



# MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three months ended February 28, 2009

**OSI Geospatial Inc.**  
300-340 March Road  
Ottawa, ON K2K 2E4  
Tel: 613.287.0462  
Fax: 613.287.0466  
[www.osigeospatial.com](http://www.osigeospatial.com)

## **OSI Geospatial Inc.**

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian 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 three months ended February 28, 2009 in comparison with those for the three months ended February 29, 2008. References to "OSI Geospatial", "the Company", "we", "us", and "our" refer to OSI Geospatial Inc. and its subsidiaries, as applicable. The following discussion should be read in conjunction with our unaudited consolidated interim financial statements, including the notes thereto, for the three months ended February 28, 2009, and the audited annual consolidated financial statements for the year ended November 30, 2008 prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The following discussion should also be read in conjunction with Management's Discussion and Analysis prepared for the year ended November 30, 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 Canadian 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](http://www.sedar.com) and is also available on the Company's investor web site at [www.osigeospatial.com](http://www.osigeospatial.com).

This management's discussion and analysis is dated April 8, 2009.

© 2009 OSI Geospatial Inc. and its affiliated or related companies.

## OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian dollars)

## 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.

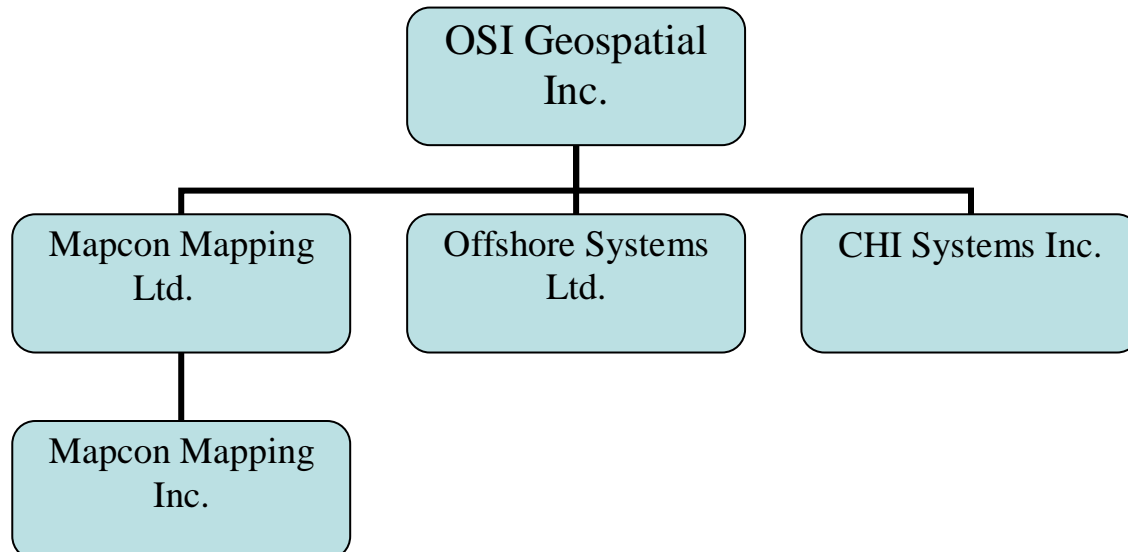
Headquartered in Ottawa, the Company is a globally focused organization with offices across North America and a sales office in the United Kingdom. The Company became a public company in 1990, and is currently listed on the Toronto Stock Exchange (symbol: OSI).

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 markets. We will also continue to

## OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian dollars)

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.

The 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 unaudited interim consolidated financial statements for the three months ended February 28, 2009.

<b>Operations:</b>	<b>For the three months ended</b>	
	<b>February 28</b>	<b>February 29</b>
In thousands of Canadian dollars except share related data	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Revenue	5,724	5,815
Gross profit	1,719	2,182
Gross profit percentage	30%	38%
Net loss	(697)	(541)
Net loss attributable to common shareholders	(853)	(697)
Loss per share – basic	(0.02)	(0.01)
Loss per share – diluted	(0.02)	(0.01)
Weighted average common shares outstanding – basic and diluted	46,956,439	46,956,439
<b>Dividends declared per share</b>		
Class A Preference Shares – Series A	–	–
Class B Preference Shares – Series 2	\$0.02	\$1.75
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.

The decrease in revenue for the three months ended February 28, 2009 as compared to the three months ended February 29, 2008 is largely due to the timing of new contracts that are awarded and the delivery schedules of existing contracts.

## OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian dollars)

The lower gross profit and gross profit percentage in the three months ended February 28, 2009 as compared to the three months ended February 29, 2008 is due to the decrease in revenue in the International Systems and Mapping operations, the mix of revenue and the level of fixed costs included in cost of sales across all operating units. There was less software revenue and more engineering services revenue in the three months ended February 28, 2009 than in the three months ended February 29, 2008. Software revenue generates more favorable margins than other revenue streams and services revenue generates less favorable margins than other revenue streams.

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.

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.

<b>Financial Position:</b>	<b>At February 28 2009</b>	<b>At November 30 2008</b>
In thousands of Canadian dollars		
	\$	\$
Working capital <sup>(1)</sup>	5,702	6,388
Current assets	11,129	13,316
Long term assets	14,229	13,996
Total assets	25,358	27,312
Current liabilities	5,427	6,928
Long term liabilities	679	793
Total liabilities	6,106	7,721
Shareholders' equity	19,252	19,591

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

## RESULTS OF OPERATIONS – Three months ended February 28, 2009 as compared to three months ended February 29, 2008

### Overall Performance

<b>Three months ended</b>	<b>February 28 2009</b>	<b>February 29 2008</b>	<b>2009 to 2008</b>
In thousands of Canadian dollars			
<b>Net loss before income taxes</b>	<b>\$ (844)</b>	<b>\$ (635)</b>	<b>\$ (209)</b>
<b>Net loss</b>	<b>\$ (697)</b>	<b>\$ (541)</b>	<b>\$ (156)</b>
<b>Net loss attributable to common shareholders</b>	<b>\$ (853)</b>	<b>\$ (697)</b>	<b>\$ (156)</b>
<b>Loss per share – basic and diluted</b>	<b>(0.02)</b>	<b>(0.01)</b>	<b>(0.01)</b>

The higher net loss reported for the three months ended February 28, 2009 compared to February 29, 2008 was largely driven by lower revenues, the mix of contracts executed in the period and lower gross profit. There was more systems and services revenue for the quarter ended February 28, 2009 than for the quarter

## OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian dollars)

ended February 29, 2008. Software revenue generates more favorable margins than other revenue streams and services revenue generates less favorable margins than other revenue streams.

### Backlog

Firm backlog consists of firm, fixed, or signed orders issued and executable subsequent to the balance sheet date. Firm backlog as at February 28, 2009 was at \$53 million compared to \$42 million at February 29, 2008. Of the \$53 million firm backlog, \$10 million is expected to be executed in fiscal 2009 and \$43 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 February 28, 2009.

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 backlog and revenue from quarter to quarter.

Multi-year contracts with government agencies have a termination-for-convenience clause because governments approve budget expenditures on an annual basis. This allows contracts to be terminated by the contracting government agency should future budget funding not be approved. In International Systems operations and U.S. Systems operations, the termination-for-convenience clause has not been exercised by any of our customers. In Mapping operations, a government contract was terminated for convenience in the quarter ended February 29, 2008. The Company negotiated a settlement with the customer and the customer paid the negotiated settlement. We have included the full value of multi-year government contracts having a termination-for-convenience clause in firm backlog.

### Revenue

Three months ended	February 28 2009	% of total revenue	February 29 2008	% of total revenue	2009 to 2008
In thousands of Canadian dollars					
Marine systems	\$ 2,098	37	\$ 2,506	43	\$ (408)
Land and air systems	3,367	59	2,806	48	561
Mapping	259	4	503	9	(244)
	<u>\$ 5,724</u>	<u>100</u>	<u>\$ 5,815</u>	<u>100</u>	<u>\$ (91)</u>

Our core revenue stream is derived from three sources: marine systems, land and air systems, and mapping. In Marine systems, our principal developed product, ECPINS®, delivers the majority of the marine systems revenue. We also derive revenue from the delivery of the ECPINS® software component of our system product. Marine systems delivered 37% and 43% of the revenue for the three months ended February 28, 2009 and February 29, 2008, respectively. Land and air systems through our U.S. Systems operations delivered 59% and 48% of the revenue for the three months ended February 28, 2009 and February 29, 2008, respectively.

Our results are primarily affected by the level, timing, and duration of customer orders and customer product delivery requirements. The main customers for our products and services in the three months ended February 28, 2009 were the Royal Australian Navy, the U.S Coast Guard, U.S. Army and the Royal Navy of the U.K. Revenue from these customers accounted for 55% of the consolidated revenue. The main customers for our

## OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian dollars)

products and services in the three months ended February 29, 2008 were the Royal Australian Navy, the Department of Homeland Security and the Royal Navy of the U.K. Revenue from these customers accounted for 57% of the consolidated revenue.

### Revenue by Segment

Three months ended	February 28 2009	% of total revenue	February 29 2008	% of total revenue	2009 to 2008
In thousands of Canadian dollars					
<b>International Systems operations</b>	\$ 1,997	35	\$ 2,472	42	\$ (475)
<b>U.S. Systems operations</b>	3,468	61	2,840	49	628
<b>Mapping operations</b>	259	4	503	9	(244)
	<u>\$ 5,724</u>	<u>100</u>	<u>\$ 5,815</u>	<u>100</u>	<u>\$ (91)</u>

Revenue from the International Systems operations for the three months ended February 28, 2009 decreased 19% due to the timing of new contracts awarded and the delivery schedules of existing contracts.

Revenue from the U.S. Systems operations for the three months ended February 28, 2009 increased over the same period from the prior year by 22%. The increase is mainly due to the delivery schedules of existing contracts and the timely passage of the U.S. defence budget.

Revenue from the Mapping operations for the three months ended February 28, 2009 decreased over the same period from the prior year by 49% due to the timing of new contracts awarded and the delivery schedules of existing contracts.

We continue to invest significant corporate, sales, and marketing resources in identifying and pursuing new opportunities and contracts, both in our existing customer base and with new prospective customers.

### Gross Profit

Three months ended	February 28 2009	February 29 2008	2009 to 2008
In thousands of Canadian dollars			
<b>Gross profit</b>	\$ 1,719	\$ 2,182	\$ (463)
<b>Gross profit percentage</b>	30%	38%	8%

Gross profit decreased by 21% in the three months ended February 28, 2009 compared to the three months ended February 29, 2008 and the gross profit percentage was 8% lower period-over-period. The decreased gross profit and gross profit percentage compared to the prior period is due to lower revenues, the mix of contracts in the period with more revenue derived from lower margin systems and services revenues, and the level of fixed costs included in cost of sales across all operating units.

## OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian dollars)

### Gross Profit by Segment

Three months ended	February 28 2009	February 29 2008	2009 to 2008
In thousands of Canadian dollars			
<b>Gross profit:</b>			
<b>International Systems operations</b>	\$ 1,141	\$ 1,305	\$ (164)
<b>U.S. Systems operations</b>	584	778	(194)
<b>Mapping operations</b>	(6)	99	(105)
<b>Consolidated operations</b>	<u>\$ 1,719</u>	<u>\$ 2,182</u>	<u>\$ (463)</u>

### Gross profit percentage:

<b>International Systems operations</b>	57%	53%	4%
<b>U.S. Systems operations</b>	17%	27%	(10)%
<b>Mapping operations</b>	-%	20%	(20)%
<b>Consolidated operations</b>	<u>30%</u>	<u>38%</u>	<u>(8)%</u>

Gross profit from the International Systems operations decreased 13% and gross profit percentage was 4% higher when compared to the prior period. The decrease in gross profit for the first quarter of 2009 is the result of lower revenues in the International Systems operations and the higher gross profit margin is the result of higher software sales compared to more revenues from lower margins on systems and services projects in the prior period.

Gross profit from the U.S. Systems operations for the three months ended February 28, 2009 decreased 25% and gross profit percentage was 10% lower when compared to February 29, 2008. The decrease is due to a greater proportion of low margin engineering services revenues when compared to the same period last year.

Gross profit from the Mapping operations for the three months ended February 28, 2009 decreased 106% and gross profit percentage dropped 20% when compared to the prior period. Gross profit was negatively impacted by the level of fixed costs included in cost of sales. Gross profit percentages are influenced by the reduction in revenue from the prior year's first quarter. The gross profit percentage of any given mapping project is largely influenced by two factors:

1. the proportion of production services that are performed in-house versus subcontracted to either specialized production service companies in North America or offshore production companies in India or China, and
2. the customer's primary driver, being either price or quality.

Projects where the Company 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.

## OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian dollars)

### Operating Expenses

Three months ended	February 28 2009	% of total revenue	February 29 2008	% of total revenue	2009 to 2008
In thousands of Canadian dollars					
General and administrative	\$ 1,209	21%	\$ 1,245	21%	\$ (36)
Engineering	301	5%	262	5%	39
Sales and marketing	813	14%	914	16%	(101)

**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 3% for three months ended February 28, 2009 compared to the previous year's first quarter. The decrease was largely the result of a reduction in staff levels and lower public company costs.

**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 costs increased 15% for the three months ended February 28, 2009, compared to the three months ended February 29, 2008. The increase is mainly related to lower engineering staff and related costs being charged to cost of sales to support specific customer orders during the three months ended February 28, 2009 when compared to the same period last year. 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 decreased by 11% for three months ended February 28, 2009 compared to the three months ended February 29, 2008. The decrease is primarily due to lower commissions and a reduction in discretionary spending. We believe our current level of S&M staff continues to allow us to pursue business development activities relating to our expansion efforts targeting new and existing customers in the military agencies of Canada, the U.S., European NATO, and other allies of Canada, and national and international commercial marine transportation companies. To increase our profile and our products, and to broaden our customer base in international markets, we have established marketing agreements with companies local to the targeted regions. Some of these activities will not result in closing orders during the current year but may yield orders in subsequent fiscal years.

### Amortization

Three months ended	February 28 2009	February 29 2008	2009 to 2008
In thousands of Canadian dollars			
Amortization	\$ 113	\$ 150	\$ (37)

Total amortization decreased by 27% on the three months ended February 28, 2009 as compared to the three months ended February 29, 2008. For the three months ended February 28, 2009 and February 29, 2008, a

## OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian dollars)

portion of the amortization, \$48,000 and \$51,000 respectively, was included in cost of sales for equipment used in revenue-generating activities.

### Interest expense

Three months ended	February 28 2009	February 29 2008	2009 to 2008
In thousands of Canadian dollars			
Interest expense	\$ 31	\$ 34	\$ (3)

Interest expense decreased by \$3,000 in the three months ended February 28, 2009 as compared to the three months ended February 29, 2008. The Company continued to utilize its operating line credit facility during the period.

### Interest income

Three months ended	February 28 2009	February 29 2008	2009 to 2008
In thousands of Canadian dollars			
Interest income	\$ -	\$ (3)	\$ (3)

Interest income decreased in the three months ended February 28, 2009 as compared to the three months ended February 29, 2008 as the result of the Company's not having any surplus cash.

### Foreign exchange

Three months ended	February 28 2009	February 29 2008	2009 to 2008
In thousands of Canadian dollars			
Foreign exchange loss (gain)	\$ -	\$ 35	\$ (35)

The Company's Canadian subsidiaries, whose functional currency is the Canadian dollar, are exposed to foreign exchange gain and loss due to exchange rate movements of the U.S. dollar, the Australian dollar and the UK pound. These fluctuations did not impact the Company's results for the three months ended February 28, 2009 and were not in the Company's favour during the three months ended February 28, 2008.

### Technology Partnerships Canada

Three months ended	February 28 2009	February 29 2008	2009 to 2008
In thousands of Canadian dollars			
Royalty	\$ 96	\$ 152	\$ (56)

The Company entered into two agreements with Technology Partnerships Canada ("TPC") whereby TPC granted financial assistance for the purpose of funding research and development activities which were completed on March 31, 2007. The contributions we received were based on the eligible expenditures incurred.

As part of the agreement entered into on November 15, 1999 with TPC, we are required to pay a royalty of 3% on annual gross revenue in our subsidiary Offshore Systems Ltd. for the period December 1, 1999 to November 30, 2008. In addition, as part of the agreement entered into on April 26, 2004, we are required to pay a royalty of 1.4% on annual gross revenue in our subsidiary Offshore Systems for the period January 1, 2006 to December 31, 2008 and a royalty of 2.5% on annual gross revenue for the period January 1, 2009 to December 31, 2013.

## OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian dollars)

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

Three months ended	February 28 2009	February 29 2008	2009 to 2008
In thousands of Canadian dollars			
Future income tax expense (recovery)	\$ (152)	\$ -	\$ (152)
Current income tax (recovery) expense	5	(94)	99
	<u>(147)</u>	<u>(94)</u>	<u>(53)</u>

Based on the information available at the time of the issue of the interim financial statements for the three months ended February 28, 2009, we estimated that we would not have sufficient taxable earnings in Canada in future periods to utilize a portion of our \$3.9 million Canadian non-capital losses carried forward, \$8.6 million scientific research and experimental development costs and other Canadian tax balances.

We have recognized a future tax recovery for the three months ended February 28, 2009 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 - February 28, 2009 compared to November 30, 2008

In thousands of Canadian dollars	February 28 2009	November 30 2008	2009 to 2008
Current assets	\$ 11,129	\$ 13,316	\$ (2,187)
Current liabilities	5,427	6,928	(1,501)
Working capital <sup>(1)</sup>	5,702	6,388	(686)

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

We strive to maintain cash-contributing profitable operations that provide an adequate liquidity and capital resource base for growth. We believe that cash flow from operating activities, together with lines of credit borrowings of Canadian \$3.0 million and US \$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. We expect cash flow from operations will continue to improve next year as scheduled contract milestone payments will be made on several contracts. The expenditures associated with these contracts have been incurred in prior periods.

At February 28, 2009 our current assets decreased primarily due to a decrease in accounts receivable. Our working capital has decreased mainly due to the decrease in accounts receivable offset by a decrease in accounts payable and accrued liabilities. Accounts receivable decreased due to lower revenues in the first quarter of 2009 compared to the fourth quarter of 2008 and due to collection of significant receivables. Accounts payable and accrued liabilities decreased due to payment of specific project costs related to receivable that were collected during the same period.

## OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian dollars)

We have credit facilities consisting of an operating lines, standby letters of credit, and forward exchange contract facilities. The credit facilities permit us to borrow funds directly for general corporate purposes, including acquisitions, at floating rates. At February 28, 2009, we had borrowings of \$1.3 million against our Canadian operating line. We have an operating line of Canadian \$3.0 million available with a Canadian chartered bank collateralized by accounts receivable and U.S. \$1.2 million with a U.S. chartered bank. During the three months ended February 28, 2009, we utilized these facilities which increased interest expense for the year. We utilize our forward exchange contract facility to reduce our exposure to exchange rate movements.

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, November 30, 2008 and February 28, 2009 we did not meet the interest coverage ratio covenant. For the periods ended May 31, 2008, August 31, 2008 and November 30, 2008 we received a waiver from the bank. We expect to receive a waiver from the bank for the period ended February 28, 2009. We expect our operating performance in 2009 will allow us to remedy this deficiency.

### Cash Flows

Three months ended	February 28 2009	February 29 2008	2009 to 2008
In thousands of Canadian dollars			
<b>Cash flows provided by (used in):</b>			
<b>Operating activities</b>	<b>\$ 136</b>	<b>\$ 527</b>	<b>\$ (391)</b>
<b>Investing activities</b>	<b>(50)</b>	<b>(223)</b>	<b>173</b>
<b>Financing activities</b>	<b>(83)</b>	<b>(377)</b>	<b>294</b>
<b>Effect of foreign exchange on cash</b>	<b>(3)</b>	<b>73</b>	<b>(76)</b>

Cash flows provided by operating activities for the three months ended February 28, 2009 were the result of the net loss for the three months ended February 28, 2009 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 three months ended February 28, 2009 were primarily reflective of the acquisitions of equipment, furnishings and intangibles commensurate with our plans to obtain additional systems and facilities to accommodate our current and future anticipated growth.

Cash flows used in financing activities for the three months ended February 28, 2009 were the result of a decrease in the operating line of credit, the repayment of capital lease obligations and the semi-annual dividends on our Class B preference shares.

As a result of the above mentioned changes, the line of credit utilization decreased by \$18,000 for the three months ended February 28, 2009.

In order to reduce the impact of exchange rate fluctuations, we use the forward exchange contract facility to mitigate any foreign exchange gain or loss that might occur. We use the forward exchange contract facility

## OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian dollars)

only for known or reasonably certain future foreign currency transactions. At February 28, 2009 we had entered into forward exchange contracts in the amount of U.S. \$540,000, £635,000 and Australian \$280,000.

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

## CONTRACTUAL OBLIGATIONS

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 Canadian dollars					
Facility leases	\$ 4,076	\$ 895	\$ 1,543	\$ 953	\$ 685
Capital equipment leases	248	83	165	-	-
Operating equipment leases	92	44	43	5	-
<b>Total contractual obligations</b>	<b>\$ 4,416</b>	<b>\$ 1,022</b>	<b>\$ 1,751</b>	<b>\$ 958</b>	<b>\$ 685</b>

## 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 U.S. \$1.2 million. At February 28, 2009, the carrying amount of the liability was U.S. \$1.0 million (November 28, 2008- U.S. \$691,000).

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.

## TRANSACTIONS WITH RELATED PARTIES

The Company had no related party transactions during the periods reported.

## **OSI Geospatial Inc.**

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian dollars)

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

#### *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 in the U.S. 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,

## OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian dollars)

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.

## PROPOSED TRANSACTIONS

We are not currently engaged in any proposed transactions.

## SELECTED QUARTERLY DATA (UNAUDITED)

In thousands of Canadian dollars

For the three months ended	February 28 2009	November 30 2008	August 31 2008	May 31 2008
Revenue	\$ 5,724	\$ 8,145	\$ 6,327	\$ 6,574
Gross profit	1,719	3,336	2,243	2,026
Gross profit percentage	30%	41%	36%	31%
Net earnings (loss)	(697)	1,020	(682)	(1,174)
Net earnings (loss) attributable to common shareholders	(853)	864	(838)	(1,330)
Loss per share – basic	(0.02)	0.02	(0.02)	(0.03)
Loss per share – diluted	(0.02)	0.02	(0.02)	(0.03)

For the three months ended	February 29 2008	November 30 2007	August 31 2007	May 31 2007
Revenue	\$ 5,815	\$ 8,082	\$ 7,661	\$ 6,885
Gross profit	2,182	3,497	3,135	2,731
Gross profit percentage	38%	43%	41%	40%
Net earnings (loss)	(541)	(869)	320	(448)
Net earnings (loss) attributable to common shareholders	(697)	(1,025)	153	(624)
Loss per share – basic	(0.01)	(0.02)	0.00	(0.02)
Loss per share – diluted	(0.01)	(0.02)	0.00	(0.02)

## CRITICAL ACCOUNTING POLICIES

These items are substantially unchanged as discussed in the Company's MD&A for the year ended November 30, 2008 as contained in our 2008 Annual Report filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## RECENT ACCOUNTING PRONOUNCEMENTS

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

The CICA has issued CICA Handbook section 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

## OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian dollars)

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 has not assessed the impact of adopting IFRS on its consolidated financial statements

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

### Foreign Exchange Forward Contracts

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

Changes in fair value of foreign currency denominated derivative financial instruments used to hedge anticipated or committed foreign currency exposures are recognized as an adjustment to the related operating costs or revenue when the hedged transaction is recorded. Derivatives are not subject to hedge accounting and are recorded on the consolidated balance sheets with the changes in fair value being recorded in the consolidated statement of operations each period.

The Company purchases foreign exchange forward contracts to mitigate the exposure to sales and the related accounts receivable to customers denominated in U.S. dollars, UK pounds, Australian dollars and Euros.

At February 28, 2009, we had entered into the following foreign exchange forward contracts, which were not treated as hedges in accordance with CICA Section 3865:

<i>Sell</i>	<i>Exchange rate in relation to CAD</i>	<i>Value date</i>
GBP 535,000	1.7699 to 1.9755	March 25, 2009 to June 15, 2009
AUD 280,000	0.8014	June 15, 2009
USD 60,000	1.0295 to 1.2359	March 25, 2009 to May 29, 2009

## DISCLOSURE OF OUTSTANDING SHARE DATA

As at April 9, 2009, we had 46,956,439 issued and outstanding common shares and 3,430,166 outstanding stock options. As at April 9, 2009, we also had 30,262 issued and outstanding class A preference shares and

## **OSI Geospatial Inc.**

Management's Discussion and Analysis

For the three months ended February 28, 2009 and February 29, 2008

(expressed in Canadian dollars)

178,530 issued and outstanding class B preference shares series 2 convertible into common shares at conversion ratios of 1:1 and 1:58.82353 respectively which represents 10,501,765 common shares. Also at April 9, 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**

Management, including the chief executive officer and the chief financial officer, is responsible for establishing and maintaining disclosure controls and procedures as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. Management, as at the end of the period covered by this interim filing, designed disclosure controls and procedures to provide reasonable, but not absolute, assurance that (i) material information relating to the issuer is made known to management by others, particularly during the period in which the interim filings were being prepared; and (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Disclosure controls and procedures provide only a reasonable level of assurance that they are effective. Accordingly, they may not detect that all disclosure requirements have not been met. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management, including the chief executive officer and the chief financial officer, is responsible for establishing and maintaining internal controls over financial reporting as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. Management, as at the end of the period covered by this interim filing, designed internal controls over financial reporting to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The control framework management used to design the issuer's internal controls over financial reporting is the Committee of Sponsoring Organizations of the Treadway Committee (COSO) control framework. Management did not identify material weaknesses relating to the design of internal controls over financial reporting existing at the end of the period covered by this interim filing.

Because of the inherent limitations of internal controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the design of internal controls over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Company has not formally evaluated the operating effectiveness of internal controls over financial reporting.

### **CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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

### **RISKS AND UNCERTAINTIES**

The primary risks and uncertainties that affect and may affect us and our business, financial condition and results of operations are substantially unchanged as discussed in the Company's MD&A for the year ended November 30, 2008 as contained in our 2008 Annual Report filed on SEDAR at [www.sedar.com](http://www.sedar.com).