

OSI Geospatial Inc.

(formerly Offshore Systems International Ltd.)

Interim Consolidated Financial Statements (Unaudited)
Three and Nine Months Ended August 31, 2006 and 2005
(expressed in thousands of 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 thousands of U.S. dollars)

	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 (note 6)	6,534	9,419
Income taxes recoverable	23	-
Inventory (note 7)	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 (note 5)	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
	<hr/>	<hr/>
	3,901	4,257
<u>Stockholders' Equity</u>		
Issued and outstanding		
30,262 Class A Series A preference shares (2005 – 30,262) (note 8(a))	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) (note 8(b))	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
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 Loss (unaudited)

(expressed in thousands of U.S. dollars – except share numbers and values)

	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) (note 11)				
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 (note 8(d))	<u>\$ (953)</u>	<u>\$ (1,025)</u>	<u>\$ (3,074)</u>	<u>\$ (6,806)</u>
Loss per share (note 8(d))				
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 (note 8(d))				
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

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 nine months ended August 31, 2006
(expressed in thousands of U.S. dollars)

	Number	Amount
Class A preference shares		
Balance at November 30, 2005	30,262	\$ 19
Balance at August 31, 2006	<u>30,262</u>	<u>\$ 19</u>
Class B preference shares		
Balance at November 30, 2005	341,240	\$ 9,041
Accretion of discount on Class B preference shares	-	548
Class B preference shares converted to common shares	(24,000)	(669)
Tax benefit related to share issue costs	-	72
Balance at August 31, 2006	<u>317,240</u>	<u>\$ 8,992</u>
Common shares		
Balance at November 30, 2005	30,367,309	\$ 15,145
Shares Issued to CHI shareholders (note 5)	1,067,975	753
Class B preference shares converted to common shares	1,411,764	928
Exercise of stock options	90,000	59
Balance at August 31, 2006	<u>32,937,048</u>	<u>\$ 16,885</u>
Warrants		
Balance at November 30, 2005	13,788,365	\$ 4,286
Balance at August 31, 2006	<u>13,788,365</u>	<u>\$ 4,286</u>
Additional paid-in capital		
Balance at November 30, 2005		\$ 3,900
Class B preference shares converted to common shares		(239)
Stock-based compensation		104
Balance at August 31, 2006		<u>\$ 3,765</u>
Accumulated deficit		
Balance at November 30, 2005		\$ (17,736)
Accretion of discount on Class B preference shares		(548)
Class B preference shares converted to common shares		(20)
Dividends on Class B preference shares		(527)
Net loss for the period		(1,998)
Balance at August 31, 2006		<u>\$ (20,829)</u>
Accumulated other comprehensive income		
Foreign currency translation adjustment		
Balance at November 30, 2005		\$ 2,290
Adjustment for the three months ended February 28, 2006		148
Adjustment for the three months ended May 31, 2006		217
Adjustment for the three months ended August 31, 2006		(37)
Balance at August 31, 2006		<u>\$ 2,618</u>
Total stockholders' equity		<u>\$ 15,736</u>

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 Nine Months Ended August 31, 2006 and 2005
 (expressed in thousands of U.S. dollars)

	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	123	580	286
Stock-based compensation	-	24	104	37
Deferred income taxes	(60)	73	(67)	(3)
	(635)	(88)	(1,381)	(1,557)
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
	110	(183)	2786	1,875
	(525)	(271)	1,405	318
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)
	-	(129)	(8,333)	(1,390)
Cash flows from (used in) financing activities				
Payment to operating line of credit	-	(163)	-	(163)
Issue of common shares	53	1	59	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)
	53	(202)	(468)	11,096
Translation adjustment	(34)	(388)	87	(560)
Increase (decrease) in cash	(506)	(990)	(7,309)	9,464
Cash and cash equivalents – beginning of period	1,419	10,665	8,222	211
Cash and cash equivalents – end of period	\$ 913	\$ 9,675	\$ 913	\$ 9,675

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

Notes to the Consolidated Financial Statements (unaudited)
Three and Nine Months Ended August 31, 2006 and 2005
(expressed in thousands of 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 generally accepted accounting principles 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 Inc.'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. Beginning in the first quarter of fiscal 2006, we have changed our financial reporting in order to reflect changes in management's analysis of our business. Our consolidated revenue categories have changed to marine systems, land and air systems, and mapping and our reportable segments are now U.S. Systems Operations, International Systems Operations, Mapping Operations, and Corporate and Public Company costs.

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,

Notes to the Consolidated Financial Statements (unaudited)
Three and Nine Months Ended August 31, 2006 and 2005
(expressed in thousands of U.S. dollars)

“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 consolidated statements of loss 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.

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 nine month periods ended August 31, 2006 increased by \$3 thousand and \$10 thousand respectively.

4) Accounting changes

a) 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.

b) Recent pronouncements

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard 157, Fair Value Measurements (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (“GAAP”), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, the application of this Statement will change current practice, effective December 1, 2007. The adoption of SFAS 157 will not have a material impact on the Company’s consolidated financial statements.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48 - Accounting for Uncertainty in Income Taxes (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited) Three and Nine Months Ended August 31, 2006 and 2005 (expressed in thousands of U.S. dollars)

December 15, 2006. The adoption of FIN 48 will not have a material impact on the Company's consolidated financial statements

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 \$9.0 million for 100% of the outstanding shares of CHI Systems, of which \$8.1 million 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 will be finalized before November 30, 2006. The final allocation may be subject to refinement based on the final review by an independent business valuator.

Assets	
Current assets	\$ 2,058
Plant and equipment	225
Intangible and other assets	375
Goodwill	7,725
Total assets acquired	<u>\$ 10,383</u>
Liabilities	
Current liabilities not including deferred tax liabilities	715
Deferred tax liabilities	165
Total liabilities assumed	<u>\$ 880</u>
Net assets acquired (cash and common share consideration)	\$ 8,849
Direct acquisition costs incurred by the Company	654
Total acquisition costs	9,503
Less fair value of net identifiable assets acquired	1,778
Goodwill	<u>\$ 7,725</u>
Cash of acquired operations	<u>\$ 627</u>

The fair value of the assets acquired, including goodwill, and liabilities assumed in the acquisition have been "pushed down" to CHI Systems.

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited)
Three and Nine Months Ended August 31, 2006 and 2005
(expressed in thousands of U.S. dollars)

The following table presents details of the purchased intangible assets:

	Estimated useful life	Amount
Patents	5 years	\$ 130
Customer contracts	2 to 36 months	135
Customer relationships	indefinite	110
Total intangible assets		<u>\$ 375</u>

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

	3 Months Ended August 31,		9 Months Ended August 31,	
	2006	2005	2006	2005
Revenue	4,316	5,436	14,501	14,528
Net Loss	(766)	(105)	(2,028)	(1,448)
Net Loss per share – basic	(0.03)	(0.03)	(0.10)	(0.33)
Net Loss per share – diluted	(0.03)	(0.02)	(0.10)	(0.33)

Information regarding this acquisition can be found in the Company's Business Acquisition Report, as filed on SEDAR at www.sedar.com or our annual Form 20-F report filed on EDGAR at www.sec.gov.

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 \$1.1 million. 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.

6) Accounts receivable

	August 31, 2006	November 30, 2005
Trade	\$ 3,219	\$ 6,218
Unbilled revenue	3,052	2,564
Technology Partnerships Canada contribution	246	625
Other	34	48
Allowance for doubtful accounts	(17)	(36)
	<u>\$ 6,534</u>	<u>\$ 9,419</u>

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited)
Three and Nine Months Ended August 31, 2006 and 2005
(expressed in thousands of U.S. dollars)

7) Inventory

	August 31, 2006	November 30, 2005
Materials and components	\$ 1,300	\$ 938

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 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) Issued and outstanding common shares

During the nine months ended August 31, 2006, 24,000 preference shares were converted into 1,411,764 common shares with an aggregate fair market value of \$928 thousand. The Preference shares were reduced by \$669 thousand, the carrying value of the shares converted, and the beneficial conversion feature attributed to the converted shares resulted in a deduction of \$239 thousand from additional paid in capital. The conversion resulted in an increase of \$20 thousand to deficit.

c) Stock option plans

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

	Number	Weighted average exercise price
Outstanding – November 30, 2005	3,674,417	\$ 0.84
Granted	247,500	0.67
Forfeited	(160,000)	0.82
Expired	(113,333)	0.89
Exercised	(90,000)	0.66
Outstanding and Exercisable – August 31, 2006	3,558,584	\$ 0.83

Stock-based compensation

For the three and nine months ended August 31, 2006, the Company incurred non-cash stock-based compensation expense of \$0 and \$104 thousand respectively, related to stock options granted to the end of August 31, 2006 (three and nine month period ended August 31, 2005 - \$24 thousand and \$37 thousand). The expense was included in general and administrative costs and was recorded in additional paid-in capital.

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited)
Three and Nine Months Ended August 31, 2006 and 2005
(expressed in thousands of U.S. dollars)

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%

d) Loss per share

Loss per share - basic	For the three months ended August 31,	
	<u>2006</u>	<u>2005</u>
Net loss for the period	\$ (766)	\$ (308)
Less: Accretion of discount on Class B preference shares	(187)	(169)
Class B preference share dividends	-	(279)
Excess of conversion consideration over carrying value of Class B preference shares Series 2 and beneficial conversion feature	-	(269)
Net loss available to common shareholders	<u>\$ (953)</u>	<u>\$ (1,025)</u>
Weighted average number of common shares outstanding – basic	<u>32,891,635</u>	<u>27,556,109</u>
Loss per share – basic	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>

Loss per share - diluted	For the three months ended August 31,	
	<u>2006</u>	<u>2005</u>
Net loss for the period	\$ (766)	\$ (308)
Less: Accretion of discount on Class B preference shares	(187)	(3,270)
Excess of conversion consideration over carrying value of Class B preference shares Series 2 and beneficial conversion feature	-	(269)
Net loss available to common shareholders	<u>\$ (953)</u>	<u>\$ (3,847)</u>
Weighted average number of common shares outstanding – diluted	<u>32,891,635</u>	<u>49,240,815</u>
Loss per share – diluted	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited)
Three and Nine Months Ended August 31, 2006 and 2005
(expressed in thousands of U.S. dollars)

Loss per share – basic and diluted	For the nine months ended August 31,	
	2006	2005
Net loss for the period	\$ (1,998)	\$ (1,877)
Less: Class B preference share dividends	(527)	(481)
Accretion of discount on Class B preference shares	(549)	(598)
Accretion of beneficial conversion feature on Class B Series 2 preference shares	-	(3,881)
Excess of conversion consideration over carrying value of Class B preference shares Series 2 and beneficial conversion feature	-	(269)
Excess of carrying value of Class B Series 1 preference shares and beneficial conversion feature over repurchase consideration paid	-	300
Net loss available to common shareholders	\$ (3,074)	\$ (6,806)
Weighted average number of common shares outstanding – basic and diluted	32,160,508	27,510,254
Loss per share – basic and diluted	\$ (0.10)	\$ (0.25)

If all preferred shares were converted, and all warrants and options were exercised, there would be a total of 68,975,426 common shares outstanding at August 31, 2006 (August 31, 2005 – 67,563,202). As a result of the exercise of all warrants and options, the company would receive cash of \$13.9 million (August 31, 2005 - \$12.9 million).

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 August 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 \$672 thousand and 350,000 common share purchase warrants. The cash compensation of \$672 thousand paid to Mr. Coxe included an adjustment in the amount of \$13 thousand 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 our Board of Directors. Mr. Shields provides legal services to the company through a law firm in which he has an interest. The fees billed to the company by Mr. Shields' firm for the three months and nine months ended August 31, 2006 were \$18 thousand and \$154 thousand, respectively (three and nine months ended August 31, 2005 – \$8 thousand and \$50 thousand).

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited)
Three and Nine Months Ended August 31, 2006 and 2005
(expressed in thousands of U.S. dollars)

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 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 nine months ended August 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 August 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 August 31,		Nine months ended August 31,	
	2006	2005	2006	2005
Deferred income tax expense (recovery) \$	(60) \$	73 \$	(67) \$	(21)
Current income tax expense (recovery)	(87)	(14)	7	68
Income tax expense (recovery) \$	<u>(147) \$</u>	<u>59 \$</u>	<u>(60) \$</u>	<u>47</u>
Effective tax rate	19%	(19%)	3%	(3%)

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 August 31, 2006				
	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 1,240	\$ 2,022	\$ 1,054	\$ -	\$ 4,316
Gross profit	719	472	212	-	1,403
Technology Partnerships Canada - net	(172)	-	-	-	(172)
Interest expense	-	-	-	3	3
Income tax expense (recovery)	-	6	(210)	57	(147)
Net earnings (loss)	(91)	25	85	(785)	(766)
Plant and equipment expenditures	(4)	4	(2)	(2)	(4)
Intangible expenditures	1	10	5	-	16
Depreciation and amortization	\$ 48	\$ 77	\$ 65	\$ 1	\$ 191

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2006 and 2005

(expressed in thousands of U.S. dollars)

Three Months Ended August 31, 2005

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 1,774	\$ -	\$ 844	\$ -	\$ 2,618
Gross profit	1,190	-	282	-	1,472
Technology Partnerships Canada - net	(242)	-	-	-	(242)
Interest expense	-	-	-	3	3
Income tax expense (recovery)	4	-	-	55	59
Net earnings (loss)	238	-	(12)	(534)	(308)
Plant and equipment expenditures	32	-	10	-	42
Intangible expenditures	-	-	43	-	43
Depreciation and amortization	\$ 47	\$ -	\$ 75	\$ 1	\$ 123

Nine Months Ended August 31, 2006

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 4,958	\$ 6,244	\$ 2,917	\$ -	\$ 14,119
Gross profit	3,012	1,439	741	-	5,192
Technology Partnerships Canada - net	(511)	-	-	-	(511)
Interest expense	-	-	-	15	15
Income tax expense (recovery)	(1)	(12)	218	(145)	60
Net earnings (loss)	169	75	(35)	(2,207)	(1,998)
Plant and equipment expenditures	42	19	24	(2)	83
Intangible expenditures	53	23	33	-	109
Depreciation and amortization	\$ 145	\$ 230	\$ 201	\$ 4	\$ 580

Nine Months Ended August 31, 2005

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 4,146	\$ -	\$ 1,843	\$ -	\$ 5,989
Gross profit	2,264	-	530	-	2,794
Technology Partnerships Canada - net	(761)	-	-	-	(761)
Interest expense	9	-	2	9	20
Income tax expense (recovery)	(54)	-	46	55	47
Net loss	(52)	-	(296)	(1,529)	(1,877)
Plant and equipment expenditures	102	-	23	-	125
Intangible expenditures	14	-	60	-	74
Depreciation and amortization	\$ 132	\$ -	\$ 150	\$ 4	\$ 286

OSI Geospatial Inc.

U.S. GAAP

Notes to the Consolidated Financial Statements (unaudited)
 Three and Nine Months Ended August 31, 2006 and 2005
 (expressed in thousands of U.S. dollars)

Total assets employed	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
As at August 31, 2006	\$ 5,442	\$ 10,339	\$ 3,312	\$ 544	\$ 19,637
As at November 30, 2005	\$ 17,649	\$ -	\$ 3,553	\$ -	\$ 21,202

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

	For the three months ended		For the nine months ended	
	August 31, 2006	August 31, 2005	August 31, 2006	August 31, 2005
Europe	\$ 651	\$ 741	\$ 1,084	\$ 2,306
Australia/New Zealand	149	342	933	984
United States	3,304	806	10,006	1,483
Canada	212	729	2,096	1,216
Total	\$ 4,316	\$ 2,618	\$ 14,119	\$ 5,989

Geographically, plant and equipment and intangible and other assets are reported based on location. At August 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:

	August 31, 2006		
	Canada	U.S.	Total
Plant and equipment	\$ 793	\$ 216	\$ 1,009
Intangible and other assets	305	457	762
Total	\$ 1,098	\$ 673	\$ 1,771

	November 30, 2005		
	Canada	U.S.	Total
Plant and equipment	\$ 817	\$ 52	\$ 869
Intangible and other assets	297	329	626
Total	\$ 1,114	\$ 381	\$ 1,495

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 Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Effective December 1, 2005,

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2006 and 2005

(expressed in thousands of U.S. dollars)

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 thousand and \$3,881 thousand, 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 \$185 thousand and \$548 thousand to deficit for the three and nine months ended August 31, 2006, respectively (\$415 thousand and \$443 thousand for the three and nine months ended August 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 loss of \$9 thousand for the three months ended August 31, 2006 and a foreign exchange gain of \$3 thousand for the nine months ended August 31, 2006 (foreign exchange loss of nil and \$7 thousand for the three and nine months ended August 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 thousand (August 31, 2005 - \$649 thousand) 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 thousand.

(f) For Canadian GAAP financial statement purposes, the Company has recorded a cumulative translation adjustment of \$2.6 million (at November 30, 2005 \$2.3 million) 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 Nine Months Ended August 31, 2006 and 2005
(expressed in thousands of 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 nine months ended	
	August 31, 2006	August 31, 2005	August 31, 2006	August 31, 2005
Net loss, U.S. GAAP	\$ (766)	\$ (308)	\$ (1,998)	\$ (1,877)
Adjustment for stock-based compensation (a),(d)	-	(421)	-	(611)
Adjustment for loss on derivative (c)	3	1	3	7
Net loss, Canadian GAAP	(763)	(728)	(1,995)	(2,481)
Net loss available to common shareholders, Canadian GAAP	\$ (763)	\$ (728)	\$ (2,522)	\$ (2,962)
Basic and diluted earnings (loss) per common share, Canadian GAAP	(0.02)	(0.03)	(0.08)	(0.11)
Weighted average number of common shares, basic and diluted, Canadian GAAP	32,891,635	27,556,109	32,160,508	27,510,254

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

	August 31, 2006	November 30, 2005
Common shares (d)	\$ 16,235	\$ 14,724
Class B Series 2 preference shares (b)	7,488	8,517
Additional paid in capital (a), (b)	383	613
Accumulated Deficit (a), (b), (c), (d), (f)	12,679	11,216
Cumulative translation adjustment (f)	-	-
Accounts receivable (c)	6,530	-