



FOR IMMEDIATE RELEASE

OSI Geospatial Reports 2006 Third Quarter Financial Results

October 16, 2006
Vancouver, Canada

OSI Geospatial Inc. (TSX: OSI; OTCBB: OSIIF) announced today its financial results for the third fiscal quarter ended August 31, 2006. All amounts are reported in U.S. dollars and in accordance with U.S. GAAP.

For the third quarter of 2006, OSI Geospatial reported revenue of \$4.3 million, up from \$2.6 million for the same quarter in 2005. The \$1.7 million increase includes \$2.0 million in land and air systems revenue gained through the company's U.S. systems operations, and a \$210,000 increase in mapping revenue. Marine systems revenue decreased \$534,000 due to the timing of contract awards.

For the third quarter of 2006, the company reported a net loss of \$766,000 compared to a net loss of \$308,000 for the same quarter in 2005. The net loss in the third quarter of 2006 was primarily attributable to lower gross profits from the marine systems business and higher public company expenses. The net loss available to common shareholders was \$953,000 or \$0.03 per share for the third quarter of 2006 compared to the net loss available to common shareholders of \$1.0 million or \$0.04 per share in the prior year's quarter.

"In the third quarter we successfully closed on more than \$8.8 million in new business, with the majority coming from the U.S. defense market. Our expansion in the U.S. market is an extremely important aspect of our growth strategy," said Ken Kirkpatrick, president and CEO of OSI Geospatial. "We remain on track to meet our guidance and achieve all of our strategic objectives for fiscal 2006."

Third Quarter Highlights

- Signed \$2.3 million in contracts with the U.S. Army to provide its command and control technology
- Secured \$1.5 million in contracts with the U.S. Air Force for its training systems technology
- Awarded its first European commercial shipping order from Peter Dohle Schiffahrts of Hamburg, Germany
- Awarded the first new build commercial shipping order from Teekay Shipping Corporation of Vancouver, BC
- Signed a teaming agreement with L-3 Communications to pursue world-wide naval opportunities
- Signed \$1.4 million in contracts with the U.S. Army for its command and control technology
- Secured a \$1.9 million contract with the New Zealand Navy to provide maintenance and support for their navigation systems

Outlook

"Since the quarter's end, we have been awarded a \$3.8 million contract from the U.S. Defense Threat Reduction Agency and successfully secured a new mapping customer, the U.S. Department of Agriculture. And, most recently, we announced that our COP product has been provided to the U.S. Joint Unmanned Systems Common Control program and will be used for the U.S. Littoral Combat Ship program," continued Mr. Kirkpatrick, president and CEO of OSI Geospatial. "Acquiring our U.S. operations this year has been instrumental in gaining key access to the U.S. defense market."



Management has outlined the following goals for the fiscal year ending November 30, 2006 and is pleased to report that all strategic objectives for 2006 will be achieved:

1. Revenue in the range of \$24 million to \$28 million
 - Reported \$14.1 million in revenue for the first three quarters of fiscal 2006
 - Secured more than \$13 million in business since the end of the second quarter
 - Expect revenue in the range of \$24 million to \$26 million for fiscal 2006
2. Demonstrate U.S. market penetration by winning a significant U.S. Navy contract
 - Signed a \$1.8 million contract with L-3 Communications for the delivery of our Common Operational Picture (COP) product for a significant U.S. Navy new build program that will build the DDG 1000 Zumwalt Class naval destroyers. The DDG 1000 class is the next generation destroyer for the U.S. Navy.
 - COP technology slated for deployment in the U.S. Navy's Littoral Combat Ship Program as part of the U.S. Joint Unmanned Systems Common Control mission package
3. Demonstrate market development in the company's existing customer base by securing a significant prime contract from the British Royal Navy
 - The company was unable to close this contract by August 31, 2006 due to longer than expected contract negotiations. The company is confident that it will close this contract and recognize a portion of the revenue in the fourth quarter of 2006.
4. Expand the company's customer base by securing one new customer in each of the three defense domains: air, land, and sea
 - Announced contracts with the U.S. Office of the Naval Research (sea), Royal Norwegian Navy (sea), U.S. Air Force Command and Control Battle Lab (air) and U.S. Defense Threat Reduction Agency (land)
5. Accelerate U.S. and international market penetration by signing a teaming agreement with a top-tier defense contractor
 - Signed a teaming agreement with L3 Communications to pursue opportunities in the worldwide naval market
6. Diversify into new market sectors by leveraging the company's core navigation technology in the development of new products
 - Launched the S-VDR product for the commercial shipping market in response to a government mandate that requires all ships greater than 3,000 gross tons to install this technology by 2010
 - Signed a contract with the U.S. Defense Threat Reduction Agency to develop a GPS denied handheld personal navigation product for military and homeland defense markets

Conference Call

OSI Geospatial will present the results from the 2006 third quarter at 4:30 p.m. Eastern Time (1:30 p.m. Pacific Time), October 16, 2006. The conference call can be accessed on the company's investor site at www.osigeospatial.com. To listen to the conference call live by telephone, dial +1-866-400-2280 for participants in North America and +1-416-850-9143 for Toronto area and international participants approximately ten minutes before the start time. A telephone playback will be available for seven business days, beginning approximately two hours after the call. To listen to the replay, North American callers please dial +1-866-245-6755 and international callers please dial +1-416-915-1035. Enter access code 958124.



About OSI Geospatial

OSI Geospatial Inc. delivers advanced systems and software to address the growing need for enhanced situational awareness in command, control, communications, and intelligence applications. By providing essential tactical and geospatial information, the company's systems and software help decision-makers know the precise location of mission operations across all military forces while integrating information with allies. OSI Geospatial systems are in use by military, government, and commercial customers around the world. The company is publicly traded on the Toronto Stock Exchange (OSI) and the Over the Counter Bulletin Board (OSIIF). For additional information please visit www.osigeospatial.com.

Forward-Looking Statements

Certain statements made in this news release that are not based on historical information (including those in the section entitled "Outlook") are forward-looking statements which are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934 and Section 138.4(9) of the Ontario Securities Act. These forward-looking statements are subject to risks and uncertainties. Actual results may differ from these projections. The risks associated with the Company's business include risks related to its reliance on international government contracts; the number of large customer transactions and the related lengthy sales cycles in executing those opportunities; uncertainties associated with competitive bidding processes and contract negotiations; actions by government authorities; the effects of general economic and political conditions; changing foreign exchange rates; and challenges related to the company's ability to introduce, develop and implement new products and enhancements to existing products that respond to customer requirements in a changing, complex, technological market. A complete discussion of the company's risk factors is presented in the company's most recent annual reports, filed with the United States Securities and Exchange Commission ("SEC") and the Canadian Securities Administrators ("CSA"), as well as other periodic reports filed with the SEC and the CSA. The Company does not undertake any obligation to update the forward-looking statements.

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OSI Geospatial Inc.
Consolidated Balance Sheets (Unaudited)
(in thousands of U.S. dollars, U.S. GAAP)

	August 31, 2006	November 30, 2005
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 913	\$ 8,222
Marketable securities	76	-
Restricted cash	60	190
Accounts receivable	6,534	9,419
Income taxes recoverable	23	-
Inventory	1,300	938
Prepaid expenses and deposits	825	532
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	9,731	19,301
Plant and equipment	1,009	869
Intangible and other assets	762	626
Goodwill	8,135	406
	<hr/>	<hr/>
	\$ 19,637	\$ 21,202
<u>Liabilities</u>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,787	\$ 3,360
Income taxes payable	-	242
Unearned revenue	887	454
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	3,674	4,056
Deferred income taxes	227	201
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	3,901	4,257
<u>Stockholders' Equity</u>		
Issued and outstanding		
30,262 Class A Series A preference shares (2005 – 30,262)	19	19
317,240 Class B Series 2 preference shares (2005 – 341,240)	8,992	9,041
32,937,048 common shares (2005 – 30,367,309)	16,885	15,145
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	25,896	24,205
Warrants	4,286	4,286
Additional paid in capital	3,765	3,900
Accumulated deficit	(20,829)	(17,736)
Accumulated other comprehensive income	2,618	2,290
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	15,736	16,945
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	\$ 19,637	\$ 21,202



OSI Geospatial Inc.

Consolidated Statements of Loss (Unaudited)

(in thousands of U.S. dollars except share numbers and loss per share, U.S. GAAP)

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2006	2005	2006	2005
Revenue				
Marine systems	\$ 1,240	\$ 1,774	\$ 4,958	\$ 4,146
Land and air systems	2,022	-	6,244	-
Mapping	1,054	844	2,917	1,843
	<u>4,316</u>	<u>2,618</u>	<u>14,119</u>	<u>5,989</u>
Cost of sales	<u>2,913</u>	<u>1,146</u>	<u>8,927</u>	<u>3,195</u>
Gross profit	<u>1,403</u>	<u>1,472</u>	<u>5,192</u>	<u>2,794</u>
Expenses				
General and administrative	1,460	863	4,320	2,542
Engineering	389	410	1,382	1,043
Sales and marketing	510	566	1,668	1,559
Depreciation and amortization	142	77	412	185
Interest expense	3	3	15	20
Interest income	-	(60)	(20)	(92)
Foreign exchange loss (gain)	(18)	104	(18)	128
Loss on sale of fixed assets	2	-	2	-
Technology Partnerships Canada royalty	55	56	220	131
Technology Partnerships Canada contribution	(227)	(298)	(731)	(892)
	<u>2,316</u>	<u>1,721</u>	<u>7,250</u>	<u>4,624</u>
Loss before income taxes	<u>(913)</u>	<u>(249)</u>	<u>(2,058)</u>	<u>(1,830)</u>
Income tax expense (recovery)				
Deferred income tax expense (recovery)	(60)	73	(67)	(21)
Current income tax expense (recovery)	(87)	(14)	7	68
	<u>(147)</u>	<u>59</u>	<u>(60)</u>	<u>47</u>
Net loss	<u>(766)</u>	<u>(308)</u>	<u>(1,998)</u>	<u>(1,877)</u>
Net loss available to common shareholders	<u>\$ (953)</u>	<u>\$ (1,025)</u>	<u>\$ (3,074)</u>	<u>\$ (6,806)</u>
Loss per share				
Basic	(0.03)	(0.04)	(0.10)	(0.25)
Diluted	(0.03)	(0.08)	(0.10)	(0.25)
Weighted average number of common shares outstanding				
Basic	32,891,635	27,556,109	32,160,508	27,510,254
Diluted	32,891,635	49,240,815	32,160,508	27,510,254



OSI Geospatial Inc.
Consolidated Statements of Cash Flows (Unaudited)
(in thousands of U.S. dollars, U.S. GAAP)

	Three Months Ended 2006	August 31, 2005	Nine Months Ended 2006	August 31, 2005
Cash flows from (used in) operating activities				
Net loss for the period	\$ (766)	\$ (308)	\$ (1,998)	\$ (1,877)
Items not affecting cash				
Depreciation and amortization	191	122	580	286
Stock-based compensation	-	24	104	37
Deferred income taxes	(60)	74	(67)	(3)
	<u>(635)</u>	<u>(88)</u>	<u>(1,381)</u>	<u>(1,557)</u>
Changes in non-cash working capital items				
Accounts receivable	690	(520)	4,326	1,456
Inventory	(190)	(78)	(300)	(276)
Prepaid expenses and deposits	(151)	(263)	(59)	(417)
Accounts payable and accrued liabilities	(166)	240	(1,315)	620
Income taxes payable	(85)	166	(256)	226
Unearned revenue	12	272	390	266
	<u>110</u>	<u>(183)</u>	<u>2786</u>	<u>1,875</u>
	<u>(525)</u>	<u>(271)</u>	<u>1,405</u>	<u>318</u>
Cash flows used in investing activities				
Purchase of CHI Systems Inc., net of cash acquired	(4)	-	(8,127)	-
Purchase of Mapcon Mapping Consultants Inc., net of cash acquired	-	(33)	-	(1,005)
Decrease (increase) in marketable securities	16	-	(143)	-
Decrease (increase) in restricted cash	-	(11)	129	(186)
Additions (reductions) to plant and equipment	4	(42)	(83)	(125)
Additions to intangibles and other assets	(16)	(43)	(109)	(74)
	<u>-</u>	<u>(129)</u>	<u>(8,333)</u>	<u>(1,390)</u>
Cash flows from (used in) financing activities				
Payment to operating line of credit	-	(163)	-	(163)
Issue of common shares	53	1	60	1
Issue of Class B Series 2 preference shares and warrants, net of issue costs	-	-	-	13,798
Repurchase of Class B Series 1 preference shares	-	-	-	(40)
Class B preference Series 2 preference shares – issue costs	-	(40)	-	(2,298)
Class B preference share dividends declared and paid	-	-	(527)	(202)
	<u>53</u>	<u>(202)</u>	<u>(467)</u>	<u>11,096</u>
Translation adjustment	<u>(34)</u>	<u>(388)</u>	<u>86</u>	<u>(560)</u>
Increase (decrease) in cash	<u>(506)</u>	<u>(990)</u>	<u>(7,309)</u>	<u>9,464</u>
Cash and cash equivalents – beginning of period	1,419	10,665	8,222	211
Cash and cash equivalents – end of period	<u>\$ 913</u>	<u>\$ 9,675</u>	<u>\$ 913</u>	<u>\$ 9,675</u>