



Financial Report FY2011 First Quarter

ended February 28, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three months ended February 28, 2011

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Management's Discussion and Analysis

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(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, 2011, in comparison with those for the three months ended February 28, 2010. 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, 2011, and the audited annual consolidated financial statements for the year ended November 30, 2010, 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, 2010.

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, or 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™ is a registered trademark of CHI Systems Inc., an OSI Geospatial company. Other Company brand, product and service names are for identification purposes only and may be either trademarks, service marks or registered trademarks of their respective owners. Data subject to change without notice.

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

This management's discussion and analysis is dated April 29, 2011.

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OVERVIEW

Founded in 1977, the Company is a leader in providing real-time situational awareness solutions. The Company delivers products and services to the large and fast-growing defense 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.

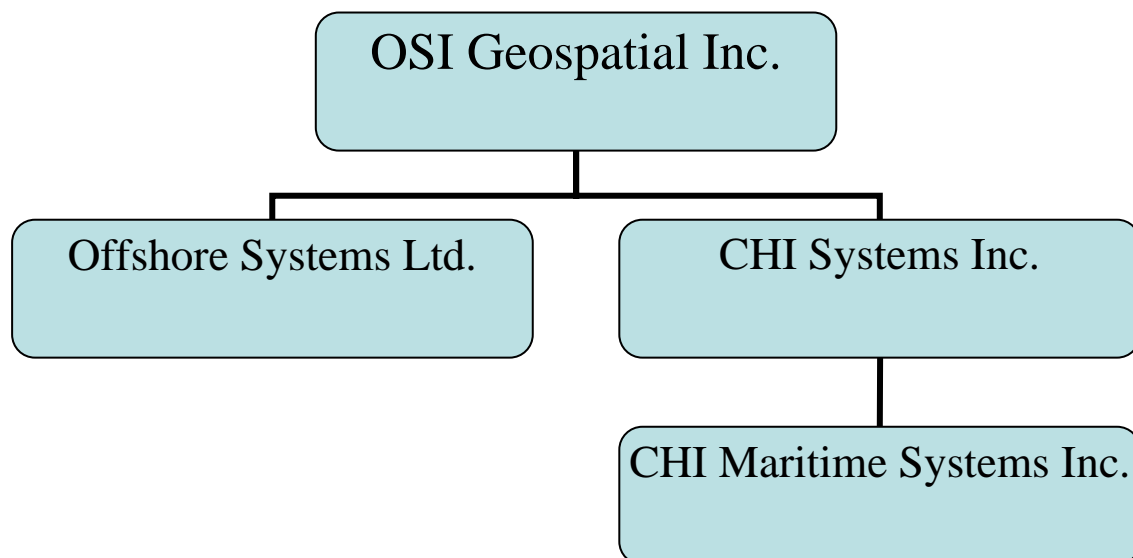
Headquartered in Burnaby, British Columbia, the Company is a globally-focused organization with offices across North America and a sales and support office in the United Kingdom. The Company became a public company in 1990, and is currently listed on the TSX Venture Exchange (symbol: OSI).

On January 31, 2011, the Company closed the sale of Mapping division for a selling price of \$1,150,000 plus a working capital adjustment of \$253,000 payable at February 28, 2011. As such, this division has been considered as an operation held for sale and presented as discontinued operations. Assets and liabilities have been reclassified as assets held for sale and liabilities related to assets held for sale; and revenues and expenses related have been reclassified from continuing operations to discontinued operations for all reporting years. The Mapping division included the operations of Mapcon Mapping Ltd. and Mapcon Mapping Inc.

In December 2005, the Company completed the acquisition of CHI Systems Inc. ("CHI"), a United States defense contractor. CHI has four offices in the United States, and is a supplier of technology and services to the U.S. Department of Defense and key defense prime contractors. CHI has developed command and control, 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., a United States defense and security consultancy company, and has established a new subsidiary, CHI Maritime Systems Inc. (formerly Layered Security Solutions Inc.) ("CMS"). The Company's CMS subsidiary is primarily focused on developing the U.S. maritime market.

The Company's current corporate structure is presented in the chart below.



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Our mission is to provide integrated navigational and tactical solutions that enhance the operational capabilities, security, and safety for our customers. Our customers 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 its world-leading technologies, such as ECPINS® and iGEN™, to grow its market share, expand its customer base, and enter into adjacent markets. We will also continue to partner with the world's largest defense 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 defense systems integrators, we will significantly increase our reach into the defense and security markets around the world.

Our Company delivers integrated navigational and tactical solutions that meet naval and maritime security operational requirements. These solutions include our Warship Electronic Chart Display and Information System (ECPINS®-W/S), Tactical Asset Control and Tracking System (TACTS), Integrated Navigation and Tactical System (INTS), and security risk assessment consulting services. In addition, the Company provides advanced technology research and development engineering services in support of the military and security requirements.

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.

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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, 2011, and 2010.

Operations:	For the three months ended February 28,	
In thousands of Canadian dollars, except per share related data	2011	2010*
	\$	\$
Revenue	2,690	3,330
Gross profit	899	1,193
Gross profit percentage	33%	36%
Net income (loss) from continuing operations	(1,217)	2,377
Net loss from discontinued operations	(67)	(295)
Net income (loss)	(1,284)	2,082
Net income (loss) available to common shareholders	(1,351)	1,951
Basic earnings (loss) per share		
Continuing operations	\$(0.02)	\$0.05
Discontinued operations	-	-
Net income (loss)	\$(0.02)	\$0.05
Diluted earnings(loss) per share		
Continuing operations	\$(0.02)	\$0.04
Discontinued operations	-	-
Net income (loss)	\$(0.02)	\$0.04
Weighted average common shares outstanding		
Basic	53,031,494	48,733,766
Diluted	53,031,494	57,659,553
<u>Dividends declared per share</u>		
Class A Preference Shares – Series A	-	-
Class B Preference Shares – Series 2	\$0.04	\$0.04
Common Shares	-	-

**Prior year comparatives have been restated for discontinued operations.*

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 labor. 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 quarter ended February 28, 2011, as compared to the quarter ended February 28, 2010, is largely due to the delivery schedules of existing contracts and the timing of new contracts that are awarded.

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The lower gross profit for the quarter ended February 28, 2011, as compared to the quarter ended February 28, 2010, is largely due to the decrease in revenue in the International Systems and U.S. Systems operations, the mix of revenue, and the level of fixed costs included in the cost of sales across all operating units.

Fluctuations in gross profit are influenced by the proportion of engineering labor, third-party systems, or third-party labor, 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 labor, third-party systems, or third-party labor. In order to maintain competitiveness on these contracts, we may elect to reduce our usual margins on the third-party components.

The Company's sales strategy focuses on markets such as a military command and control, homeland security, and maritime defense that to date experienced curtailments in budgets and delays in spending. These changes have impacted the Company's customers and, as a result, the Company experienced delays in the execution of current projects, awarding of new contracts and releasing of competitive requests for proposals, and reductions in the value of some sales opportunities which the Company has been pursuing.

Financial Position:	At February 28, 2011	At November 30, 2010
In thousands of Canadian dollars		
	\$	\$
Working capital ⁽¹⁾	2,635	4,096
Current assets	5,989	9,050
Long-term assets	6,122	6,273
Total assets	12,111	15,323
Current liabilities	3,354	4,954
Long-term liabilities	469	546
Total liabilities	3,823	5,500
Shareholders' equity	8,288	9,823

(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.

On February 1, 2010, the Company's U.S. Systems Operations signed a contract valued at USD \$6.5 million with Harris Corporation ("Harris"). Under the terms of this contract, the Company sold all of its rights to its soldier systems intellectual property and transferred its San Diego-based employees, office and associated equipment, furniture and fixtures to Harris. The net cash proceeds after corporate income taxes were approximately USD \$5.5 million. The net proceeds provided additional working capital for the Company.

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RESULTS OF OPERATIONS – Three months ended February 28, 2011, as compared to three months ended February 28, 2010

Overall Performance

Three months ended	February 28, 2011	February 28, 2010	2011 to 2010
In thousands of Canadian dollars, except for share related data			
Net income (loss) before income taxes	\$ (1,253)	\$ 4,336	\$ (5,589)
Net income (loss)	\$ (1,284)	\$ 2,082	\$ (3,366)
Net income (loss) attributable to common shareholders:			
Basic	\$ (1,351)	\$ 1,951	\$ (3,302)
Diluted	\$ (1,351)	\$ 2,082	\$ (3,433)
Earnings (loss) per share:			
Basic	\$ (0.02)	\$ 0.05	\$ (0.07)
Diluted	\$ (0.02)	\$ 0.04	\$ (0.06)

The increase in net loss reported for the three months ended February 28, 2011, was largely driven by the gain on sale of intellectual property in the prior comparative period.

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, 2011, was \$32 million compared to \$28 million at November 30, 2010. Of the \$32 million firm backlog, \$5 million is expected to be executed in the remainder of fiscal 2011, and \$27 million is expected to be executed in fiscal year 2012 and beyond. The increase in backlog is as a result of new contracts awarded.

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, 2011.

The timing of major contracts awarded can significantly impact our firm backlog position and revenue. Historically, major contracts awarded have taken up to three years to finalize. The contracting process involves lengthy discussions and negotiations with several groups of people within the prospective customer's organization. We have continually pursued, and will continue to pursue, major contracts with lengthy sales cycles, and, as a result, there could be large variations in our firm backlog and revenue from quarter to quarter.

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

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Revenue

Three months ended	February 28, 2011	% of total revenue	February 28, 2010	% of total revenue	2011 to 2010
In thousands of Canadian dollars					
Maritime navigation and tactical solutions	\$ 1,200	45	\$ 1,406	42	\$ (206)
Advanced technology research and development	1,490	55	1,924	58	(434)
	<u>\$ 2,690</u>	<u>100</u>	<u>\$ 3,330</u>	<u>100</u>	<u>\$ (640)</u>

Our core revenue stream is derived from two sources: maritime navigation and tactical solutions, and advanced technology research and development. In maritime navigation and tactical solutions, our principal-developed product line, ECPINS®, delivers the majority of the maritime navigation and tactical solutions revenue. We also derive revenue from the delivery of the ECPINS® software component of our system product. Maritime navigation and tactical solutions delivered 45% and 42% of the revenue for the three months ending February 28, 2011, and 2010 respectively. Our advanced technology research and development through our U.S. Systems operations delivered 55% and 58% of the revenue for the three months ending February 28, 2011, and 2010 respectively.

Our results are primarily affected by the level, timing, and duration of customer orders and customer product delivery requirements. The main customers for the quarter ended February 28, 2011, were the U.S. Army, the Royal Navy of the United Kingdom, and the U.S. Defense Advanced Research Projects Agency. Revenue from these customers accounted for 53% of the consolidated revenue. The main customers for the quarter ended February 28, 2010, were the U.S. Army, Royal Navy of the U.K., and the U.S. Defense Advanced Research Projects Agency (DARPA). Revenue from these customers accounted for 47% of the consolidated revenue.

Revenue by Segment

Three months ended	February 28, 2011	% of total revenue	February 28, 2010	% of total revenue	2011 to 2010
In thousands of Canadian dollars					
International Systems operations	\$ 1,096	41	\$ 1,215	36	\$ (119)
U.S. Systems operations	1,594	59	2,115	64	(521)
	<u>\$ 2,690</u>	<u>100</u>	<u>\$ 3,330</u>	<u>100</u>	<u>\$ (640)</u>

Revenue from International Systems operations for the three months ended February 28, 2011, decreased by 10% as compared to the three months ended February 28, 2010, due to a decline in the number and dollar value of new contracts awarded and the delivery schedules of existing contracts.

Revenue from U.S. Systems operations for the three months ended February 28, 2011, decreased by 25% as compared to the three months ended February 28, 2010. The decrease is mainly due to the delay in receiving funding for certain contracts 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.

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Gross Profit

Three months ended	February 28, 2011	February 28, 2010	2011 to 2010
In thousands of Canadian dollars			
Gross profit	\$ 899	\$ 1,193	\$ (294)
Gross profit percentage	33%	36%	(3%)

Gross profit decreased by 25% in the three months ended February 28, 2011, compared to the three months ended February 28, 2010, and the gross profit percentage is lower by 3% period-over-period.

The decreased gross profit and gross profit rate for the three months ended February 28, 2011, compared to prior quarter's period is due to the mix of contracts in the period with more revenue derived from lower margin systems and services and the level of fixed costs included in cost of sales across all operating units.

Gross Profit by Segment

Three months ended	February 28, 2011	February 28, 2010	2011 to 2010
In thousands of Canadian dollars			
Gross profit:			
International Systems operations	\$ 535	\$ 644	\$ (109)
U.S. Systems operations	364	549	(185)
Consolidated operations	<u>\$ 899</u>	<u>\$ 1,193</u>	<u>\$ (294)</u>
Gross profit percentage:			
International Systems operations	20%	19%	1%
U.S. Systems operations	13%	17%	(4%)
Consolidated operations	<u>33%</u>	<u>36%</u>	<u>(3%)</u>

Gross profit from the International Systems operations decreased 17% and gross profit percentage was 1% higher when compared to the prior period. The decrease in gross profit for the first quarter of 2011 is the result of lower revenues in the International Systems operations. The 1% increase in gross profit margin is the result of higher software sales and higher systems and services sales compared to the prior period.

Gross profit from the U.S. Systems operations for the three months ended February 28, 2011, decreased 34% and gross profit percentage was 4% lower when compared to February 28, 2010. The decrease in gross profit rate is largely the temporary suspension of higher margin programs as a result of US Defense budget issues.

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Operating Expenses

Three months ended	February 28,	% of	February 28,	% of	2011 to
In thousands of Canadian dollars	2011	total revenue	2010	total revenue	2010
General and administrative	\$ 882	33%	\$ 1,139	34%	\$ (257)
Engineering	274	10%	176	5%	98
Sales and marketing	345	13%	593	18%	(248)

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 decrease 23% for three months ended February 28, 2011, compared to the previous year's first quarter. The lower G&A cost in the first quarter of 2011 is largely due to lower wages as a result of reduction in staff levels and lower professional fees.

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 56% for the three months ended February 28, 2011, compared to the three months ended February 28, 2010. The Company believes 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 42% for three months ended February 28, 2011, compared to the three months ended February 28, 2010. The decrease is primarily due to staff reduction, the reduction of 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.

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Amortization

Three months ended	February 28, 2011	February 28, 2010	2011 to 2010
In thousands of Canadian dollars			
Amortization	\$ 77	\$ 79	\$ (2)

Total amortization decreased by 3% on the three months ended February 28, 2011, as compared to the three months ended February 28, 2010.

Interest expense

Three months ended	February 28, 2011	February 28, 2010	2011 to 2010
In thousands of Canadian dollars			
Interest expense	\$ 10	\$ 38	\$ (28)

Interest expense reduced by 74% in the three months ended February 28, 2011, as compared to the three months ended February 28, 2010.

Foreign exchange

Three months ended	February 28, 2011	February 28, 2010	2011 to 2010
In thousands of Canadian dollars			
Foreign exchange loss (gain)	\$ 18	\$ (10)	\$ 28

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, the Euro and the UK pound. The Company minimized the exposure to foreign exchange fluctuations through the use of foreign exchange forward contracts.

Technology Partnerships Canada royalty

Three months ended	February 28, 2011	February 28, 2010	2011 to 2010
In thousands of Canadian dollars			
Royalty	\$ 60	\$ 69	\$ (9)

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.

The Company is required to pay a royalty of 2.5% on annual gross revenue in Offshore Systems Ltd. for the period January 1, 2009 to December 31, 2013. If the total royalties paid and payable as at December 31, 2013 does not equal or exceed \$6.1 million, the Company will continue to pay royalties on gross revenue generated after December 31, 2013 until total cumulative royalties paid or payable reach \$6.1 million or until December 31, 2017, whichever comes first. The Company commenced payment of these royalties effective February 2007.

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In addition, the Company is required to pay a royalty of 3% on annual gross revenue of its subsidiary, Offshore Systems Ltd., until total cumulative royalties paid or payable reach \$7.8 million or until November 30, 2014, whichever comes first. The Company commenced payment of these royalties effective June 2001.

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.

Gain on sale of intellectual property

Three months ended	February 28, 2011	February 28, 2010	2011 to 2010
In thousands of Canadian dollars			
Gain on sale of intellectual property	\$ -	\$ 5,227	\$ (5,227)

On February 1, 2010, the Company's U.S. Systems Operations signed a contract valued at U.S. \$6.5 million with Harris Corporation ("Harris"). Under the terms of this contract, OSI Geospatial sold all of its rights to its soldier systems intellectual property and transferred its San Diego-based employees, office and associated equipment, furniture and fixtures to Harris. This intellectual property is a non-core asset that is not aligned with the Company's maritime strategy. The net proceeds after corporate income taxes were approximately U.S. \$5.5 million.

Restructuring costs and other items

Three months ended	February 28, 2011	February 28, 2010	2011 to 2010
In thousands of Canadian dollars			
Restructuring costs	\$ 410	\$ -	\$ 410
Loss on lease termination	\$ 56	\$ -	\$ 56
Loss on disposal of furniture and fixtures	\$ 20	\$ -	\$ 20

During the quarter ended February 28, 2011, the Chief Executive Officer was removed. The contractual severance obligation was \$450,000 though this was negotiated down to \$410,000.

In addition, the finance and administrative functions were relocated from Ottawa to Vancouver and the Ottawa office was closed and the lease was terminated. The lease termination costs related to the shutdown amounted to \$56,000. In conjunction with the lease termination, the Company also disposed of furniture and fixtures with a net book value of approximately \$20,000.

Income taxes

Three months ended	February 28, 2011	February 28, 2010	2011 to 2010
In thousands of Canadian dollars			
Future income tax expense	\$ 9	\$ 888	\$ (879)
Current income tax expense (recovery)	(45)	1,071	(1,116)
	<u>(36)</u>	<u>1,959</u>	<u>(1,995)</u>

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Based on the information available at the time of the issue of the interim financial statements for the three months ended February 28, 2011, we estimated that we would not have sufficient taxable earnings in Canada in future periods to utilize a portion of our \$4.8 million Canadian non-capital losses carried forward, \$13.2 million scientific research and experimental development costs, and other Canadian tax balances.

We have recognized a future tax expense for the three months ended February 28, 2011, related to temporary timing differences between accounting income and income for tax purposes in our U.S. subsidiaries. The future tax expense is mainly a result of reversal of future tax assets recognized in prior period for timing differences as these differences were utilized in the current quarter resulting from the sale of intellectual property. At February 28, 2011, we have current future tax asset of \$nil and non-current future tax asset of \$259,000 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.

RESULTS OF DISCONTINUED OPERATIONS (Mapping Operations) – Three months ended February 28, 2011 and 2010

In thousands of Canadian dollars

	2011	2010	2011 to 2010
Sales	\$ 344	\$ 114	\$ 200
Gross profit (loss)	110	(87)	197
Gross profit percentage	32%	(76%)	108%
Loss from operations	(67)	(295)	228
Net loss from discontinued operations	(67)	(295)	228
Basic and diluted net loss from discontinued operations per share	-	-	-

Revenue from Mapping operations for the three months ended February 28, 2011, increased by 175% as compared to the comparative quarter. The increase is the result of large contract awards in 2010 and the execution and delivery of contracts in the quarter.

Gross profit from the Mapping operations for the three months ended February 28, 2011, increased by \$197,000 and gross profit percentage was 108% higher when compared to the prior year. Gross profit percentages are influenced by the level of the fixed costs included in cost of sales. It is also driven by season as the revenue generating activities are mostly influenced by weather. 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.

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LIQUIDITY AND CAPITAL RESOURCES – February 28, 2011, compared to November 30, 2010

In thousands of Canadian dollars	February 31, 2011	November 30, 2010	2011 to 2010
Current assets	\$ 5,989	\$ 9,050	\$ (3,061)
Current liabilities	3,354	4,954	(1,600)
Working capital ⁽¹⁾	2,635	4,096	(1,461)

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

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

At February 28, 2011, our current assets decreased primarily due to the sale of current assets held for sale, offset by increase in cash. Our working capital has decreased mainly due to the decrease in assets held for sale, offset by the decrease in liabilities held for sale. Cash increased as a result of the sale of the Mapping operations.

We have credit facilities consisting of accounts receivable factoring arrangements and forward exchange contract facilities. The credit facilities permit us to borrow funds directly for general corporate purposes. We have an accounts receivable factoring facility with a Canadian financial institution with a maximum limit of \$2 million and a variable limit with a U.S. financial institution that is based on the outstanding accounts receivable of the U.S. operations. At February 28, 2011, we had \$nil borrowings against our Canadian accounts receivable factoring facility and \$nil borrowings against our U.S. accounts receivable factoring facility. We utilize our forward exchange contract facility to reduce our exposure to exchange rate fluctuations.

The Company declared semi-annual dividends to the Class B, Series 2 preference shareholders as follows:

Date declared	Period covered	Dividends per share
July 2009	December 2008 – May 2009	\$ 0.0175
January 2010	June 2009 – November 2009	0.0175
May 2010	December 2009 – May 2010	0.0175
February 2011	June 2010 – December 2010	0.0175

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.

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2011 and 2010

(expressed in Canadian dollars)

Cash Flows

Three months ended	February 28, 2011	February 28, 2010	2011 to 2010
In thousands of Canadian dollars			
Cash flows provided by (used in):			
Operating activities			
Continuing	\$ (391)	\$ (553)	\$ 162
Discontinued	(134)	(936)	802
Investing activities	1,642	4,764	3,122
Financing activities	(337)	(787)	450
Effect of foreign exchange on cash	(68)	42	(110)

Cash flows used in operating activities for the three months ended February 28, 2011, were primarily the result of net loss for the period, decrease in accounts payable and accrued liabilities, reduced by a decrease in accounts receivable.

Cash flows used in investing activities for the three months ended February 28, 2011, were primarily reflective of the sale of the Mapping operations.

Cash flows provided by and used in financing activities for the three months ended February 28, 2011, were the result of changes in the credit facilities.

In order to reduce the impact of exchange rate fluctuations, we use the forward exchange contract facility to mitigate any foreign exchange gain or loss that might occur. We use the forward exchange contract facility only for known or reasonably certain future foreign currency transactions. At February 28, 2011, we had entered into forward exchange contracts in the amount of £nil.

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

Guarantees

The Company has entered into a guarantee agreement for one of the Company's subsidiaries, CHI Systems, Inc. ("CHI"). The Company has guaranteed CHI's accounts receivable factoring facility with a U.S. financial institution. At February 28, 2011, the carrying amount of CHI's factored advances payable was USD \$nil.

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.

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2011 and 2010

(expressed in Canadian dollars)

Contingency

In January 2010, a claim for breach of contract and wrongful dismissal was filed against the Company by a former employee of the Company. The Company believes the claim is without merit and the Company has filed a counterclaim for breach of fiduciary obligations as an officer of the Company and contractual obligations under the former employee's Employment Agreement. The final outcome with respect to this claim and counterclaim cannot be predicted with certainty and no amount has been accrued in the financial statements.

Related party transactions

On February 21, 2011 (amended March 12, 2011, and March 31, 2011), the Company entered into an agreement with a company owned by a Director of OSI Geospatial Inc. for the purposes of fulfilling the role of Interim President and CEO. The services agreement was approved by the Board of Directors of the Company and provided monthly fees of \$18,750, plus travel and subsistence costs. The agreement also guarantees that in the event of termination, the consultant is entitled to a maximum of four months of fees, less any fees already paid. The expense incurred in the three month ended February 28, 2011, was not significant.

Subsequent events

On April 8, 2011, the Chair of the Board resigned as Chair and Director effective April 11, 2011.

On April 8, 2011, (effective April 11, 2011) the Board also terminated the services agreement with a company owned by a Director, which was for the purposes of fulfilling the role of Interim President and CEO. Also on April 11, 2011, the Director submitted his resignation effective May 11, 2011.

On April 12, 2011, the Board appointed two new Directors to the Board and designated one of the new Directors as its Chair. Also on April 12, 2011, the Board appointed the Vice President Finance to act in the capacity of Interim President and CEO until a permanent replacement is found.

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2011 and 2010

(expressed in Canadian dollars)

SELECTED QUARTERLY DATA (UNAUDITED)

The table below represents financial data of the Company for each of the eight fiscal quarters ended February 28, 2011.

In thousands of Canadian dollars

For the three months ended	February 28, 2011	November 30, 2010	August 31, 2010	May 31, 2010
Revenue	\$ 2,690	\$ 4,587	\$ 2,831	\$ 2,753
Gross profit	899	2,083	666	1,078
Gross profit percentage	33%	45%	24%	39%
Net (loss) from continuing operations	(1,217)	(480)	(883)	(1,123)
Net income (loss) from discontinued operations	(67)	(24)	(126)	373
Net (loss) available to common shareholders	(1,284)	(504)	(1,009)	(750)
Basic	(1,351)	(571)	(1,082)	(838)
Diluted	(1,351)	(571)	(1,082)	(838)
Earnings (loss) per share – basic and diluted				
Continuing operations	(0.02)	(0.01)	(0.02)	(0.02)
Discontinued operations	-	(0.00)	(0.00)	0.01
Net earnings (loss)	(0.02)	(0.01)	(0.02)	(0.01)
For the three months ended	February 28, 2010	November 30, 2009	August 31, 2009	May 31, 2009
Revenue	\$ 3,330	\$ 3,992	\$ 4,893	\$ 4,885
Gross profit	1,193	1,083	1,823	1,565
Gross profit percentage	36%	27%	37%	32%
Net income (loss) from continuing operations	2,377	(5,293)	(545)	(1,115)
Net income (loss) from discontinued operations	(295)	(420)	282	77
Net income (loss) available to common shareholders	2,082	(5,713)	(263)	(1,038)
Basic	1,951	(5,860)	(410)	(1,192)
Diluted	2,082	(5,860)	(410)	(1,192)
Earnings (loss) per share – basic and diluted				
Continuing operations	0.05	(0.11)	(0.01)	(0.02)
Discontinued operations	-	(0.01)	0.00	0.00
Net earnings (loss)	0.05	(0.12)	(0.01)	(0.02)

OSI Geospatial Inc.

Management's Discussion and Analysis
For the three months ended February 28, 2011 and 2010
(expressed in Canadian dollars)

CRITICAL ACCOUNTING POLICIES

These items are substantially unchanged as discussed in the Company's MD&A for the year ended November 30, 2010, as contained in our 2010 Annual Report filed on SEDAR at www.sedar.com.

International Financial Reporting Standards

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 prepare its interim and annual consolidated financial statements in accordance with IFRS for the periods beginning on or after December 1, 2011, and will be required to provide information that conforms to IFRS for the comparative periods presented.

The Company commenced the process to transition from current Canadian GAAP to IFRS in 2009. We have engaged third-party consultants to assist us in this process. Progress reports are provided to the audit committee on the status of the IFRS implementation project on a quarterly basis.

A preliminary diagnostic review and preliminary assessment of accounting impact was completed by the third-party consultants. The diagnostic review and preliminary assessment included the determination, at a high level, of the financial reporting differences under IFRS and the key areas that may be impacted. The major areas of focus identified by the assessment include first year implementation decisions, impairment, share-based payments, government assistance, and financial statement presentation and disclosure. The final impact of the conversion on the Company's financial statements cannot be reasonably determined at this time.

The Company will continue to monitor results from the existing conversion plan, as well as ongoing changes to IFRS, and adjust its transition and implementation plans accordingly.

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, 2011, the Company we had no foreign exchange forward contracts.

OSI Geospatial Inc.

Management's Discussion and Analysis

For the three months ended February 28, 2011 and 2010

(expressed in Canadian dollars)

DISCLOSURE OF OUTSTANDING SHARE DATA

As at February 28, 2011, we had 53,031,494 issued and outstanding common shares and 3,235,000 outstanding stock options. As at February 28, 2011, we also had 30,262 issued and outstanding Class A preference shares and 76,529 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 4,531,968 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*. As such, the Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings is recorded, processed, summarized and reporting within the time specified in the Canadian Securities Administrators rules and forms.

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 control 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 control 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 control over financial reporting is that established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Because of the inherent limitations of internal control 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 control 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.

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, 2010, as contained in our 2010 Annual Report filed on SEDAR at www.sedar.com.

OSI Geospatial Inc.

Interim Consolidated Financial Statements (Unaudited)
Three Months Ended February 28, 2011 and 2010
(expressed in Canadian dollars)

(Prepared in accordance with Canadian Generally Accepted Accounting Principles)

Notice of No Review by Auditors:

In accordance with *National Instrument 51-102 Continuous Obligations of the Canadian Securities Administrators*, **we hereby give notice that** the financial statements of OSI Geospatial Inc. for the three month period ended February 28, 2011, which follow this notice, have been prepared by and are the responsibility of the Company's management, and have not been reviewed by our auditors.

OSI Geospatial Inc.

(Incorporated under the laws of the Province of British Columbia, Canada)
Interim Consolidated Balance Sheets (unaudited)

In thousands of Canadian dollars	February 28, 2011	November 30, 2010	
Assets			
Current assets			
Cash and cash equivalents	\$ 1,470	\$ 758	
Restricted cash	243	513	
Accounts receivable and unbilled revenue	2,804	3,522	
Income taxes recoverable	115	131	
Inventory	901	921	
Prepaid expenses and deposits	456	292	
Current portion of future income tax asset	-	101	
Current assets held-for-sale (note 5)	-	2,812	
	<hr/>	<hr/>	
	5,989	9,050	
Restricted cash	61	61	
Deferred development costs	561	551	
Future income tax asset	259	124	
Equipment and furnishings	956	1,025	
Intangible and other assets	302	314	
Goodwill	3,983	4,198	
	<hr/>	<hr/>	
	\$ 12,111	\$ 15,323	
Liabilities			
Current liabilities			
Factored advances payable	\$ -	\$ 325	
Accounts payable and accrued liabilities	2,292	2,929	
Unearned revenue	890	310	
Current portion of capital lease obligations	18	25	
Current portion of deferred rent	41	41	
Current portion of accrued loss on sublease	113	134	
Current liabilities held-for-sale (note 5)	-	1,190	
	<hr/>	<hr/>	
	3,354	4,954	
Capital lease obligation	26	28	
Unearned revenue	-	65	
Deferred rent	209	219	
Accrued loss on sublease	234	234	
	<hr/>	<hr/>	
	3,823	5,500	
Contingency (note 12)			
Shareholders' Equity			
Issued and outstanding			
Class A, Series A preference shares	30	30	
Class B, Series 2 preference shares (note 6)	2,457	2,457	
Common shares	31,112	31,112	
	<hr/>	<hr/>	
	33,599	33,599	
Contributed surplus	9,803	9,765	
Accumulated deficit	(33,312)	(32,025)	
Accumulated other comprehensive loss	(1,802)	(1,516)	
	<hr/>	<hr/>	
	8,288	9,823	
	<hr/>	<hr/>	
	\$ 12,111	\$ 15,323	
On behalf of the Board			
<hr/>		<hr/>	
<i>"Mark Rivers"</i>	Director	<i>"Steve Barnett"</i>	Director

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

OSI Geospatial Inc.

Interim Consolidated Statements of Operations and Deficit (unaudited)

In thousands of Canadian dollars, except share related data	Three months ended February 28,	
	2011	2010
Revenue		
Maritime navigation and tactical solutions	\$ 1,200	\$ 1,406
Advanced technology research and development	1,490	1,924
	<u>2,690</u>	<u>3,330</u>
Cost of sales	1,791	2,137
Gross profit	<u>899</u>	<u>1,193</u>
Expenses (income)		
General and administrative	882	1,139
Sales and marketing	345	593
Engineering	274	176
Amortization	77	79
Interest expense	10	38
Foreign exchange loss (gain)	18	(10)
Technology Partnerships Canada royalty	60	69
	<u>1,666</u>	<u>2,084</u>
Loss before other items	(767)	(891)
Other items recovery (expenses)		
Gain on sale of intellectual property (note 11)	-	5,227
Restructuring costs (note 7)	(410)	-
Loss on lease termination (note 7)	(56)	-
Loss on disposal of furniture and fixture (note 7)	(20)	-
Net income (loss) before income taxes	<u>(1,253)</u>	<u>4,336</u>
Future income tax expense	9	888
Current income tax expense (recovery)	(45)	1,071
Income tax expense (recovery)	<u>(36)</u>	<u>1,959</u>
Net income (loss) from continuing operations	(1,217)	2,377
Net loss from discontinued operations (note 5)	(67)	(295)
Net income (loss)	<u>(1,284)</u>	<u>2,082</u>
Accumulated deficit, beginning of period	(32,025)	(31,838)
Dividends on Class B preference shares	(3)	(3)
Accumulated deficit, end of period	<u>\$ (33,312)</u>	<u>\$ (29,759)</u>
Net income (loss) available to common shareholders (note 6)		
Basic	\$ (1,351)	\$ 1,951
Diluted	(1,351)	2,082
Basic earnings (loss) per share (note 6)		
Continuing operations	\$ (0.02)	\$ 0.05
Discontinued operations	-	-
Net income (loss)	(0.02)	0.05
Diluted earnings (loss) per share (note 6)		
Continuing operations	\$ (0.02)	\$ 0.04
Discontinued operations	-	-
Net income (loss)	(0.02)	0.04
Weighted average number of common shares outstanding (note 6)		
Basic	53,031,494	48,733,766
Diluted	53,031,494	57,659,553

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

OSI Geospatial Inc.

Interim Consolidated Statements of Comprehensive Income (Loss) (unaudited)

In thousands of Canadian dollars	Three months ended February 28,	
	2011	2010
Net income (loss)	\$ (1,284)	\$ 2,082
Other comprehensive income (loss), net of taxes		
Unrealized gain (loss) on translation of self-sustaining foreign operations	(286)	9
Comprehensive income (loss)	<u>\$ (1,570)</u>	<u>\$ 2,091</u>

OSI Geospatial Inc.

Interim Consolidated Statements of Accumulated Other Comprehensive Income (Loss) (Unaudited)

In thousands of Canadian dollars	Three months	Year ended
	ended February 28, 2011	November 30, 2010
Accumulated other comprehensive loss beginning of the period	\$ (1,516)	\$ (1,356)
Unrealized loss on translating financial statements of self-sustaining foreign operations	(286)	(160)
Accumulated other comprehensive loss, end of period	<u>\$ (1,802)</u>	<u>\$ (1,516)</u>

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

OSI Geospatial Inc.

Interim Consolidated Statements of Cash Flows (unaudited)

In thousands of Canadian dollars	Three months ended February 28,	
	2011	2010
Cash flows from (used in) operating activities		
Net income (loss) for the period	\$ (1,217)	\$ 2,377
Items not affecting cash		
Amortization	102	100
Gain on disposal of intellectual property	-	(5,227)
Stock-based compensation	38	28
Loss of disposal of furniture and fixtures	20	-
Future income taxes (recovery) expense	9	888
	<u>(1,048)</u>	<u>(1,834)</u>
Changes in non-cash operating working capital items		
Accounts receivable	718	2,320
Inventory	20	86
Prepaid expenses and deposits	(164)	(65)
Income taxes receivable	16	-
Accounts payable and accrued liabilities	(73)	(1,771)
Income taxes payable	-	1,068
Accrued loss on sublease	(21)	-
Deferred rent	(10)	(58)
Unearned revenue	171	(299)
	<u>657</u>	<u>1,281</u>
Cash used in continuing operations	<u>(391)</u>	<u>(553)</u>
Cash used in discontinuing operations	<u>(134)</u>	<u>(936)</u>
Cash used in operating activities	<u>(525)</u>	<u>(1,489)</u>
Cash flows from (used in) investing activities		
Restricted cash	270	(638)
Development costs deferred	(10)	(25)
Additions to equipment and furnishings	(21)	(17)
Proceeds from sale of discontinued operations	1,403	-
Proceeds from disposal of intellectual property and related tangible assets, net of costs to dispose	-	5,444
	<u>1,642</u>	<u>4,764</u>
Cash flows used in financing activities		
Repayment of bank indebtedness	-	(599)
Factored advances payable	(325)	(165)
Repayment of capital lease obligation	(9)	(20)
Class B preference share dividends declared and paid	(3)	(3)
	<u>(337)</u>	<u>(787)</u>
Effect of foreign exchange on cash balances	<u>(68)</u>	<u>42</u>
Increase in cash and cash equivalents	<u>712</u>	<u>2,530</u>
Cash and cash equivalents – beginning of period	<u>758</u>	<u>315</u>
Cash and cash equivalents – end of period	<u>\$ 1,470</u>	<u>\$ 2,845</u>
Supplemental cash flow information:		
Cash interest paid	\$ (9)	\$ (43)
Cash income taxes paid	-	(1)

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

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2011 and 2010

1 Nature of operations

OSI Geospatial delivers integrated navigation and tactical solutions that meet naval and maritime security operational requirements. These solutions include our Warship Electronic Chart Display and Information System (ECPINS®-W/S), Tactical Asset Control and Tracking System (TACTS), Integrated Navigation and Tactical System (INTS) and security risk assessment consulting services. In addition, OSI Geospatial provides advanced technology research and development engineering services in support of the military and security requirements. OSI Geospatial conducts its operations through two business units – International Systems and U.S. Systems.

In February 2011, the Company relocated its headquarters to Burnaby, British Columbia from Ottawa, Ontario while still maintaining a regional sales office in Ottawa. The Company also has regional offices in Portsmouth, England, Fort Washington, Pennsylvania, and Orlando, Florida.

2 Basis of presentation

These unaudited interim consolidated financial statements have been prepared by management and include the accounts of OSI Geospatial Inc. and its subsidiaries, collectively referred to as OSI Geospatial or the Company. These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) and follow the same accounting policies and methods set out in note 4 to the audited consolidated financial statements for the year ended November 30, 2010. Accordingly, they do not include all the information and footnote disclosures required by Canadian GAAP for complete financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the Company’s audited annual consolidated financial statements for the year ended November 30, 2010.

All amounts have been expressed in thousands of Canadian dollars unless otherwise noted.

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.

These unaudited interim consolidated financial statements are prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Certain conditions and uncertainties cast doubt about the validity of this assumption. The Company has a history of recurring losses and has an accumulated deficit of \$33 million. Notwithstanding, the Company expects that its level of working capital should be sufficient to fund future operations for a period greater than twelve months with limited or no use of its credit facilities.

The ability of the Company to continue as a going concern and meet its commitments and ongoing operating expenses is dependent on achieving profitable operations, and/or obtaining necessary levels of financing. There is no assurance that the Company will be successful in achieving these goals and these uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern.

These unaudited interim consolidated financial statements do not include any adjustments to the carrying value of assets and liabilities, and changes to balance sheet classifications that might be necessary should the Company not continue as a going concern and these adjustments and reclassifications could be material.

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2011 and 2010

3 Accounting changes

International Financial Reporting Standards

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 working through an IFRS implementation project.

4 Credit facilities

At February 28, 2011, the Company had total borrowing capacity under its Canadian accounts receivable factoring arrangement of \$2.0 million. Under the terms of the factoring agreement, the Company may be requested to repay any amounts owing plus applicable interest. The fees charged under this agreement are: a) discount equal to discount percentage as set forth in the applicable schedule; b) 18.25% interest on any receivables that are required to be repurchased, payable from the designated due date until payment is made; and c) per diem equal to discount factor as set forth in the applicable schedule for any receivable not collected, payable from the designated due date until full payment of receivable is received. The financial institution is not entitled to both the interest and the per diem on any given day in respect of the same receivable. The credit facility is secured by a general assignment of accounts covering substantially all of the Company's present and future Canadian accounts receivable, claims and interests. This arrangement is being recorded as a financing from the factoring company and factoring costs are being charged to operations as incurred. At February 28, 2011, the amount advanced under this facility was \$nil (November 30, 2010 - \$325,000).

At February 28, 2011, the Company's subsidiary, CHI Systems Inc. ("CHI"), had borrowing capacity under an accounts receivable factoring arrangements with a U.S. financial institution. Under the terms of the factoring agreement, CHI shall repurchase the accounts that remain unpaid because of certain events as specified in the agreement. Fees charged under this agreement are a servicing fee of 0.275% for the first 15 days, 0.293% after 15 days and a daily discount fee of 0.0132%. The daily discount fee is the prime rate as published in The Wall Street Journal on the purchase date plus 1.5% per annum. This arrangement is being recorded as a financing from the factoring company and factoring costs are being charged to operations as incurred. The facility is secured by a security agreement covering substantially all of CHI's present and future property and interests. At February 28, 2011, the amount advanced under this facility was \$nil (November 30, 2010 - \$nil).

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 February 28, 2011, the foreign exchange facility would enable the Company to enter into U.S. dollar denominated forward foreign exchange contracts for approximately \$5 million (November 30, 2010 - \$5 million). This facility is insured through insurance solutions provided by Export Development Canada. As at February 28, 2011, the Company has drawn on its forward foreign exchange contract facility in the amount of \$nil (November 30, 2010 - \$nil).

5 Assets held-for-sale and discontinued operations

On January 31, 2011, the Company closed the sale of Mapping business unit for a selling price of \$1,150,000 plus a working capital adjustment which was determine to be \$250,000 payable at February 28, 2011. As such, this business unit has been considered as an operation held-for-sale and presented as discontinued operations as at February 28, 2011. Assets and liabilities have been reclassified as assets held-for-sale and liabilities related to assets held-for-sale; and revenues and expenses related have been reclassified from

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2011 and 2010

continuing operations to discontinued operations for all reporting years. A loss of \$233,000 has been recorded in fiscal 2010 based on the excess of the carrying value over the expected proceeds in the loss from operations.

The results of the discontinued operations are as follows:

In thousands of Canadian dollars	Three months ended February 28,	
	2011	2010
Sales	\$ 344	\$ 114
Gross profit (loss)	101	(87)
Loss from operations	(67)	(295)
Net loss from discontinued operations	(67)	(295)
Basic and diluted net loss from discontinued operations per share	-	-

The assets and liabilities of the discontinued operations have been reclassified and are presented as assets held-for-sale and liabilities related to assets held-for-sale as follows:

In thousands of Canadian dollars	February 28,	November 30,
	2011	2010
Current assets	\$	\$
Cash	-	90
Accounts receivable	-	2,432
Prepaid expenses	-	9
Equipment and furnishings	-	206
Intangible and other assets	-	75
Current assets held-for-sale	\$ -	\$ 2,812
Liabilities		
Accounts payable and accrued liabilities	\$ -	\$ 1,190
Current liabilities related to assets held-for-sale	\$ -	\$ 1,190

6 Capital stock

a) Class B, Series 2 preference shares and common shares

During the three months ended February 28, 2011, no Class B Series 2 preference shares were converted.

During the three months ended February 28, 2010, 66,861 Class B series 2 preference shares (2009 – nil) were converted into 3,932,999 common shares. Accordingly, the Class B series 2 preference shares were reduced by \$2,146,000, the carrying value of the shares converted. The common shares were increased by \$893,000 and the contributed surplus was increased by \$1,253,000.

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2011 and 2010

b) Stock option plans

A summary of the outstanding and exercisable options of the Company's stock option plans at February 28, 2011 is as follows:

In Canadian dollars

	Number of options	Weighted average exercise price
Outstanding at November 30, 2010	3,710,000	\$0.29
Forfeited	(475,000)	0.32
Outstanding at February 28, 2011	3,235,000	\$0.29
Exercisable at February 28, 2011	1,966,648	\$0.34

Stock-based compensation

For the three months ended February 28, 2011, the Company incurred non-cash stock-based compensation expense of \$38,000 (three months ended February 28, 2010 - \$28,000). No options were granted during the three months ended February 28, 2011 (three months ended February 28, 2010 - 525,000). The expense was included in general and administrative costs and the offsetting amount was recorded in contributed surplus.

c) Income (loss) per share - basic

In thousands of Canadian dollars, except share related data

For the three months ended February 28,

	2011	2010
Income (loss) from continuing operations	\$ (1,217)	\$ 2,377
Less:		
Class B Series 2 preference share dividends (*A)	(67)	(131)
Income (loss) available to common shareholders	(1,284)	2,246
Net loss from discontinued operations	(67)	(295)
Net income (loss) available to common shareholders	\$ (1,351)	\$ 1,951
Weighted average number of common shares outstanding – basic	53,031,494	48,733,766
Income (loss) per share – basic		
Continuing operations	\$ (0.02)	\$ 0.05
Discontinued operations	-	-
Net income (loss)	\$ (0.02)	\$ 0.05

(*A) Dividends for the three months ended February 28, 2011, of \$67,000 (February 28, 2010 - \$131,000) are included which represent the dividends earned by the shareholders of the Class B Series 2 cumulative preference shares. As at February 28, 2011, there were \$1,649,000 (February 28, 2010 - \$1,351,000) of dividends in arrears for the Class B, Series 2 cumulative preference shares.

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d) Income (loss) per share - diluted

In thousands of Canadian dollars, except share related data	For the three months ended February 28,	
	2011	2010
Income (loss) from continuing operations	\$ (1,217)	\$ 2,377
Less:		
Class B Series 2 preference share dividends (*A)	(67)	-
Income (loss) available to common shareholders	(1,284)	2,377
Net loss from discontinued operations	(67)	(295)
Net income (loss) available to common shareholders	\$ (1,351)	\$ 2,082
Weighted average number of common shares outstanding	53,031,494	48,733,766
Dilutive effect of Class A preference shares – Series A (*B)	-	30,262
Dilutive effect of Class B preference shares – Series 2 (*B)	-	8,799,431
Dilutive effect of stock options (*B)	-	96,094
Adjusted weighted average number of common shares outstanding	53,031,494	57,659,553
Income (loss) per share – diluted		
Continuing operations	\$ (0.02)	\$ 0.04
Discontinued operations	-	-
Net income (loss)	\$ (0.02)	\$ 0.04

(*A) Dividends for the three months ended February 28, 2011, of \$73,000 (February 28, 2010 - \$nil) are included which represent the dividends earned by the shareholders of the Class B Series 2 cumulative preference shares. As at February 28, 2011, there were \$1,649,000 (February 28, 2010 - \$1,351,000) of dividends in arrears for the Class B, Series 2 cumulative preference shares.

(*B) The Class A preference shares – Series A, Class B preference shares Series 2, and stock options were anti-dilutive for the purposes of calculating diluted earnings per share for the quarter ended February 28, 2011.

7 Restructuring charges

During the quarter ended February 28, 2011, the Chief Executive Officer was removed. The contractual severance obligation was \$450,000 though this was negotiated down to \$410,000.

In addition, the finance and administrative functions were relocated from Ottawa to Vancouver and the Ottawa office was closed and the lease was terminated. The lease termination costs related to the shutdown amounted to \$56,000. In conjunction with the lease termination, the Company also disposed of furniture and fixtures with a net book value of approximately \$20,000.

8 Financial instruments

The Company has exposure to the following risks from its use of financial instruments: credit, market, and liquidity risks. 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 cash, accounts

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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, 2011, 94% (November 30, 2010 – 67%) of its accounts receivable were with national and international government clients (or through large prime contractors for the benefit of government clients and 3% (November 30, 2010 – 25%) of its accounts receivable was from large international public companies. Due to the low risk nature of the government clients and a history of excellent collections, provisions for doubtful accounts are made on a customer by customer basis, based on ongoing customer discussions.

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

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

In thousands of Canadian dollars

	February 28, 2011	November 30, 2010
Cash	\$ 1,470	\$ 758
Restricted cash	304	574
Trade accounts receivable	1,805	1,953
Unbilled revenue	965	1,560
Other	42	17
Allowance for doubtful accounts	(8)	(8)
	\$ 4,578	\$ 4,854

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

In thousands of Canadian dollars

	February 28, 2011	November 30, 2010
Current	\$ 1,717	\$ 1,890
Past due (61 - 90 days)	4	9
Past due greater than 90 days	84	54
	\$ 1,805	\$ 1,953

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.

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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. Changes in fair value of these contracts are recognized as gains or losses in the consolidated statement of operations. There were no foreign exchange forward contracts in place at either February 28, 2011, or November 30, 2010.

Interest rate risk

The Company is exposed to interest rate risk on its variable interest credit facility. A 1% increase (decrease) in the interest rate would have resulted in approximately \$1,000 increase (decrease) in the loss of the Company for the three months ended February 28, 2011 (three months ended February 28, 2010 – \$6,000).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet liabilities when due. The Company has an accounts receivable factoring credit facility of \$2.0 million in Canada and a variable limit in the U.S. that is based on the outstanding accounts receivable of the U.S. operations. At February 28, 2011, the Company was not utilizing its credit facilities (November 30, 2010 - \$325,000). 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, 2011, 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	\$ 2,059	369	892	447	351
Capital equipment leases	44	16	22	6	-
Operating equipment leases	18	18	-	-	-
Total contractual obligations	\$ 2,121	403	914	453	351

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Fair values

a) Establishing fair value

The Company's financial instruments consist of cash, 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, 2011, and November 30, 2010.

The carrying amounts of each of the financial instruments are:

In thousands of Canadian dollars

	February 28, 2011	November 30, 2010
Held-for-trading		
Cash	\$ 1,470	\$ 758
Restricted cash	304	574
Loans and receivables		
Trade accounts receivable	1,805	1,953
Other liabilities		
Factored advances payable	-	(325)
Accounts payable and accrued liabilities	(2,292)	(2,929)
Capital lease obligation	(44)	(53)

b) Fair value hierarchy

Financial instruments recorded at fair value on the consolidated balance sheet are classified using the fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset and liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

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.

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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, factored advances payable 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 in note 4.

In thousands of Canadian dollars

	February 28, 2011	November 30, 2010
Factored advances payable	\$ -	\$ 325
Capital lease obligation	44	53
Total debt	<u>\$ 44</u>	<u>\$ 378</u>
Total equity	\$ 8,288	\$ 9,823
Less accumulated other comprehensive loss	1,802	1,516
Net equity	<u>\$ 10,090</u>	<u>\$ 11,339</u>

10 Segmented information

The Company operates in three segments: International Systems Operations, U.S. Systems 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:

	February 28, 2011			
	International Systems Operations	U.S. Systems Operations	Corporate and Public Company	Total
Revenue	\$ 1,096	\$ 1,594	\$ -	\$ 2,690
Gross profit	535	364	-	899
Technology Partnerships Canada	60	-	-	60
Interest expense	1	1	8	10
Amortization	52	20	5	77
Gain on sale of intellectual property	-	5,227	-	5,227
Income tax (recovery)	-	(36)	-	(36)
Net income (loss) from continuing operations	(251)	81	(1,047)	(1,217)
Equipment and furnishings expenditures/ disposals expenditures	31	12	(22)	21

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In thousands of Canadian dollars

	February 28, 2010			
	International Systems Operations	U.S. Systems Operations	Corporate and Public Company	Total
Revenue	\$ 1,215	\$ 2,115	\$ -	\$ 3,330
Gross profit	644	549	-	1,193
Technology Partnerships Canada	69	-	-	69
Interest expense	7	5	26	38
Amortization	46	48	6	100
Income tax expense	-	1,959	-	1,959
Net income (loss) from continuing operations	(220)	3,060	(463)	2,377
Equipment and furnishings expenditures	-	10	-	10

In thousands of Canadian dollars

Total assets employed from continuing operations	International Systems Operations	U.S. Systems Operations	Corporate and Public Company	Total
As at February 28, 2011	\$ 4,865	\$ 6,502	\$ 744	\$ 12,111
As at November 30, 2010	\$ 4,621	\$ 7,321	\$ 569	\$ 12,511

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

In thousands of Canadian dollars

	Three months ended February 28,	
	2011	2010
United States	\$ 1,447	\$ 2,116
Australia	292	254
United Kingdom	414	412
Netherlands	-	122
Canada	236	55
New Zealand	159	64
Other	142	307
Total	\$ 2,690	\$ 3,330

Geographically, equipment and furnishings and intangible and other assets are reported based on location. At February 28, 2011, and November 30, 2010, 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, 2011		
	Canada	U.S.	Total
Equipment and furnishings	\$ 875	\$ 81	\$ 956
Intangible and other assets	246	56	302
Goodwill	-	3,983	3,983
Total	\$ 1,121	4,120	5,241

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In thousands of Canadian dollars

		November 30, 2010		
	Canada	U.S.	Total	
Equipment and furnishings	\$ 928	\$ 97	\$	1,025
Intangible and other assets	242	72		314
Goodwill	-	4,198		4,198
Total	\$ 1,170	\$ 4,367	\$	5,537

11 Sale of soldier systems intellectual property

On February 1, 2010, the Company's U.S. Systems Operations signed a contract valued at U.S. \$6.5 million with Harris Corporation ("Harris"). Under the terms of this contract, OSI Geospatial sold all of its rights to its soldier systems intellectual property and transferred its San Diego-based employees, office and associated equipment, furniture and fixtures to Harris. This intellectual property is a non-core asset that is not aligned with the Company's maritime strategy. The net proceeds after corporate income taxes were approximately U.S. \$5.5 million.

Pursuant to the terms of the contract with Harris, U.S. \$500,000 was held in escrow on behalf of the Company for the purposes of, among other things, funding the payment of any indemnification obligations of the Company. 50% of the escrow fund will be released on the first year anniversary of the closing date and the other 50% will be released upon the expiration of the escrow period in September 2011. The escrow fund is included in restricted cash in the interim consolidated balance sheet.

12 Contingency

In January 2010, a claim for breach of contract and wrongful dismissal was filed against the Company by a former employee of the Company. The Company believes the claim is without merit and the Company has filed a counterclaim for breach of fiduciary obligations as an officer of the Company and contractual obligations under the former employee's Employment Agreement. The final outcome with respect to this claim and counterclaim cannot be predicted with certainty and no amount has been accrued in the financial statements.