MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three and six months ended May 31, 2008

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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 and six months ended May 31, 2008 in comparison with those for the three and six months ended May 31, 2007. 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 and six months ended May 31, 2008, and the audited annual consolidated financial statements for the year ended November 30, 2007 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, 2007.

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 U.S. dollars unless otherwise indicated.

This report contains forward-looking statements within the meaning of the Ontario Securities Act including Section 138.4(9) and U.S. securities laws including Section 27a of the Securities Act of 1933, as amended, and Section 21e of the Securities Exchange Act of 1934, as amended, including statements regarding the future achievement of corporate objectives, advancement of additional project interests, analysis and development of acquisition opportunities, various project interests and other matters. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these forward-looking statements. These risks include risks related to the effects of general economic conditions, changing foreign exchange rates, actions by government authorities, uncertainties associated with contract negotiations, and industry supply, as well as other factors discussed below and those risks which are discussed under the heading "Risks and Uncertainties". Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

ECPINS, COP-IDS and iGEN are registered trademarks of Offshore Systems Ltd., and CHI Systems Inc., subsidiaries of OSI Geospatial Inc. 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 is subject to change without notice.

Additional information relating to OSI Geospatial, including our Annual Information Form and our Form 20-F report is filed on SEDAR at www.sedar.com, on EDGAR at www.sec.gov, and is also available on the Company's investor web site at www.osigeospatial.com.

This management's discussion and analysis is dated July 8, 2008.

Overview

Founded in 1977, the Company is a leader in providing real-time situational awareness solutions. The Company delivers products and services to the large and fast-growing defence and security markets. Our systems address critical issues - namely the need for enhanced real-time situational awareness and network-enabled operations. In the changing face of war where interoperability between forces and allies is critical, OSI Geospatial provides essential tactical, strategic, and operational information to help aid decision-making, improve efficiency, and provide real-time access to all available information.

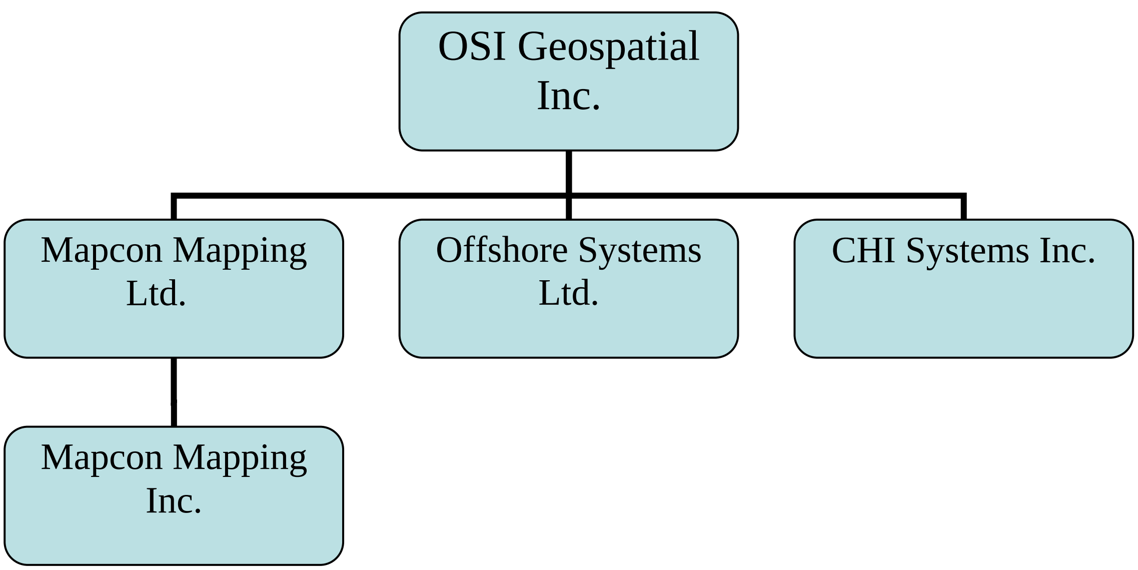
Headquartered in Ottawa, the Company is a globally focused organization with offices across North America and a sales office in the United Kingdom. The Company became a public company in 1990, and is currently listed on the Toronto Stock Exchange (symbol: OSI). We also are quoted on the Over the Counter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

In April 2005, the Company completed the acquisition of all the outstanding shares of Mapcon Mapping Consultants Inc. ("Mapcon") of Salt Lake City, Utah. Mapcon is a land mapping company in the U.S. geospatial mapping market.

In December 2005, the Company completed the acquisition of CHI Systems Inc. ("CHI"), a United States defence contractor. CHI has four offices in the United States, is a supplier of technology and services to the U.S. Department of Defense and key defence prime contractors. CHI has developed C2, training simulation and cognitive agent applications to support its customers in multiple U.S. military agencies.

In April 2007 the Company, through its subsidiary CHI Systems Inc., acquired the assets of Liddy International Inc. ("Liddy"), a United States defence and security consultancy company and has established a new division, Layered Security Solutions ("LSS"). The Company's LSS division is primarily focused on developing the U.S. homeland security market.

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



Our mission is to provide our customers in the military and security markets with quality geospatial products and services that will enhance operational performance, security and safety through real-time situational awareness. Our clients include the United States Navy, Army, Coast Guard, and Department of Homeland Security, the Canadian Navy and Coast Guard, the UK Royal Navy and other NATO allies around the world. The Company is leveraging our world leading technologies, such as ECPINS®, C3COR and iGEN™ to grow our market share, expand our customer base and enter into adjacent markets. We will also continue to partner with the world's largest defence and security contractors, such as Lockheed Martin, BAE Systems, Northrop Grumman, L-3 Communications, General Dynamics and Raytheon. As we successfully integrate our technology into the solution provided by the large defence systems integrators, we will significantly increase our reach into the defence and security markets around the world.

Our Company delivers systems and services that provide situational awareness solutions that meet maritime and land command and control requirements. These include our Warship Electronic Chart Display and Information System (ECPINS®-W), Warship Automated Identification Systems (W-AIS), Asset Control and Tracking systems (ACT) and Small Unit Situational Awareness system (SUSA).

Real-time situational awareness solutions are critical to mission execution. With the new face of war and the continuing threat of terror, OSI Geospatial's systems and services can provide the solutions that military, and security organizations need, including the essential tactical, strategic, and operational information that can be securely shared between forces, allies, and civilians to help ensure interoperability and mission success.

SELECTED DATA

The following tables contain financial information that is derived from the unaudited interim consolidated financial statements for the six months ended May 31, 2008.

Operations:	**For the six months ended May 31**	
In thousands of U.S. dollars except share related data	**2008**	**2007**
	$	**$**
Revenue	12,338	9,709
Gross profit	4,208	3,124
Gross profit percentage	34%	32%
Net loss	(1,674)	(2,355)
Net loss attributable to common shareholders	(1,988)	(2,737)
Loss per share – basic and diluted	(0.04)	(0.07)
Weighted average common shares outstanding – basic and diluted	46,956,439	38,248,619

Our quarterly results are primarily influenced by the level, timing, and duration of customer orders, and customer product delivery requirements. 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 results.

The higher gross profit and gross profit percentage for the six months ended May 31, 2008 as compared to the six months ended May 31, 2007 is largely due to the mix of revenue. The increase is due to the acquisition of the Layered Security Solutions ("LSS") business unit of U.S. Systems operations in April 2007. The margins earned on LSS's contracts are more favourable than other revenue streams of U.S. Systems operations. LSS's higher gross profit margins were offset somewhat with a decrease in high margin software revenue and more lower margin hardware and systems revenue generated by International Systems operations for the six months ended May 31, 2008 as compared to the six months ended May 31, 2007.

Fluctuations in gross profit are influenced by the proportion of engineering labour, third-party systems or third-party labour or portions of all three required for a project, and a high proportion of these factors can result in increased cost of sales and therefore lower gross profit. Certain contracts awarded may require the inclusion of engineering labour, third-party systems or third-party labour. In order to maintain competitiveness on these contracts, we may elect to reduce our usual margins on the third-party components.

Financial Position:	**At May 31, 2008**	**At November 30, 2007**
In thousands of U.S. dollars		
	$	$
Working capital[1]	5,660	7,818
Current assets	11,722	14,905
Long term assets	11,466	11,443
Total assets	23,188	26,348
Current liabilities	6,062	7,087
Long term liabilities	544	647
Total liabilities	6,606	7,734
Shareholders' equity	16,582	18,614

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

RESULTS OF OPERATIONS – Three and six months ended May 31, 2008 as compared to three and six months ended May 31, 2007

Overall Performance

Three months ended May 31		**2008**		**2007**		**2008 to 2007**
In thousands of U.S. dollars						
Net loss before income taxes	**$**	**(1,394)**	**$**	**(446)**	**$**	**(948)**
Net loss	**$**	**(1,141)**	**$**	**(366)**	**$**	**(775)**
Net loss attributable to common shareholders	**$**	**(1,455)**	**$**	**(748)**	**$**	**(707)**
Loss per share – basic and diluted		**(0.03)**		**(0.02)**		**(0.01)**

Six months ended May 31		**2008**		**2007**		**2008 to 2007**
In thousands of U.S. dollars						
Net loss before income taxes	**$**	**(2,021)**	**$**	**(2,363)**	**$**	**342**
Net loss	**$**	**(1,674)**	**$**	**(2,355)**	**$**	**681**
Net loss attributable to common shareholders	**$**	**(1,988)**	**$**	**(2,737)**	**$**	**749**
Loss per share – basic and diluted		**(0.04)**		**(0.07)**		**0.03**

The lower net loss reported for the six months ended May 31, 2008 compared to May 31, 2007 was largely driven by higher revenues, the mix of contracts executed in the period and higher gross profit. The higher gross profit is due to the margins earned on LSS's contracts which are more favourable than other revenue streams of U.S. Systems operations. LSS's higher gross profit margins were offset somewhat with a decrease in high margin software revenue and more lower margin hardware and systems revenue generated by International Systems operations for the six months ended May 31, 2008 as compared to the six months ended May 31, 2007.

Backlog

Firm backlog consists of firm, fixed, or signed orders issued and executable subsequent to the balance sheet date. Firm backlog as at May 31, 2008 was $51 million compared to $45 million at May 31, 2007. Of the $51 million firm backlog, $10 million is expected to be executed in fiscal 2008 and $41 million is expected to be executed in fiscal year 2009 and beyond.

Firm backlog is a non-GAAP measure. This measure does not have a standardized meaning or comparable GAAP measure and is likely not comparable to similar measures presented by other companies.

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. In Mapping operations, a government contract was terminated for convenience in the quarter ended February 29, 2008. The Company negotiated a settlement with the customer and the customer paid the negotiated settlement. We have included the full value of multi-year government contracts having a termination-for-convenience clause in firm backlog.

Revenue

Three months ended May 31		2008	% of total revenue		2007	% of total revenue		2008 to 2007
In thousands of U.S. dollars								
Marine systems	$	2,320	35	$	2,504	41	$	(184)
Land and air systems		2,470	38		2,259	37		211
Mapping		1,739	27		1,375	22		364
	$	6,529	100	$	6,138	100	$	391

Six months ended May 31		2008	% of total revenue		2007	% of total revenue		2008 to 2007
In thousands of U.S. dollars								
Marine systems	$	4,833	39	$	3,204	33	$	1,629
Land and air systems		5,261	43		4,607	47		654
Mapping		2,244	18		1,898	20		346
	$	12,338	100	$	9,709	100	$	2,629

Our core revenue stream is derived from three sources: marine systems, land and air systems, and mapping. In marine systems, our principal developed product, ECPINS®, delivers the majority of the marine systems revenue. We also derive revenue from the delivery of the ECPINS® software component of our system product. Marine systems delivered 39% and 33% of the revenue for the six months ended May 31, 2008 and May 31, 2007, respectively. Land and air systems through our U.S. Systems operations delivered 43% and 47% of the revenue for the six months ended May 31, 2008 and May 31, 2007, respectively. Mapping delivered 18% and 20% of the revenue for the six months ended May 31, 2008 and May 31, 2007, respectively.

Our results are primarily affected by the level, timing, and duration of customer orders and customer product delivery requirements. The main customers for our products and services in the six months ended May 31, 2008 were the Royal Australian Navy, the Department of Homeland Security, Defense Advanced Research Projects Agency and the Royal Navy of the U.K. Revenue from these customers accounted for 43% of the consolidated revenue. The main customers for our products and services for the six months ended May 31, 2007 were the U. S. Army, the U.S. Navy, the Defense Threat Reduction Agency, the Canadian Department of National Defence, and the Royal Navy of the U.K. Revenue from these customers accounted for 67% of the consolidated revenue.

Revenue by Segment

Three months ended May 31 In thousands of U.S. dollars		2008	% of total revenue		2007	% of total revenue		2008 to 2007
International Systems operations	$	2,303	35	$	2,444	40	$	(141)
U.S. Systems operations		2,487	38		2,319	38		168
Mapping operations		1,739	27		1,375	22		364
	$	6,529	100	$	6,138	100	$	391

Six months ended May 31 In thousands of U.S. dollars		2008	% of total revenue		2007	% of total revenue		2008 to 2007
International Systems operations	$	4,783	39	$	3,144	32	$	1,639
U.S. Systems operations		5,311	43		4,667	48		644
Mapping operations		2,244	18		1,898	20		346
	$	12,338	100	$	9,709	100	$	2,629

Revenue from the International Systems operations for the three months ended May 31, 2008 decreased by 6% and for the six months ended May 31, 2008 increased by 52% over the same periods from the prior year. The decrease in revenues for the three months ended May 31, 2008 is due to delays in the delivery and installation schedules for existing contracts signed in the prior year resulted in the deferral of revenue into future years. Changes in customer priorities also resulted in delays in the award of new contracts and contract amendments to the Company.

Revenue from the U.S. Systems operations for the three months ended May 31, 2008 increased by 7% and for the six months ended May 31, 2008 increased by 14% over the same periods from the prior year. These increases are mainly due to the acquisition of the Layered Security solutions business unit in April 2007. Delays in the approval of the U.S. federal budget caused a reduction of revenues in the three months ended May 31, 2007.

Revenue from the Mapping operations for the three months ended May 31, 2008 increased 26% and for the six months ended May 31, 2008 increased by 18% over the same periods from the prior year. These increases are due to the award of several large multi-year contracts to the Mapping operations and is also consistent with the nature and timing of mapping contracts.

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

Gross Profit

Three months ended May 31 In thousands of U.S. dollars		2008		2007		2008 to 2007
Gross profit	$	2,019	$	2,455	$	(564)
Gross profit percentage		31%		40%		(9)%

Six months ended May 31 In thousands of U.S. dollars		2008		2007		2008 to 2007
Gross profit	$	4,208	$	3,124	$	1,084
Gross profit percentage		34%		32%		2%

Gross profit decreased by 23% in the three months ended May 31, 2008 compared to the three months ended May 31, 2007 and the gross profit percentage was 9 percentage points lower period-over-period. Gross profit increased by 35% in the six months ended May 31, 2008 compared to the six months ended May 31, 2007 and the gross profit percentage was 2 percentage points higher period-over-period. The increased gross profit for the six months end May 31, 2008 compared to the prior fiscal year was mainly due to the acquisition of the Layered Security Solutions ("LSS") business unit in April 2007. The gross margins earned on LSS's contracts are more favourable compared to other revenue streams of U.S. Systems operations. LSS's higher gross profit margins were offset somewhat with a decrease in high margin software revenue and more lower margin hardware and systems revenue generated by International Systems operations for the six months ended May 31, 2008 as compared to the six months ended May 31, 2007.

Gross Profit by Segment

Three months ended May 31 In thousands of U.S. dollars		2008		2007		2008 to 2007
Gross profit:						
International Systems operations	$	828	$	1,547	$	(719)
U.S. Systems operations		724		444		280
Mapping operations		467		464		3
Consolidated operations	$	2,019	$	2,455	$	(436)
Gross profit percentage:						
International Systems operations		36%		63%		(27)%
U.S. Systems operations		29%		19%		10%
Mapping operations		27%		34%		(7)%
Consolidated operations		31%		40%		(9)%

Six months ended May 31 In thousands of U.S. dollars	2008	2007	2008 to 2007
Gross profit:			
International Systems operations	**$ 2,133**	**$ 1,584**	**$ 549**
U.S. Systems operations	**1,505**	**964**	**541**
Mapping operations	**570**	**576**	**(6)**
Consolidated operations	**$ 4,208**	**$ 3,124**	**$ 1,084**
Gross profit percentage:			
International Systems operations	**45%**	**50%**	**(5)%**
U.S. Systems operations	**28%**	**21%**	**7%**
Mapping operations	**25%**	**30%**	**(5)%**
Consolidated operations	**34%**	**32%**	**(7)%**

Gross profit from the International Systems operations decreased by $719,000 and gross profit percentage was 27% lower for the three months ended May 31, 2008 when compared to the three months ended May 31, 2007. Gross profit increased by $549,000 and gross profit percentage decreased 5% for the six months ended May 31, 2008 when compared to the six months ended May 31, 2007. The decrease in the second quarter of 2008 is the result of lower revenues in the International Systems operations and a decrease in high margin software revenue and more hardware and systems revenue compared to the three months ended May 31, 2007.

Gross profit from the U.S. Systems operations increased by $280,000 and gross profit percentage was 10% higher for the three months ended May 31, 2008 when compared to the three months ended May 31, 2007. Gross profit increased by $541,000 and gross profit percentage increased by 7% for the six months ended May 31, 2008 when compared to the six months ended May 31, 2007. This increase was due to higher margins in the three and six months ended May 31, 2008 compared to the three and six months ended May 31, 2007 as the result of the mix of contracts for the periods. The increase was mainly due to the acquisition of the Layered Security Solutions ("LSS") business unit in April 2007. The margins earned on LSS's contracts are more favourable compared to other revenue streams of U.S. Systems operations.

Gross profit from the Mapping operations increased by $3,000 and gross profit percentage was 7% lower for the three months ended May 31, 2008 when compared to the three months ended May 31, 2007. Gross profit decreased by $6,000 and gross profit percentage decreased by 5% for the six months ended May 31, 2008 when compared to the six months ended May 31, 2007. Gross profit percentages are influenced by the mix of projects executed. 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 relies 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 were the primary customer driver is quality will generally have higher margins than projects where the primary driver is price.

Operating Expenses

Three months ended May 31 In thousands of U.S. dollars		2008	% of total revenue		2007	% of total revenue		2008 to 2007
General and administrative	$	1,687	26%	$	1,452	24%	$	235
Engineering		308	5%		389	6%		(81)
Sales and marketing		1,168	18%		815	13%		353

Six months ended May 31 In thousands of U.S. dollars		2008	% of total revenue		2007	% of total revenue		2008 to 2007
General and administrative	$	2,947	24%	$	2,699	28%	$	248
Engineering		569	5%		870	9%		(301)
Sales and marketing		2,075	17%		1,595	16%		185

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 increased by 16% and 9% for three and six months ended May 31, 2008, respectively, compared to the three months and six months ended May 31, 2007. These increases in G&A are due to costs associated with the relocation of staff to corporate headquarters in Ottawa, Ontario, severance costs associated with restructuring and additional professional fees relating to responding to the Securities Exchange Commission (SEC) inquiry pertaining to software revenue recognition. The SEC completed their questions during the second quarter and there was no impact on the Company's reported results.

Engineering expenses consist mainly of salaries and benefits of software and hardware engineering personnel, sub-contractor costs, 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 decreased by 21% and 35% for the three and six months ended May 31, 2008, respectively, compared to the three and six months ended May 31, 2007. These decreases are due to capitalizing development-related costs of $247,000 for the six months ended May 31, 2008 and due to reallocation of wages to cost of sales based on contracted engineering services. We believe that in order to maintain our technological leadership, we must continue to develop existing products and introduce innovative new products that challenge and redefine the industry standards.

Sales and marketing ("S&M") expenses consist primarily of compensation of sales and marketing personnel, as well as expenses associated with advertising, trade shows, facilities, and other expenses related to the sales and marketing of our products and services.

S&M expenses increased by 43% and 12% for the three and six months ended May 31, 2008, respectively, compared to the three and six months ended May 31, 2007. The increases in S&M expenses are primarily due to additional sales and marketing emphasis. We believe our current level of S&M staff continues to allow us to pursue business development activities relating to our expansion efforts targeting new and existing customers in the military agencies of Canada, the U.S., European NATO, and other allies of Canada, and national and international commercial marine transportation companies. To increase our profile and our products, and to broaden our customer base in international markets, we have established marketing agreements with companies local to the targeted regions. Some of these activities will not result in closing orders during the current year but may yield orders in subsequent fiscal years.

Amortization

Three months ended May 31 In thousands of U.S. dollars		2008		2007		2008 to 2007
Amortization	$	168	$	84	$	84

Six months ended May 31 In thousands of U.S. dollars		2008		2007		2008 to 2007
Amortization	$	367	$	248	$	119

Total amortization increased by 100% and 48% on the three and six months ended May 31, 2008 as compared to the three and six months ended May 31, 2007. For the three months ended May 31, 2008 and 2007, a portion of the amortization, $53,000 and $50,000 respectively, was included in cost of sales for equipment used in revenue-generating activities. For the six months ended May 31, 2008 and 2007, a portion of the amortization, $103,000 and $103,000 respectively, was included in cost of sales for equipment used in revenue-generating activities.

Interest expense

Three months ended May 31 In thousands of U.S. dollars		2008		2007		2008 to 2007
Interest expense	$	41	$	5	$	36

Six months ended May 31 In thousands of U.S. dollars		2008		2007		2008 to 2007
Interest expense	$	65	$	27	$	38

Interest expense increased by $36,000 and $38,000 for the three and six months ended May 31, 2008, respectively, as compared to the three and six months ended May 31, 2007. These increases are due to the utilization of the Company's credit facility during the three and six months ended May 31, 2008 and due to the interest incurred on capital lease obligations.

Interest income

Three months ended May 31 In thousands of U.S. dollars		2008		2007		2008 to 2007
Interest income	$	-	$	8	$	(8)

Six months ended May 31 In thousands of U.S. dollars		2008		2007		2008 to 2007
Interest income	$	3	$	8	$	(5)

Interest income decreased 100% and 63% for the three and six months ended May 31, 2008, respectively, as compared to the three and six months ended May 31, 2007. The Company did not have surplus funds to invest during these periods.

Foreign Exchange

Three months ended May 31 In thousands of U.S. dollars	2008	2007	2008 to 2007
Foreign exchange loss	$ -	$ 107	$ (107)

Six months ended May 31 In thousands of U.S. dollars	2008	2007	2008 to 2007
Foreign exchange loss	$ 38	$ 22	$ 16

The Company's Canadian subsidiaries, whose functional currency is the Canadian dollar, are exposed to foreign exchange gain and loss due to exchange rate movements of the U.S. dollar, the Australian dollar and the UK pound. These fluctuations were not in the Company's favour during the six months ended May 31, 2008 as compared to May 31, 2007.

Technology Partnerships Canada

Three months ended May 31 In thousands of U.S. dollars	2008	2007	2008 to 2007
Royalty	$ 94	$ 107	$ (13)

Six months ended May 31 In thousands of U.S. dollars	2008	2007	2008 to 2007
Royalty	$ 246	$ 137	$ (109)

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

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

Although we believe that our submissions for TPC funding meet the terms and conditions of the TPC agreements, the final determination is subject to audit by government authorities in the ordinary course of business.

Income Taxes

Three months ended May 31 In thousands of U.S. dollars		2008		2007		2008 to 2007
Future income tax recovery	$	(38)	$	(19)	$	19
Current income tax recovery		(215)		(61)		154
		(253)		(80)		173

Six months ended May 31 In thousands of U.S. dollars		2008		2007		2008 to 2007
Future income tax recovery	$	(38)	$	(50)	$	(12)
Current income tax expense (recovery)		(309)		42		351
		(347)		(8)		339

Based on the information available at the time of the issue of the interim financial statements for the three and six months ended May 31, 2008, we estimated that we would not have sufficient taxable earnings in Canada in future periods to utilize a portion of our $4.1 million Canadian non-capital losses carried forward, $10.7 million scientific research and experimental development costs and other Canadian tax asset balances.

We have recognized a future tax recovery for the three and six months ended May 31, 2008 related to temporary timing differences between accounting income and income for tax purposes in our U.S. subsidiaries as we believe that it is more likely than not that these differences will be realized in future fiscal years. In accordance with Canadian GAAP, we have provided a valuation allowance against future tax assets where realization did not meet the requirements of "more likely than not" under the liability method of tax allocation. We continue to evaluate our taxable position quarterly and consider factors such as estimated taxable income, the history of losses for tax purposes, and the growth of the Company, among others.

For the three months ended May 31, 2008, a current income tax recovery was recognized. This current income tax recovery is mainly due to the reduction in the U.S. Systems operations taxable income.

LIQUIDITY AND CAPITAL RESOURCES - May 31, 2008 compared to November 30, 2007

In thousands of U.S. dollars		May 31, 2008		November 30, 2007	2008 to 2007
Current assets	$	11,722	$	14,905	(3,183)
Current liabilities		6,062		7,087	(1,125)
Working capital [1]		5,660		7,818	(2,058)

[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 of Canadian $2.0 million and U.S. $1.2 million available under our revolving credit facilities, will be sufficient to fund currently anticipated working capital, planned capital spending, and debt service requirements for the next 12 months.

At May 31, 2008 our current assets decreased primarily due to a decrease in accounts receivable. Our working capital has decreased mainly due to the decrease in accounts receivable offset by a decrease in accounts payable and accrued liabilities. Accounts receivable decreased due to collection of significant receivables. Accounts payable and accrued liabilities decreased due to one-time costs which were incurred in the fourth quarter ending November 30, 2007 including severance costs due to reorganization and accrual of estimated settlement costs relating to the lawsuit with Triathlon Ltd.

We have credit facilities consisting of operating lines, standby letters of credit, and forward exchange contract facilities. The credit facilities permit us to borrow funds directly for general corporate purposes, including acquisitions, at floating rates. At May 31, 2008, we had borrowings of $949,000 against our operating line. We have an operating line of Canadian $2.0 million available with a Canadian chartered bank collateralized by accounts receivable and U.S. $1.2 million with a U.S. chartered bank. We utilize our forward exchange contract facility to reduce our exposure to exchange rate movements.

Cash Flows

Three months ended May 31		2008		2007		2008 to 2007
In thousands of U.S. dollars						
Cash flows provided by (used in):						
Operating activities	$	(264)	$	411	$	(675)
Investing activities		(220)		(121)		(99)
Financing activities		501		(261)		762
Effect of foreign exchange on cash		(17)		(29)		(12)

Six months ended May 31		2008		2007		2008 to 2007
In thousands of U.S. dollars						
Cash flows provided by (used in):						
Operating activities	$	375	$	928	$	(553)
Investing activities		(441)		(170)		(271)
Financing activities		109		(738)		847
Effect of foreign exchange on cash		(43)		(20)		(23)

Cash flows used in operating activities for the three months ended May 31, 2008 were the result of the net loss for the three months ended May 31, 2008 which was reduced by amortization, stock-based compensation and by an increase in inventory offset by a decrease in accounts receivable, an increase in accounts payable and accrued liabilities and an increase in bank indebtedness.

Cash flows used in investing activities for the three months ended May 31, 2008 were primarily reflective of the acquisitions of equipment, furnishings and intangibles commensurate with our plans to obtain additional systems and facilities to accommodate our current and future anticipated growth.

Cash flows provided by financing activities for the three months ended May 31, 2008 were the result of an increase in the operating line of credit.

Cash flows provided by operating activities for the six months ended May 31, 2008 were the result of the net loss for the six months ended May 31, 2008 which was reduced by amortization, stock-based compensation and by a decrease in accounts receivable offset by a decrease in accounts payable and accrued liabilities and an increase in inventory.

Cash flows used in investing activities for the six months ended May 31, 2008 were primarily reflective of the acquisitions of equipment, furnishings and intangibles commensurate with our plans to obtain additional systems and facilities to accommodate our current and future anticipated growth.

Cash flows provided by financing activities for the six months ended May 31, 2008 were the result of an increase in the operating line of credit offset by the semi-annual dividends of November 30, 2007 on our Class B preference shares paid in December 2007.

As a result of the above mentioned changes, the line of credit utilization increased by $517,000 for the three months ended May 31, 2008, and increased by $502,000 for the six months ended May 31, 2008.

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 May 31, 2008, we had entered into forward exchange contracts in the amount of £800,000.

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

CONTRACTUAL OBLIGATIONS

Payments due by period	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
In thousands of U.S. dollars					
Facility leases	$ 4,287	$ 673	$ 1,470	$ 961	$ 1,183
Capital equipment leases	274	89	138	47	
Operating equipment leases	109	39	60	10	-
Total contractual obligations	$ 4,670	$ 801	$ 1,668	$ 1,018	$ 1,183

OFF BALANCE SHEET ARRANGEMENTS

<u>Guarantees</u>

The Company has entered into a one year guarantee for one of the Company's subsidiaries, CHI Systems, Inc. ("CHI"). The Company has guaranteed CHI's bank line of credit. The maximum potential amount of future payments the Company could be required to make under this guarantee is $1.2 million . At May 31, 2008, the carrying amount of the liability was $622,000 .

In January 2007, the Company signed a 10 year lease for new office facilities in Burnaby, British Columbia. It relocated its North Vancouver, British Columbia operations to Burnaby, British Columbia on August 1, 2007.

In April 2007, the Company signed a three year lease for new office facilities in Ottawa, Ontario. It opened the corporate head office in Ottawa on June 1, 2007.

We warrant that our software and hardware products will operate substantially in conformity with product documentation and that the physical media will be free from defect. The specific terms and conditions of the warranties are generally one year but may vary depending on the country in which the products are sold. We accrue for known warranty issues if a loss is probable and can be reasonably estimated, and accrue for estimated incurred but unidentified warranty issues based on historical activity. To date, we have had no material warranty claims.

TRANSACTIONS WITH RELATED PARTIES

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

PROPOSED TRANSACTIONS

The Company is not currently engaged in any proposed transactions.

SELECTED QUARTERLY DATA

In thousands of U.S. dollars

For the three months ended	May 31 2008	February 29 2008	November 30 2007	August 31 2007
Revenue	$ 6,529	$ 5,808	$ 8,276	$ 7,342
Gross profit	2,019	2,188	3,593	3,048
Gross profit percentage	31%	38%	43%	42%
Net earnings (loss)	(1,141)	(533)	(798)	279
Net earnings (loss) attributable to common shareholders	(1,455)	(692)	(960)	109
Loss per share – basic	(0.03)	(0.01)	(0.02)	0.00
Loss per share – diluted	(0.03)	(0.01)	(0.02)	0.00

For the three months ended	May 31 2007	February 28 2007	November 30 2006	August 31 2006
Revenue	$ 6,138	$ 3,571	$ 10,018	$ 4,714
Gross profit	2,455	669	5,461	1,801
Gross profit percentage	40%	19%	55%	38%
Net earnings (loss)	(366)	(1,989)	2,785	(311)
Net earnings (loss) attributable to common shareholders	(748)	(2,180)	2,560	(574)
Loss per share – basic	(0.02)	0.06	0.08	(0.02)
Loss per share – diluted	(0.02)	0.06	0.05	(0.02)

CRITICAL ACCOUNTING POLICIES

These items are substantially unchanged as discussed in the Company's MD&A for the year ended November 30, 2007 as contained in our 2007 Annual Report filed on SEDAR at www.sedar.com or our annual Form 20-F report filed on EDGAR at www.sec.gov .

RECENT ACCOUNTING PRONOUNCEMENTS

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

The CICA has issued CICA Handbook Section 3031 *Inventories* which will replace CICA 3030 *Inventories*. CICA 3031 will create changes from current practice, including the reversal of impairment write-downs, which is not permitted currently and more extensive disclosure. The section is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

The CICA has issued CICA Handbook Section 3064 Goodwill and Intangible Assets which replaces Section 3062 Goodwill and Other Intangibles and Section 3450 Research and Development Costs. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including the development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licenses, intellectual property, market knowledge and trademarks. This Section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008

The Company is assessing the impact on its consolidated financial statements of the above recent pronouncements.

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 May 31, 2008, the Company has entered into the following foreign exchange forward contracts, which were not treated as hedges in accordance with CICA Section 3865:

Sell	*Exchange rate in relation to CAD*	*Value date*
GBP 800,000	1.9533 to 1.9984	July 31, 2008 to March 25, 2009

DISCLOSURE OF OUTSTANDING SHARE DATA

As at June 30, 2008, we had 46,956,439 issued and outstanding common shares and 3,174,916 outstanding stock options. As at June 30, 2008, we also had 30,262 issued and outstanding class A preference shares and 178,530 issued and outstanding class B preference shares series 2 convertible into common shares at conversion ratios of 1:1 and 1:58.82353, respectively, which represents 10,501,765 common shares. Also at June 30, 2008, we had 15,175,067 outstanding common share purchase warrants convertible to common shares at a conversion ratio of 1:1, representing 15,175,067 common shares.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintained a set of disclosure controls and procedures during the three and six months ended May 31, 2008 designed to ensure that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in provincial securities legislation as defined under Multilateral Instrument 52-109. The Chief Executive Officer and the Chief Financial Officer have determined that there were no changes to the Company's disclosure controls and procedures during the three and six month period ended May 31, 2008 that have materially affected, or are reasonably likely to materially affect the design and operation of these disclosure controls and procedures.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company maintains internal controls over financial reporting which have been designed to provide reasonable assurance of the reliability of external financial reporting as required by Multilateral Instrument 52-109. The Chief Executive Officer and the Chief Financial Officer, along with other employees to the extent considered necessary and appropriate, have designed internal controls over financial reporting that are effective as at May 31, 2008.

Nonetheless, the Chief Executive Officer and the Chief Financial Officer have identified areas where the Company can enhance process controls and they intend to incorporate such enhancements into the internal controls over financial reporting during the current fiscal year. The Company employs entity level controls to compensate for any deficiencies that may exist. Under 52-109, the Chief Executive Officer and the Chief Financial Officer are not required to, and have not yet tested the actual effectiveness of the Company's internal controls over financial reporting.

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

RISKS AND UNCERTAINTIES

The primary risks and uncertainties that affect and may affect the Company and its business, financial condition and results of operations are substantially unchanged as discussed in the company's MD&A for the year ended November 30, 2007 as contained in our 2007 Annual Report filed on SEDAR at www.sedar.com or our annual Form 20-F filed on EDGAR at www.sec.gov.