repayment of capital lease obligation | (14) | - |
| Class B preference share dividends declared and paid | (3) | (368) |
| | <u>(83)</u> | <u>(377)</u> |
| Effect of foreign exchange on cash balances | <u>(3)</u> | <u>73</u> |
| Decrease in cash and cash equivalents | - | - |
| Cash and cash equivalents – beginning of period | - | - |
| Cash and cash equivalents – end of period | <u>\$ -</u> | <u>\$ -</u> |

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

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2009 and February 29, 2008

1 Basis of presentation

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

These unaudited interim consolidated financial statements have been prepared using the same accounting policies used in the preparation of the audited annual consolidated financial statements for the year ended November 30, 2008 with the exception of the application of the accounting policies described in Note 2a and Note 4.

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

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

2 Accounting Changes

a) Change in reporting currency

Effective December 1, 2008, the Company adopted the Canadian dollar as its reporting currency. The change was made as a result of the Company's de-registration with the United States Securities Exchange Commission and to adopt a currency that is more appropriate for the Company's investors and other users of the financial statements.

Under Canadian GAAP, the Company's foreign operations are considered self-sustaining. Therefore, their assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenue, expense and cash flow items are translated at the exchange rate in effect on the transaction dates. Exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations are recognized in accumulated other comprehensive income.

The financial information for all prior periods is presented in Canadian dollars as if the Canadian dollar had been used as the reporting currency during those periods. For the period March 1, 2006 to November 30, 2008, the reporting currency of the Company was U.S. dollars. Prior to March 1, 2006, the reporting currency of the Company was Canadian dollars.

The change in reporting currency impacted the reported results in the consolidated statements of loss and deficit, and the consolidated statements of cash flows as follows:

| Consolidated Statements of Loss and Deficit | For the three months ended February 29, 2008 | |
|--|---|----------------------------------|
| | As currently reported CAD | As previously reported USD |
| In thousands of dollars | | |
| Revenue | 5,815 | 5,808 |
| Gross profit | 2,182 | 2,188 |
| Gross profit percentage | 38% | 38% |
| Net loss | (541) | (533) |
| Net loss attributable to common shareholders | (697) | (692) |
| Accumulated deficit, end of period | (23,332) | (17,474) |

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Notes to the Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2009 and February 29, 2008

Consolidated Statements of Cash Flow

For the three months ended February 29, 2008

| In thousands of dollars | As currently reported | As previously reported |
|--|-----------------------|------------------------|
| Cash flows provided by (used in): | CAD | USD |
| Operating activities | 527 | 639 |
| Investing activities | (223) | (221) |
| Financing activities | (377) | (392) |
| Effect of foreign exchange on cash | 73 | (26) |

b) Changes in accounting policy

The following recent pronouncements issued by the Canadian Institute of Chartered Accountants (CICA) will be monitored by the Company:

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.

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. The Company is currently evaluating the impact of adopting IFRS.

3 Nature of operations

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

4 Adoption of new accounting standards

Effective December 1, 2008 the Company adopted the following new accounting standards.

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Inventories

The CICA has issued CICA Handbook section 3031, *Inventories*, which replaces CICA Handbook section 3030, *Inventories*. This section resulted in changes from past practice, including the elimination of the Last-In-First-Out method, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories and more extensive disclosure. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversals of write-downs are required to be disclosed. The section is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008 and accordingly the Company adopted this new standard for its fiscal year beginning December 1, 2008. The adoption of this new Section did not have a material impact on the Company's consolidated financial statements.

Goodwill and intangible assets

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 has adopted the new section for its fiscal year beginning December 1, 2008. The adoption of this new Section did not have a material impact on the Company's consolidated financial statements.

5 Credit facilities

At February 28, 2009, the Company had total borrowing capacity under its Canadian operating line of credit of \$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 1.8% with interest payable monthly. 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, the nine months ended August 31, 2008 and the year ended November 30, 2008, the Company has not met the interest coverage ratio covenant for the three months ended February 28, 2009. As at February 28, 2009, the Company has drawn on its operating line of credit in the amount of \$675,000 (November 30, 2008 - \$1.5 million). Management expects to receive a waiver from the bank for the three months ended February 28, 2009 similar to the waivers received for the six months ended May 31, 2008, for the nine months ended August 31, 2008 and for the year end November 30, 2008.

The Company also has an operating line of credit of U.S. \$1.2 million with a U.S. chartered bank which bears interest at the bank's prime lending rate plus 0.5%. As at February 28, 2009, the Company has drawn on its U.S. operating line of credit in the amount of U.S. \$1.0 million (November 30, 2008 - U.S. \$691,000).

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, the 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 February 28, 2009, the Company has drawn on its forward foreign exchange contract facility in the amount of \$2.0 million (November 30, 2008 - \$3.3 million). A foreign exchange gain on these contracts of \$51,000 and a foreign exchange loss of \$30,000 was recognized in February 28, 2009 and November 30, 2008, respectively.

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Notes to the Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2009 and February 29, 2008

6 Inventory

In thousands of Canadian dollars

| | February 28 2009 | November 30 2008 |
|--------------------------------------|-----------------------------|-----------------------------|
| Materials and components | \$ 845 | \$ 1,199 |
| Finished goods | 300 | 304 |
| Provision for inventory obsolescence | (96) | (96) |
| | \$ 1,049 | \$ 1,407 |

The cost of inventories recognized as expense and included in cost of sales for the three months ended February 28, 2009 was \$848,000 (three months ended February 29, 2008 - \$487,000).

7 Capital stock

a) Warrants

On February 12, 2008, 1,393,301 common share purchase warrants, which were valued at \$662,000 using the Black-Scholes model, expired. Accordingly, the Company has reduced warrants by \$662,000 with a corresponding increase to contributed surplus.

b) Stock option plans

A summary of the status of the Company's stock option plans at February 28, 2009 is as follows:

| In Canadian dollars | Number of shares | Weighted average exercise price |
|-----------------------------------|-------------------------|--|
| Outstanding - beginning of period | 3,433,166 | 0.79 |
| Granted | - | - |
| Forfeited | (3,000) | 0.88 |
| Expired | - | - |
| Outstanding - end of period | 3,430,166 | 0.79 |
| Exercisable – end of period | 3,425,860 | 0.79 |

Stock-based compensation

For the three months ended February 28, 2009, the Company incurred non-cash stock-based compensation expense of \$nil (three months ended February 29, 2008 - \$5,000) related to stock options granted in 2007. Of the stock options granted during the year ended November 30, 2007, 52,000 will vest over one year and 52,000 will vest over two years from the grant date. The expense was included in general and administrative costs and was recorded in contributed surplus.

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Notes to the Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2009 and February 29, 2008

c) Loss per share

| In thousands of Canadian dollars, except share related data | For the three months ended | |
|---|----------------------------|---------------------|
| | February 28 2009 | February 29 2008 |
| Loss per share – basic and diluted | | |
| Net loss for the period | \$ (697) | \$ (541) |
| Less: | | |
| Class B Series 2 preference share dividends (*A) | (156) | (156) |
| Net loss available to common shareholders | \$ (853) | \$ (697) |
| Weighted average number of common shares outstanding – basic and diluted | 46,956,439 | 46,956,439 |
| Loss per share – basic and diluted | \$ (0.02) | \$ (0.01) |

(*A) Dividends of \$156,000 (2008 - \$156,000) are included which represents the dividends earned by the shareholders of Class B Series 2 cumulative preference shares. As at February 28, 2009 there were \$775,000 (November 30, 2008 - \$619,000) of dividends in arrears for the Class B Series 2 cumulative preference shares.

The preference shares, the outstanding warrants and stock options were anti-dilutive for the purposes of calculating diluted loss for the three months ended February 28, 2009.

If all preferred shares were converted, and all warrants and options were exercised, there would be a total of 76,093,696 common shares outstanding at February 28, 2009 (November 30, 2008 – 76,096,696). As a result of the exercise of all warrants and options, the Company would receive cash of \$15.5 million (November 30, 2008 - \$15.5 million).

8 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 February 28, 2009, 87% (November 30, 2008 – 86%) of its accounts receivable was with national and international government clients. Due to the low risk nature of the government clients and a history of excellent collections, provisions for doubtful accounts are made on a customer by customer basis, based on ongoing customer discussions.

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

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

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Notes to the Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2009 and February 29, 2008

In thousands of Canadian dollars

| | February 28 2009 | November 30 2008 |
|---------------------------------|-----------------------------|-----------------------------|
| Trade accounts receivable | \$ 6,007 | \$ 6,907 |
| Unbilled revenue | 2,839 | 4,183 |
| Other | 144 | 103 |
| Allowance for doubtful accounts | (10) | (10) |
| | <u>\$ 8,980</u> | <u>\$ 11,183</u> |

The aging of accounts receivable at the reporting date was:

In thousands of Canadian dollars

| | February 28 2009 | November 30 2008 |
|-------------------------------|-----------------------------|-----------------------------|
| Current | \$ 4,329 | \$ 6,128 |
| Past due (61 – 90 days) | 1,519 | 506 |
| Past due greater than 90 days | 159 | 273 |
| | <u>\$ 6,007</u> | <u>\$ 6,907</u> |

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

Market risk

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

Foreign exchange risk

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

The Company did not designate its foreign exchange forward contracts as a hedge of underlying assets, liabilities, firm commitments or anticipated transactions in accordance with CICA Handbook Section 3865, *Hedges*, and accordingly, did not use hedge accounting. As a result of this, the foreign exchange forward contracts are recorded on the consolidated balance sheet at fair value in other receivables when the contracts are in a gain position and in other accrued liabilities when the contracts are in a loss position. The fair value of the foreign exchange forward contracts was a recorded asset in other receivables of \$51,000 at February 28, 2009 and was a recorded liability in accounts payable and accrued liabilities of \$30,000 at November 30, 2008. Changes in fair value of these contracts are recognized as gains or losses in the consolidated statement of operations.

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Three Months Ended February 28, 2009 and February 29, 2008

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

| In thousands of dollars | | | | February 28, 2009 | |
|-------------------------|----------|----------|------------|--------------------------------|------------|
| Type | Notional | Currency | Maturity | Equivalent to Canadian Dollars | Fair Value |
| Sell | 125 | GBP | March 2009 | 247 | \$ 25 |
| Buy | (240) | USD | March 2009 | (247) | 57 |
| Sell | 50 | GPB | April 2009 | 89 | (2) |
| Sell | 110 | GBP | May 2009 | 195 | (5) |
| Sell | 300 | USD | May 2009 | 371 | (10) |
| Sell | 50 | GPB | June 2009 | 89 | (2) |
| Buy | (50) | GBP | June 2009 | (91) | (1) |
| Sell | 280 | AUD | June 2009 | 224 | (2) |
| Sell | 250 | GBP | July 2009 | 443 | (9) |
| | | | | | \$ 51 |

| In thousands of dollars | | | | November 30, 2008 | |
|-------------------------|----------|----------|---------------|--------------------------------|------------|
| Type | Notional | Currency | Maturity | Equivalent to Canadian Dollars | Fair Value |
| Sell | 195 | GBP | December 2008 | 371 | \$ 3 |
| Sell | 300 | USD | December 2008 | 315 | (55) |
| Sell | 230 | AUD | December 2008 | 186 | 5 |
| Sell | 25 | GBP | January 2009 | 50 | 3 |
| Sell | 460 | USD | January 2009 | 471 | (96) |
| Buy | (300) | USD | January 2009 | (307) | 66 |
| Sell | 350 | AUD | January 2009 | 283 | 8 |
| Sell | 150 | GBP | February 2009 | 292 | 12 |
| Sell | 300 | USD | February 2009 | 308 | (61) |
| Sell | 200 | GBP | March 2009 | 395 | 24 |
| Buy | (300) | USD | March 2009 | (309) | 61 |
| | | | | | \$ (30) |

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 at February 28, 2009 by a total of \$59,000 (November 30, 2008 – \$6,000). A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would have decreased (increased) the reporting currency earnings from Canadian operations for the three months ended February 28, 2009 by a total of \$19,000 (the year ended November 30, 2008 - \$32,000). A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would impact the reporting currency balance sheet values at February 28, 2008 with an offsetting adjustment of approximately \$830,000 (November 30, 2008 – \$864,000) 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 \$25,000 increase (decrease) in the loss of the Company for this quarter.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet

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liabilities when due. The Company has operating lines of credit of \$3.0 million and U.S. \$1.2 million. At February 28, 2009, the Company utilization's of its lines of credit was \$675,000 (November 30, 2008 - \$1.5 million) and U.S. \$1.0 million (November 30, 2008 – U.S. \$691,000). All of the Company's financial liabilities, other than capital lease obligations, have contractual maturities of less than 45 days.

The table below analyzes the following liabilities which will settle as indicated based on the remaining periods at February 28, 2009 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 Canadian dollars | | | | | |
| Facility leases | \$ 4,076 | \$ 895 | \$ 1,543 | \$ 953 | \$ 685 |
| Capital equipment leases | 248 | 83 | 165 | - | - |
| Operating equipment leases | 92 | 44 | 43 | 5 | - |
| Total contractual obligations | \$ 4,416 | \$ 1,022 | \$ 1,751 | \$ 958 | \$ 685 |

Fair values

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

The fair values of the Company's forward foreign exchange contracts are based on the current market values of similar contracts with the same remaining duration as if the contracts had been entered into on February 28, 2009 and November 30, 2008.

The carrying amounts of each of the financial instruments are:

In thousands of Canadian dollars

| | February 28, 2009 | November 30, 2008 |
|-----------------------|-------------------|----------------------|
| Held for trading | \$ (1,862) | \$ (2,015) |
| Loans and receivables | 6,007 | 6,907 |
| Held for trading | 51 | (30) |
| Other liabilities | (3,342) | (4,763) |

9 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 other than disclosed on note 5.

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2009 and February 29, 2008

10 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. Information about the Company's reportable segments is as follows:

In thousands of Canadian dollars

Three Months Ended February 28, 2009

| | International Systems Operations | U.S. Systems Operations | Mapping Operations | Corporate and Public Company Costs | Total |
|--|--|-------------------------------|-----------------------|---|----------|
| Revenue | \$ 1,997 | \$ 3,468 | \$ 259 | \$ - | \$ 5,724 |
| Gross profit | 1,141 | 584 | (6) | - | 1,719 |
| Technology Partnerships Canada – net | 96 | - | - | - | 96 |
| Interest expense | 1 | 16 | - | 14 | 31 |
| Income tax expense (recovery) | - | (152) | - | 5 | (147) |
| Amortization | 54 | 64 | 36 | 7 | 161 |
| Net earnings (loss) | 99 | 115 | (283) | (628) | (697) |
| Equipment and furnishings expenditures | 1 | 22 | 2 | 5 | 30 |
| Intangible expenditures | - | 2 | - | - | 2 |

In thousands of Canadian dollars

Three Months Ended February 29, 2008

| | International Systems Operations | U.S. Systems Operations | Mapping Operations | Corporate and Public Company Costs | Total |
|--|--|-------------------------------|-----------------------|---|----------|
| Revenue | \$ 2,472 | \$ 2,840 | \$ 503 | \$ - | \$ 5,815 |
| Gross profit | 1,305 | 778 | 99 | - | 2,182 |
| Technology Partnerships Canada – net | 152 | - | - | - | 152 |
| Interest expense | - | 15 | 9 | 10 | 34 |
| Income tax expense (recovery) | - | (112) | - | - | (94) |
| Amortization | 62 | 93 | 41 | 4 | 200 |
| Net earnings (loss) | 130 | 361 | (218) | (814) | (541) |
| Equipment and furnishings expenditures | 10 | 60 | 4 | 7 | 81 |
| Intangible expenditures | 1 | 12 | 1 | 41 | 55 |

OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2009 and February 29, 2008

In thousands of Canadian dollars

| | International Systems Operations | U.S. Systems Operations | Mapping Operations | Corporate and Public Company Costs | Total |
|------------------------------|--|-------------------------------|-----------------------|---|-----------|
| Total assets employed | | | | | |
| As at February 28, 2009 | \$ 6,865 | \$ 15,204 | \$ 3,072 | \$ 217 | \$ 25,358 |
| As at November 30, 2008 | \$ 8,398 | \$ 14,781 | \$ 3,976 | \$ 157 | \$ 27,312 |

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

In thousands of Canadian dollars

| | For the three months ended | |
|----------------|----------------------------|---------------------|
| | February 28 2009 | February 29 2008 |
| United States | \$ 3,526 | \$ 2,959 |
| Australia | 1,213 | 975 |
| United Kingdom | 512 | 1,154 |
| Canada | 358 | 624 |
| New Zealand | 63 | 58 |
| Europe | 52 | 45 |
| Total | \$ 5,724 | \$ 5,815 |

Geographically, equipment and furnishings and intangible and other assets are reported based on location. At February 28, 2009 and November 30, 2008, 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 Canadian dollars

| | February 28, 2009 | | |
|-----------------------------|-------------------|-----------|-----------|
| | Canada | U.S. | Total |
| Equipment and furnishings | \$ 1,374 | \$ 306 | \$ 1,680 |
| Intangible and other assets | 229 | 448 | 677 |
| Goodwill | - | 10,547 | 10,547 |
| Total | \$ 1,603 | \$ 11,301 | \$ 12,904 |

In thousands of Canadian dollars

| | November 30, 2008 | | |
|-----------------------------|-------------------|-----------|-----------|
| | Canada | U.S. | Total |
| Equipment and furnishings | \$ 1,427 | \$ 308 | \$ 1,735 |
| Intangible and other assets | 249 | 483 | 732 |
| Goodwill | - | 10,269 | 10,269 |
| Total | \$ 1,676 | \$ 11,060 | \$ 12,736 |