



# MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three months ended February 28, 2011

**OSI Geospatial Inc.**

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## **OSI Geospatial Inc.**

Management's Discussion and Analysis  
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### **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](http://www.sedar.com) and is also available on the Company's investor web site at [www.osigeospatial.com](http://www.osigeospatial.com).

This management's discussion and analysis is dated April 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.

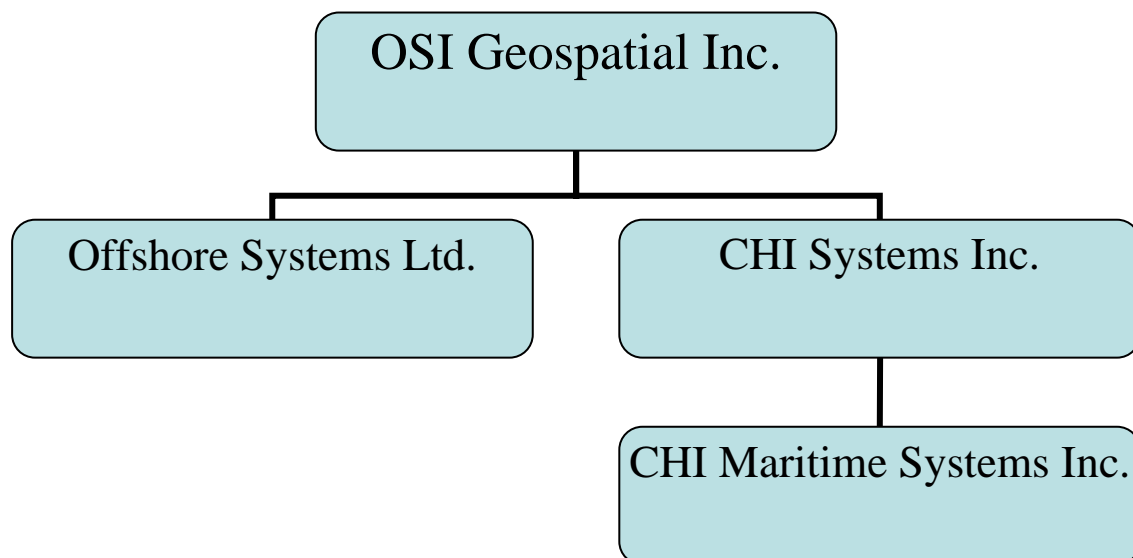
Headquartered in Burnaby, British Columbia, the Company is a globally-focused organization with offices across North America and a sales and support office in the United Kingdom. The Company became a public company in 1990, and is currently listed on the TSX Venture Exchange (symbol: OSI).

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.

<b>Operations:</b>	<b>For the three months ended February 28,</b>	
In thousands of Canadian dollars, except per share related data	<b>2011</b>	<b>2010*</b>
	<b>\$</b>	<b>\$</b>
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.

<b>Financial Position:</b>	<b>At February 28, 2011</b>	<b>At November 30, 2010</b>
In thousands of Canadian dollars		
	\$	\$
Working capital <sup>(1)</sup>	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					
<b>Maritime navigation and tactical solutions</b>	\$ 1,200	45	\$ 1,406	42	\$ (206)
<b>Advanced technology research and development</b>	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					
<b>International Systems operations</b>	\$ 1,096	41	\$ 1,215	36	\$ (119)
<b>U.S. Systems operations</b>	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			
<b>Gross profit</b>	\$ 899	\$ 1,193	\$ (294)
<b>Gross profit percentage</b>	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			
<b>Gross profit:</b>			
<b>International Systems operations</b>	\$ 535	\$ 644	\$ (109)
<b>U.S. Systems operations</b>	364	549	(185)
<b>Consolidated operations</b>	<u>\$ 899</u>	<u>\$ 1,193</u>	<u>\$ (294)</u>
<b>Gross profit percentage:</b>			
<b>International Systems operations</b>	20%	19%	1%
<b>U.S. Systems operations</b>	13%	17%	(4%)
<b>Consolidated operations</b>	<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
<b>General and administrative</b>	\$ 882	33%	\$ 1,139	34%	\$ (257)
<b>Engineering</b>	274	10%	176	5%	98
<b>Sales and marketing</b>	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			
<b>Amortization</b>	\$ 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			
<b>Interest expense</b>	\$ 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			
<b>Foreign exchange loss (gain)</b>	\$ 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			
<b>Royalty</b>	\$ 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
<b>Current assets</b>	\$ 5,989	\$ 9,050	\$ (3,061)
<b>Current liabilities</b>	3,354	4,954	(1,600)
<b>Working capital <sup>(1)</sup></b>	2,635	4,096	(1,461)

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

We strive to maintain cash contributing profitable operations that provide an adequate liquidity and capital resource base for growth. We believe that cash flow from operating activities, together with lines of credit borrowings 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			
<b>Cash flows provided by (used in):</b>			
<b>Operating activities</b>			
Continuing	\$ (391)	\$ (553)	\$ 162
Discontinued	(134)	(936)	802
<b>Investing activities</b>	1,642	4,764	3,122
<b>Financing activities</b>	(337)	(787)	450
<b>Effect of foreign exchange on cash</b>	(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.**

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### **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.**

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**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  
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### **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](http://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.**

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### **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](http://www.sedar.com).