

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	
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	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	
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	\$ 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	
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	3,354	4,954	
Capital lease obligation	26	28	
Unearned revenue	-	65	
Deferred rent	209	219	
Accrued loss on sublease	234	234	
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	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	
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	33,599	33,599	
Contributed surplus	9,803	9,765	
Accumulated deficit	(33,312)	(32,025)	
Accumulated other comprehensive loss	(1,802)	(1,516)	
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	8,288	9,823	
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	\$ 12,111	\$ 15,323	
On behalf of the Board			
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<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

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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.

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2011 and 2010

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

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2011 and 2010

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.

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2011 and 2010

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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Notes to the Interim Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2011 and 2010

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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Notes to the Interim Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2011 and 2010

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

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2011 and 2010

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

OSI Geospatial Inc.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three Months Ended February 28, 2011 and 2010

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.