

OSI Geospatial Inc.

(formerly Offshore Systems International Ltd.)

Interim Consolidated Financial Statements (Unaudited)

Three and Six Months Ended May 31, 2006 and 2005

(expressed in U.S. dollars)

(Prepared in accordance with United States Generally Accepted
Accounting Principles)

OSI Geospatial Inc.

U.S. GAAP

Consolidated Balance Sheets (unaudited)

(Incorporated under the laws of the Province of British Columbia, Canada)

(expressed in U.S. dollars)

	May 31, 2006	November 30, 2005
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 1,419,553	\$ 8,222,226
Marketable securities	159,685	-
Restricted cash	60,000	189,519
Accounts receivable (note 6)	7,223,816	9,419,395
Inventory (note 7)	1,109,450	937,554
Prepaid expenses and deposits	672,779	532,282
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	10,645,283	19,300,976
Plant and equipment	1,080,632	869,398
Intangible and other assets	870,558	625,799
Goodwill (note 5)	8,130,396	405,681
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	\$ 20,726,869	\$ 21,201,854
<u>Liabilities</u>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,017,715	\$ 3,359,656
Income taxes payable	62,022	242,411
Unearned revenue	874,823	454,220
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	3,954,560	4,056,287
Deferred income taxes	342,697	200,998
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	4,297,257	4,257,285
<u>Stockholders' Equity</u>		
Issued and outstanding		
30,262 Class A Series A preference shares (2005 – 30,262) (note 8(a))	19,227	19,227
317,240 Class B Series 2 preference shares (2005 – 341,240) (note 8(b))	8,750,314	9,040,914
32,857,048 common shares (2005 – 30,367,309) (note 8(c))	17,060,916	15,373,529
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	25,830,457	24,443,670
Warrants (note 8(d))	4,286,060	4,286,060
Additional paid in capital	3,860,761	3,995,835
Accumulated deficit	(20,202,694)	(18,061,619)
Accumulated other comprehensive income	2,655,028	2,290,623
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	16,429,612	16,944,569
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	\$ 20,726,869	\$ 21,201,854
Contingency (note 9)		

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

OSI Geospatial Inc.

U.S. GAAP

Consolidated Statement of Earnings (Loss) (unaudited) (expressed in U.S. dollars)

	Three Months Ended May 31,		Six Months Ended May 31,	
	2006	2005	2006	2005
Revenue				
Marine systems	\$ 2,435,442	\$ 783,226	\$ 3,717,882	\$ 2,372,381
Land and air systems	2,370,118	-	4,221,681	-
Mapping	1,334,309	750,019	1,863,057	998,748
	6,139,869	1,533,245	9,802,620	3,371,129
Cost of sales	3,544,897	1,216,568	6,013,942	2,049,336
Gross profit	2,594,972	316,677	3,788,678	1,321,793
Expenses				
General and administrative	1,514,184	836,773	2,859,976	1,678,981
Research and development	450,592	372,761	992,859	633,270
Sales and marketing	605,817	543,530	1,158,039	992,314
Depreciation and amortization	137,878	63,712	269,905	107,478
Interest expense	6,218	6,950	12,264	17,234
Interest income	(6,849)	(31,347)	(19,683)	(31,437)
Foreign exchange loss (gain)	(21,147)	62,307	267	24,328
Technology Partnerships Canada royalty	107,668	30,459	164,572	74,861
Technology Partnerships Canada contribution	(293,372)	(378,386)	(503,840)	(594,399)
	2,500,989	1,506,759	4,934,359	2,902,630
Earnings (loss) before income taxes	93,983	(1,190,082)	(1,145,681)	(1,580,837)
Income tax expense (recovery) (note 11)				
Deferred income tax expense (recovery)	(23,321)	113,378	(7,594)	(94,440)
Current income tax expense	119,441	66,587	93,706	82,116
	96,120	179,965	86,112	(12,324)
Net loss	(2,137)	(1,370,047)	(1,231,793)	(1,568,513)
Net loss available to common shareholders (note 8(f))	\$ (715,055)	\$ (5,560,039)	\$ (2,120,971)	\$ (5,780,204)
Loss per share (note 8(f))				
Basic and diluted loss per share	(0.02)	(0.20)	(0.07)	(0.21)
Weighted average number of common shares outstanding (note 8(f))				
Basic and diluted	32,301,357	27,488,074	31,790,928	27,488,074

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

OSI Geospatial Inc.

Consolidated Statements of Stockholders' Equity and Accumulated Deficit (unaudited) For the six months ended May 31, 2006

(Incorporated under the laws of the Province of British Columbia)

(expressed in U.S. dollars)

Class A preference shares

Balance at November 30, 2005	#	30,262	\$	19,227
Balance at May 31, 2006	#	30,262	\$	19,227

Class B preference shares

Balance at November 30, 2005	#	341,240	\$	9,040,914
Accretion of discount on Class B preference shares		-		362,772
Class B preference shares converted to common shares		(24,000)		(669,038)
Tax benefit related to share issue costs		-		15,666
Balance at May 31, 2006	#	317,240	\$	8,750,314

Common shares

Balance at November 30, 2005	#	30,367,309	\$	15,373,529
Shares Issued to CHI shareholders (note 5)		1,067,975		752,948
Class B preference shares converted to common shares		1,411,764		927,959
Exercise of stock options		10,000		6,480
Balance at May 31, 2006	#	32,857,048	\$	17,060,916

Warrants

Balance at November 30, 2005	#	13,788,365	\$	4,286,060
Balance at May 31, 2006	#	13,788,365	\$	4,286,060

Additional paid-in capital

Balance at November 30, 2005	\$	3,995,835
Class B preference shares converted to common shares		(238,817)
Stock-based compensation		103,743
Balance at May 31, 2006	\$	3,860,761

Accumulated deficit

Balance at November 30, 2005	\$	(18,061,619)
Accretion of discount on Class B preference shares		(362,772)
Class B preference shares converted to common shares		(20,104)
Dividends on Class B preference shares		(526,406)
Net loss for the period		(1,231,793)
Balance at May 31, 2006	\$	(20,202,694)

Accumulated other comprehensive income

Foreign currency translation adjustment		
Balance at November 30, 2005	\$	2,290,623
Adjustment for the three months ended February 28, 2006		147,709
Balance at February 28, 2006		2,438,332
Adjustment for the three months ended May 31, 2006		216,696
Balance at May 31, 2006	\$	2,655,028

Total stockholders' equity

\$ 16,429,612

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

OSI Geospatial Inc.

U.S. GAAP

Consolidated Statement of Cash Flows (unaudited)
 Three and Six Months Ended May 31, 2006 and 2005
 (expressed in U.S. dollars)

	Three Months Ended May 31,		Six Months Ended May 31,	
	2006	2005	2006	2005
Cash flows from operating activities				
Net loss for the period	\$ (2,137)	\$ (1,370,047)	\$ (1,231,793)	\$ (1,568,513)
Items not affecting cash				
Depreciation and amortization	201,225	95,068	388,578	164,107
Stock-based compensation	78,569	10,725	103,743	12,961
Deferred income taxes	2,414	114,050	(7,594)	(78,239)
	<u>280,071</u>	<u>(1,150,204)</u>	<u>(747,066)</u>	<u>(1,469,684)</u>
Changes in non-cash working capital items				
Accounts receivable	(1,636)	1,165,596	3,636,020	1,975,522
Inventory	(15,732)	(24,397)	(109,663)	(198,072)
Prepaid expenses and deposits	32,421	88,843	92,307	(153,706)
Accounts payable and accrued liabilities	630,745	1,073,781	(1,148,540)	379,972
Income taxes payable	(30,699)	60,915	(171,219)	60,915
Unearned revenue	126,302	(2,095)	377,912	(6,623)
	<u>741,401</u>	<u>2,362,643</u>	<u>2,676,817</u>	<u>2,058,008</u>
	<u>1,021,472</u>	<u>1,212,439</u>	<u>1,929,751</u>	<u>588,324</u>
Cash flows used in investing activities				
Purchase of CHI Systems Inc., net of cash acquired	(239,642)	-	(8,122,800)	-
Purchase of Mapcon Mapping Consultants Inc., net of cash acquired	-	(972,421)	-	(972,421)
Decrease (increase) in marketable securities	98,531	-	(159,685)	-
Decrease (increase) in restricted cash	(60,000)	(175,271)	129,519	(175,271)
Additions to plant and equipment	(39,249)	(60,771)	(87,017)	(82,910)
Additions to intangibles and other assets	(52,723)	(19,211)	(92,999)	(30,278)
	<u>(293,083)</u>	<u>(1,227,674)</u>	<u>(8,332,982)</u>	<u>(1,260,880)</u>
Cash flows from (used in) financing activities				
Payment to operating line of credit	-	(442,386)	-	-
Issue of common shares	6,480	-	6,480	-
Issue of Class B Series 2 preference shares and warrants, net of issue costs	-	13,798,195	-	13,798,195
Repurchase of Class B Series 1 preference shares	-	(2,298,327)	-	(2,298,327)
Class B preference share dividends declared and paid	(526,406)	(132,972)	(526,406)	(201,921)
	<u>(519,926)</u>	<u>10,924,510</u>	<u>(519,926)</u>	<u>11,297,947</u>
Translation adjustment	<u>62,209</u>	<u>(243,712)</u>	<u>120,484</u>	<u>(171,500)</u>
Increase (decrease) in cash	<u>270,672</u>	<u>10,665,563</u>	<u>(6,802,673)</u>	<u>10,453,891</u>
Cash and cash equivalents – beginning of period	<u>1,148,881</u>	<u>-</u>	<u>8,222,226</u>	<u>211,672</u>
Cash and cash equivalents – end of period	<u>\$ 1,419,553</u>	<u>\$ 10,665,563</u>	<u>\$ 1,419,553</u>	<u>\$ 10,665,563</u>

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

Notes to the Consolidated Financial Statements (unaudited)
Three and Six Months Ended May 31, 2006 and 2005
(expressed in U.S. dollars)

1) Basis of presentation

On April 12, 2006 at the Company's annual general meeting its shareholders voted in favor of changing the Company's name from Offshore Systems International Ltd. to OSI Geospatial Inc. The name change was effective June 5, 2006. For the purposes of this report, the Company is referred to by its new legal identity.

These unaudited interim consolidated financial statements have been prepared by management and include the accounts of OSI Geospatial Inc. and its subsidiaries, collectively referred to as the Company. These unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and all amounts herein have been expressed in U.S. dollars unless otherwise noted. These unaudited interim consolidated financial statements do not include all the information and footnote disclosures required for compliance with U.S. GAAP for annual financial statements applied on a consistent basis. These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto. These unaudited interim consolidated financial statements conform in all material respects with Canadian generally accepted accounting principles ("Canadian GAAP"), except as disclosed in note 13.

The preparation of these unaudited interim consolidated financial statements and the accompanying notes requires management to make estimates and assumptions that affect the amounts reported. In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments necessary to state fairly the results for the periods presented. Actual results could vary from these estimates and the operating results for the interim period presented are not necessarily indicative of the results expected for the full year.

2) Nature of Operations

OSI Geospatial Inc. designs, develops, and markets software and systems for enhancing situational awareness in command, control, and intelligence applications. OSI Geospatial's principal product is the proprietary ECPINS® line of electronic chart navigation systems for commercial and military customers. Collectively, OSI Geospatial and its subsidiaries are referred to as the Company. OSI Geospatial conducts its operations through three business units – International Systems Operations, U.S. Systems Operations and Mapping Operations. The Company's International and U.S. Systems business units develop and produce geographic information display systems and software for the marine navigation, and command and control markets, and situational awareness products for land-based and aeronautical command and control markets. The Company's Mapping business unit (formally the Geomatics business unit) provides digital land map and electronic nautical chart production services, and produces and distributes electronic nautical chart data.

3) Adoption of Accounting Policies

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard 123R, Share-Based Payment, ("SFAS 123(R)") a revision to SFAS 123. SFAS 123(R) requires all share-based payments to be recognized in the financial statements based on their values using either a modified-prospective or modified-retrospective transition method.

Prior to December 1, 2005, the Company's stock-based employee compensation plans were accounted for under the recognition and measurement provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations, as permitted by FASB Statement No. 123, "Accounting for Stock-Based Compensation ("SFAS 123)". The Company did not recognize stock-based compensation costs in its statement of operations for periods prior to December 1, 2005, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of the grant.

Notes to the Consolidated Financial Statements (unaudited)
Three and Six Months Ended May 31, 2006 and 2005
(expressed in U.S. dollars)

Effective December 1, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123(R), using the modified-prospective-transition method. Under this transition method, stock-based compensation cost recognized in the first three months of 2006 includes (a) compensation costs for all unvested stock-based awards based on the grant-date fair value, including those granted, modified or settled prior to September 1, 2005, that were previously disclosed on a pro forma basis, and (b) compensation cost for all stock-based awards granted subsequent to December 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R) .

As a result of adopting SFAS 123(R) on December 1, 2005, the Company's loss before income taxes and net loss for the three and six month periods ended May 31, 2006 increased by \$3,431 and \$10,328 respectively.

4) Accounting change

Change in reporting currency

Effective March 1, 2006 the Company adopted the U.S. dollar as its reporting currency. In general this change results from an increase in the overall proportion of business activities conducted in U.S. dollars. Under U.S. GAAP, the change was effected by translating assets and liabilities at the existing U.S./Canadian dollar foreign exchange spot rate on the last day of the month, while earnings were translated at the average rate for each month. Equity transactions have been translated at historical rates; with opening equity restated at the rate of exchange on December 1, 2001. The resulting net translation adjustment has been credited to the cumulative translation adjustment.

Prior to March 1, 2006 the reporting currency of the Company was Canadian dollars.

5) Acquisitions

a) CHI Systems Inc.

On December 14, 2005, the Company acquired CHI Systems Inc., a United States defense contracting company. CHI Systems has multiple 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. Under the terms of the agreement, the Company paid approximately \$9,000,000 for 100% of the outstanding shares of CHI Systems, of which \$8,101,780 was paid in cash with the balance paid by the issuance of 1,067,975 common shares of the Company. The results of CHI Systems' operations have been included in the consolidated financial statements commencing December 14, 2005.

The following table summarizes the fair value of the assets acquired and liabilities assumed by the Company at December 14, 2005, the date of acquisition. The acquisition was accounted for using the purchase method whereby assets acquired and liabilities assumed were recorded at their fair values at December 14, 2005. The excess of the purchase price over the fair market value was recorded as goodwill. The allocation of the purchase price is preliminary and the final allocation may be subject to refinement in the next six months subject to the final review by an independent business valuator.

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited)
Three and Six Months Ended May 31, 2006 and 2005
(expressed in U.S. dollars)

Assets	
Current assets	\$ 2,058,446
Plant and equipment	224,834
Intangible and other assets	375,000
Goodwill	7,724,715
Total assets acquired	\$ 10,382,995
Liabilities	
Current liabilities not including deferred tax liabilities	715,285
Deferred tax liabilities	164,959
Total liabilities assumed	\$ 880,244
Net assets acquired (cash and common share consideration)	\$ 8,848,552
Direct acquisition costs incurred by the Company	654,199
Total acquisition costs	9,502,751
Less fair value of net identifiable assets acquired	1,778,036
Goodwill	\$ 7,724,715
Cash of acquired operations	\$ 627,004

The fair value of the assets acquired, including goodwill, and liabilities assumed in the acquisition have been "pushed down" to CHI Systems resulting in foreign currency revaluation at each reporting date.

The following table presents details of the purchased intangible assets:

	<u>Estimated useful life</u>	<u>Amount</u>
Patents	5 years	\$ 130,012
Customer contracts	2 to 24 months	135,000
Customer relationships	1 to 3 years	109,988
Total intangible assets		<u>\$ 375,000</u>

The pro forma OSI Geospatial consolidated operating results assuming the acquisition of CHI Systems International Inc. had occurred as of December 1, 2004 are as follows:

	<u>3 Months Ended May 31,</u>		<u>6 Months Ended May 31,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue	\$ 6,139,869	\$ 4,599,708	\$ 10,184,977	\$ 9,091,587
Net Earnings (loss)	(2,137)	(1,218,449)	(1,261,998)	(1,342,649)
Net Earnings (loss) per share – basic and diluted	0.00	(0.04)	(0.04)	(0.05)

b) Mapcon Mapping Consultants Inc.

On April 8, 2005, the Company acquired all of the issued and outstanding shares of Mapcon Mapping Consultants Inc. ("Mapcon Mapping") of Salt Lake City, Utah for cash consideration of \$1,113,907. The acquisition was effective April 1, 2005. Mapcon Mapping was a privately-held land mapping company in the U.S. digital mapping production market. Information regarding this acquisition can be found in the company's audited consolidated financial statements for the year ended November 30, 2005 as reported in our 2005 Annual Report filed on SEDAR at www.sedar.com or our annual Form 20-F report filed on EDGAR at www.sec.gov.

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited)
Three and Six Months Ended May 31, 2006 and 2005
(expressed in U.S. dollars)

6) Accounts receivable

	<u>May 31, 2006</u>	<u>November 30, 2005</u>
Trade	\$ 3,117,571	\$ 6,218,403
Unbilled revenue	3,674,284	2,564,049
Technology Partnerships Canada contribution	309,788	625,167
Other	139,852	48,026
Allowance for doubtful accounts	(17,679)	(36,250)
	<u>\$ 7,223,816</u>	<u>\$ 9,419,395</u>

7) Inventory

	<u>May 31, 2006</u>	<u>November 30, 2005</u>
Materials and components	\$ 1,109,450	\$ 937,554

8) Capital Stock

a) Class A preference shares

The Company has 30,262 (November 30, 2005 – 30,262) Class A preference shares outstanding that have a nominal value for financial statement purposes. These Class A preference shares are being held in escrow but are no longer subject to any escrow restrictions and may be converted at any time into common shares of the Company, by notice in writing from the holders.

b) Class B preference shares

	<u>For the six months ended May 31, 2006</u>	
	<u>Number of Class B preference shares</u>	<u>Amount</u>
Balance – beginning of period	341,240	\$ 9,040,914
Accretion of discount – Series 2	-	362,772
Converted to common	(24,000)	(669,038)
Tax benefit related to share issue costs	-	15,666
	<u>317,240</u>	<u>\$ 8,750,314</u>

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited)
Three and Six Months Ended May 31, 2006 and 2005
(expressed in U.S. dollars)

c) Issued and outstanding common shares

	<u>For the six months ended May 31, 2006</u>	
	Number of common shares	Amount
Balance – beginning of period	30,367,309	\$ 15,373,529
Shares issued to CHI shareholders (Note 4)	1,067,975	752,948
Class B Series 2 preference shares converted	1,411,764	927,959
Exercise of stock options	10,000	6,480
Balance – end of period	<u>32,857,048</u>	<u>\$ 17,060,916</u>

During the three months ended May 31, 2006 24,000 Preference shares were converted into 1,411,764 common shares with an aggregate fair market value of \$927,959. The Preference shares were reduced by \$669,039, the carrying value of the shares converted, and the beneficial conversion feature attributed to the converted shares resulted in a deduction of \$238,817 from additional paid in capital. The conversion resulted in an increase of \$20,104 to deficit.

d) Warrants

	<u>For the six months ended May 31, 2006</u>	
	Number of warrants	Amount
Balance – beginning of period	13,788,365	\$ 4,286,060
Balance – end of period	<u>13,788,365</u>	<u>\$ 4,286,060</u>

e) Stock option plans

A summary of the status of the Company's stock option plans at May 31, 2006 is as follows:

	Number of shares	Weighted average exercise price
Outstanding – November 30, 2005	3,674,417	\$ 0.87
Granted	247,500	0.67
Forfeited	(130,000)	0.83
Expired	(63,333)	0.90
Exercised	(10,000)	0.68
Outstanding and Exercisable – May 31, 2006	<u>3,718,584</u>	<u>\$ 0.86</u>

Notes to the Consolidated Financial Statements (unaudited)
 Three and Six Months Ended May 31, 2006 and 2005
 (expressed in U.S. dollars)

Stock-based compensation

For the three and six months ended May 31, 2006, the Company incurred non-cash stock-based compensation expense of \$78,569 and \$103,743 respectively, related to stock options granted to the end of May 31, 2006 (three and six month period ended May 31, 2005 - \$10,725 and \$12,961). The expense was included in general and administrative costs and was recorded in additional paid-in capital.

Of the \$78,569, \$74,142 relates to the 222,500 stock options granted during the quarter ended May 31, 2006.

The fair value of stock options was estimated using the Black-Scholes option pricing model using the following weighted average assumptions by grant period:

	<u>2006</u>	<u>2005</u>
Risk-free interest rate	4.14%	2.20%
Volatility	53%	58%
Estimated average option lives	5 years	3 years
Dividend yield	0.0%	0.0%

f) Loss per share

	For the three months ended May 31,	
	<u>2006</u>	<u>2005</u>
Net loss for the period	\$ (2,137)	\$ (1,370,047)
Less: Class B preference share dividends	(526,406)	(201,921)
Accretion of discount on Class B Series 1 preference shares	-	(316,103)
Accretion of discount on Class B Series 2 preference shares	(186,512)	(91,029)
Accretion of beneficial conversion feature on Class B Series 2 preference shares	-	(3,881,098)
Excess of carrying value of Class B Series 1 preference shares and beneficial conversion feature over repurchase consideration paid	-	300,159
Net loss available to common shareholders	<u>\$ (715,055)</u>	<u>\$ (5,560,039)</u>
Weighted average number of common shares outstanding – basic and diluted	<u>32,301,357</u>	<u>27,488,074</u>
Loss per share – basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.20)</u>

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited)
Three and Six Months Ended May 31, 2006 and 2005
(expressed in U.S. dollars)

	For the six months ended May 31,	
	2006	2005
Net loss for the period	\$ (1,231,793)	\$ (1,568,513)
Less: Class B preference share dividends	(526,406)	(201,921)
Accretion of discount on Class B Series 1 preference shares	-	(337,802)
Accretion of discount on Class B Series 2 preference shares	(362,772)	(91,029)
Accretion of beneficial conversion feature on Class B Series 2 preference shares	-	(3,881,098)
Excess of carrying value of Class B Series 1 preference shares and beneficial conversion feature over repurchase consideration paid	-	300,159
	<hr/>	<hr/>
Net loss available to common shareholders	\$ (2,120,971)	\$ (5,780,204)
Weighted average number of common shares outstanding – basic and diluted	31,790,928	27,488,074
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Loss per share – basic and diluted	\$ (0.07)	\$ (0.21)

If all preferred shares were converted, and all warrants and options were exercised, there would be a total of 69,055,426 common shares outstanding at May 31, 2006 (May 31, 2005 – 66,696,813). As a result of the exercise of all warrants and options, the company would receive cash of \$14,133,042 (May 31, 2005 - \$11,572,200).

9) Contingency

In July 2002, two of the Company's subsidiaries, Offshore Systems Ltd. and Mapcon Mapping Ltd. (formerly OSI Geomatics Ltd.), and four employees became subject to a lawsuit for an undisclosed amount by Triathlon Ltd., a subsidiary of MacDonald, Dettwiler and Associates Ltd., related to use of confidential information and breach of fiduciary duty. No amount has been accrued at May 31, 2006 in respect of these claims because the potential liability for the claims and the amount of damages, if any, cannot be reasonably estimated. Management believe that the claims are without merit.

10) Related party transactions

On April 11, 2005, E. Brinton Coxe, a director of the Company, assisted the Company in structuring and arranging the private placement financing. In consideration for his services, the Company paid him compensation of \$671,529 and 350,000 common share purchase warrants. The cash compensation of \$671,529 paid to Mr. Coxe included an adjustment in the amount of \$13,093 to reflect exchange rate changes between the U.S. dollar and Canadian Dollar. Mr. Coxe has also participated in the financing by purchasing 100 units personally.

On April 8, 2005, Gerald J. Shields was elected to the Company's Board of Directors and became a related party as he provides legal services to the Company through a law firm in which he has an interest.

11) Income taxes

The Company is subject to income taxes in Canada and the United States and the use of estimates is required in determining the Company's provision for income taxes. Although the Company believes its tax

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited) Three and Six Months Ended May 31, 2006 and 2005 (expressed in U.S. dollars)

estimates are reasonable, the ultimate tax determination involves significant judgement that could become subject to audit by tax authorities in the ordinary course of business. The effective rate used to record income tax expense for the three and six months ended May 31, 2006 differed from the Canadian federal and provincial combined statutory tax rate primarily due to the change in valuation allowance to reflect those future tax benefits that were more likely than not to be realized, future income tax payments that will result from the payment of Class B preference share dividends and, also, items not deductible for income tax purposes. The change in effective tax rate from 2005 to 2006 was due primarily to the effect of the change in valuation allowance.

At May 31, 2006, the Company adjusted its valuation allowance against deferred tax assets to reflect the amount of the future tax benefit that was more likely than not to be realized. A valuation allowance continues to be provided against those deferred tax assets for which there is uncertainty of future realization.

	Three months ended May 31,		Six months ended May 31,	
	2006	2005	2006	2005
Deferred income tax expense (recovery)	\$ (23,321)	\$ 113,378	\$ (7,594)	\$ (94,440)
Current income tax expense	119,441	66,587	93,706	82,116
Income tax expense (recovery)	<u>\$ 96,120</u>	<u>\$ 179,965</u>	<u>\$ 86,112</u>	<u>\$ (12,324)</u>
Effective tax rate	102%	(15%)	(8%)	(1%)

12) Segmented information

The Company's reportable segments are as outlined below. Accounting policies used by these segments are the same as those described in the significant accounting policies as disclosed in note 2 of the Company's audited consolidated annual financial statements for the year ended November 30, 2005 prepared in accordance with U.S. GAAP. The Company defines reportable segments as components of the Company about which separate financial information is available and which is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Three Months Ended May 31, 2006

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 2,435,442	\$ 2,370,117	\$ 1,334,310	\$ -	\$ 6,139,869
Gross profit	1,614,216	544,239	436,517	-	2,594,972
Technology Partnerships Canada - net	185,704	-	-	-	185,704
Interest expense	1	282	-	5,935	6,218
Income tax expense (recovery)	974	9,570	(2,122)	87,698	96,120
Net earnings (loss)	652,889	48,789	121,077	(824,892)	(2,137)
Plant and equipment expenditures	27,906	10,822	521	-	39,249
Intangible expenditures	18,509	13,216	20,998	-	52,723
Depreciation and amortization	\$ 51,029	\$ 79,461	\$ 69,445	\$ 1,290	\$ 201,225

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited)

Three and Six Months Ended May 31, 2006 and 2005

(expressed in U.S. dollars)

	Six Months Ended May 31, 2006				
	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 3,717,882	\$ 4,221,681	\$ 1,863,057	\$ -	\$ 9,802,620
Gross profit	2,292,924	967,280	528,474	-	3,788,678
Technology Partnerships Canada - net	339,268	-	-	-	339,268
Interest expense	-	281	-	11,983	12,264
Income tax expense (recovery)	974	6,197	(8,757)	87,698	86,112
Net earnings (loss)	260,332	49,213	(119,999)	(1,421,339)	(1,231,793)
Plant and equipment expenditures	45,863	15,874	25,280	-	87,017
Intangible expenditures	51,238	13,179	28,582	-	92,999
Depreciation and amortization	\$ 97,175	\$ 151,698	\$ 136,285	\$ 2,420	\$ 388,578

	Three Months Ended May 31, 2005				
	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 783,226	\$ -	\$ 750,019	\$ -	\$ 1,533,245
Gross profit	93,515	-	223,162	-	316,677
Technology Partnerships Canada - net	347,927	-	-	-	347,927
Interest expense	4,373	-	74	2,503	6,950
Income tax expense (recovery)	114,050	-	65,915	-	179,965
Net earnings (loss)	(763,083)	-	(151,927)	(455,037)	(1,370,047)
Plant and equipment expenditures	51,786	-	8,985	-	60,771
Intangible expenditures	4,402	-	14,809	-	19,211
Depreciation and amortization	\$ 94,082	\$ -	\$ -	\$ 986	\$ 95,068

	Six Months Ended May 31, 2005				
	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 2,372,381	\$ -	\$ 998,748	\$ -	\$ 3,371,129
Gross profit	1,073,094	-	248,699	-	1,321,793
Technology Partnerships Canada - net	519,538	-	-	-	519,538
Interest expense	8,921	-	1,273	7,040	17,234
Income tax expense (recovery)	(58,672)	-	46,349	-	(12,324)
Net earnings (loss)	(290,277)	-	(283,614)	(994,622)	(1,568,513)
Plant and equipment expenditures	73,923	-	8,987	-	82,910
Intangible expenditures	13,810	-	16,468	-	30,278
Depreciation and amortization	\$ 84,380	\$ -	\$ 77,126	\$ 2,601	\$ 164,107

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited)
Three and Six Months Ended May 31, 2006 and 2005
(expressed in U.S. dollars)

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Total assets employed					
As at May 31, 2006	\$ 6,218,894	\$ 10,520,044	\$ 3,987,931	\$ -	\$ 20,726,869
As at November 30, 2005	\$ 17,648,501	\$ -	\$ 3,553,353	\$ -	\$ 21,201,854

Geographically, revenues reported are based on the location of the Company's customers.

	For the three months ended		For the six months ended	
	May 31, 2006	May 31, 2005	May 31, 2006	May 31, 2005
Europe	\$ 214,969	\$ 239,296	\$ 387,582	\$ 1,563,393
Australia/New Zealand	387,200	388,712	774,272	642,177
United States	4,562,929	514,621	6,848,260	677,463
Canada	974,771	390,616	1,792,506	488,096
Total	\$ 6,139,869	\$ 1,533,245	\$ 9,802,620	\$ 3,371,129

Geographically, plant and equipment and intangible and other assets are reported based on location. At May 31, 2006 and November 30, 2005, all of the Company's plant and equipment and intangible and other assets were located in Canada and the U.S. as follows:

	May 31, 2006		
	Canada	U.S.	Total
Plant and equipment	\$ 839,677	\$ 240,955	\$ 1,080,632
Intangible and other assets	329,675	540,883	870,558
Total	\$ 1,169,352	\$ 781,838	\$ 1,951,190

	November 30, 2005		
	Canada	U.S.	Total
Plant and equipment	\$ 817,459	\$ 51,939	\$ 869,398
Intangible and other assets	296,826	328,973	625,799
Total	\$ 1,114,285	\$ 380,912	\$ 1,495,197

13) Reconciliation of generally accepted accounting principles

The Company prepares its unaudited interim consolidated financial statements in accordance with U.S. generally accepted accounting principles which, as applied in these unaudited interim consolidated financial statements, conform in all material respects to Canadian GAAP, except for the differences below as follows:

(a) Under Canadian GAAP, for stock option awards granted by the Company after December 1, 2003, the Company is required to recognize compensation when stock options are granted to employees and directors under stock option plans with no cash settlement feature based on the fair value method. As permitted by the standard, the Company had applied this change prospectively for new awards granted on or after December 1, 2003. Prior to December 1, 2005 under U.S. GAAP, the Company accounted for stock-based compensation to employees and directors in accordance with the intrinsic value method of the Accounting

Notes to the Consolidated Financial Statements (unaudited)
Three and Six Months Ended May 31, 2006 and 2005
(expressed in U.S. dollars)

Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Effective December 1, 2005, under U.S. GAAP the Company accounts for stock-based compensation to employees and directors in accordance with the fair value method of FASB Statement 123(R) "Accounting for Stock-based Compensation"

(b) Under Canadian GAAP, there is no requirement to record the beneficial conversion feature and accretion of discount when preference shares are issued with attached warrants. For U.S. GAAP purposes, during the fiscal years 2003 and 2005 the Company recorded beneficial conversion features of \$455,425 and \$3,881,027, respectively, on the issuance of Class B preference shares Series 1 and 2, as a reduction to the net earnings available to common shareholders calculated on the effective conversion price of the preference shares to common shares based on the proceeds allocated to the preference shares. In both cases, the conversion feature of the preference shares vested immediately and the Company recorded the accretion of the full amount of the beneficial conversion feature. For both the Series 1 and Series 2 Class B preference shares, the discount on these shares that resulted from the allocation of the gross proceeds to the Class B preference shares and to the attached warrants is accreted over the five-year life of the warrants. This resulted in an accretion of \$186,512 and \$362,773 to deficit for the three and six months ended May 31, 2006, respectively (\$91,032 for the three and six months ended May 31, 2005).

(c) Under Canadian GAAP, there is a requirement for derivatives outside of hedging relationships to be recognized on the balance sheet at fair market value, however for derivatives in hedging relationships, Canadian GAAP does not specify how such derivatives should be recorded. As a result, under Canadian GAAP in some instances derivatives may not be recorded on the balance sheet. Under U.S. GAAP it is required that all derivatives be recorded as assets or liabilities, measured at fair value. Derivatives that are not hedges are adjusted to fair value through income. If the derivative is a hedge, depending upon the nature of the hedge, changes in the fair value of the derivative are either offset against the fair value of assets, liabilities or firm commitments through income, or recognized in other comprehensive income until the hedged item is recognized in income. The ineffective portion of a derivative's change in fair value is immediately recognized into income. With respect to the ineffective portion of derivative's changes in fair value, the Company had a foreign exchange gain of \$12,131 for the three and six months ended May 31, 2006 (foreign exchange loss of \$6,269 for the three and six months ended May 31, 2005) under U.S. GAAP which has not been recorded under Canadian GAAP.

(d) Under Canadian GAAP, the Company was not required to record stock-based compensation for stock options granted to third parties prior to December 1, 2001. Under U.S. GAAP, the Company is required to record stock-based compensation for options granted to third parties based on the fair value method as required by SFAS 123(R) retroactive for all prior periods. These stock based compensation transactions, result in differences of \$649,092 (May 31, 2005 - \$649,092) when compared to the same balances as previously reported under Canadian GAAP.

(e) For Canadian GAAP financial statement purposes, the Company's 30,262 (November 30, 2005 - 30,262) Class A preference shares have been presented at a nominal value. For U.S. GAAP financial statement purposes, these shares have been presented at a value of \$19,227.

(f) For Canadian GAAP financial statement purposes, the Company has recorded a cumulative translation adjustment of \$2,655,028 (at November 30, 2005 \$2,290,623) which is a separate component of shareholders' equity. For U.S. GAAP purposes changes in the cumulative translation adjustment are included as a component of accumulated other comprehensive income.

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited)
Three and Six Months Ended May 31, 2006 and 2005
(expressed in U.S. dollars)

(g) If Canadian GAAP were followed:

i) the effect on the Consolidated Statements of Earnings would be:

	For the three months ended		For the six months ended	
	May 31, 2006	May 31, 2005	May 31, 2006	May 31, 2005
Earnings (loss) for the period, U.S. GAAP	\$ (2,137)	\$ (1,370,047)	\$ (1,231,793)	\$ (1,568,513)
Adjustment for stock-based compensation (a),(d)	-	(169,685)	-	(189,632)
Adjustment for loss on derivative (e)	12,131	6,269	12,131	6,269
Earnings (loss) for the period, Canadian GAAP	\$ 9,994	\$ (1,194,093)	\$ (1,219,662)	\$ (1,372,612)
Basic and diluted earnings (loss) per common share, Canadian GAAP	0.00	(0.04)	(0.04)	(0.05)
Weighted average number of common shares, basic and diluted, Canadian GAAP	32,301,357	27,488,074	32,301,507	27,488,074

ii) Balance Sheet items which would differ under Canadian GAAP are as follows:

	May 31, 2006	November 30, 2005
Common shares (d)	\$ 16,411,824	\$ 14,724,437
Class B Series 2 preference shares (b)	7,431,150	8,517,064
Additional paid in capital (a), (b)	478,435	613,459
Accumulated Deficit (a), (b), (c), (d), (f)	12,209,165	11,215,678
Cumulative translation adjustment (f)	-	-
Accounts receivable (c)	7,211,685	-