

# **OSI Geospatial Inc.**

**Interim Consolidated Financial Statements (Unaudited)  
Three and Nine Months ended August 31, 2007 and 2006  
(expressed in U.S. dollars)**

(Prepared in accordance with Canadian Generally Accepted Accounting Principles)

---

# OSI Geospatial Inc.

(Incorporated under the laws of the Province of British Columbia, Canada)  
Consolidated Balance Sheets (unaudited)

In thousands of U.S. dollars

August 31, 2007 November 30, 2006

## Assets

### **Current assets**

Cash	\$ 202	\$ -
Accounts receivable (note 5)	10,425	12,707
Income taxes recoverable	173	28
Inventory (note 6)	1,336	1,063
Prepaid expenses and deposits	549	535
Current portion of future income tax asset	90	-
	<hr/>	<hr/>
	12,775	14,333
<b>Future income tax asset</b>	49	-
<b>Equipment and furnishings</b>	1,690	1,089
<b>Intangible and other assets</b>	698	794
<b>Goodwill</b>	8,330	8,129
	<hr/>	<hr/>
	\$ 23,542	\$ 24,345

## Liabilities

### **Current liabilities**

Bank indebtedness	\$ -	\$ 904
Accounts payable and accrued liabilities	4,011	4,887
Income taxes payable	54	86
Unearned revenue	452	667
Current portion of deferred rent	36	-
Current portion of future income tax liability	17	-
	<hr/>	<hr/>
	4,570	6,544
<b>Deferred rent</b>	342	-
<b>Future income tax liability</b>	83	20
	<hr/>	<hr/>
	4,995	6,564

### **Commitments and contingency** (note 8)

## Shareholders' Equity

### Issued and outstanding

30,262 Class A Series A preference shares (November 30, 2006 – 30,262) (note 7a)	19	19
190,670 Class B, Series 2 preference shares (November 30, 2006 – 279,840) (note 7b)	4,850	7,115
46,242,326 common shares (November 30, 2006 – 35,137,046) (note 7b)	21,058	15,887
	<hr/>	<hr/>
	25,927	23,021
<b>Warrants</b>	4,618	4,286
<b>Contributed surplus</b>	1,562	1,343
<b>Accumulated deficit</b>	(15,806)	(13,296)
<b>Accumulated other comprehensive income</b>	2,246	2,427
	<hr/>	<hr/>
	18,547	17,781
	<hr/>	<hr/>
	\$ 23,542	\$ 24,345

The accompanying notes are an integral part of the consolidated financial statements.

# OSI Geospatial Inc.

## Consolidated Statements of Operations (unaudited)

In thousands of U.S. dollars, except share related data	Three months ended August 31,		Nine months ended August 31,	
	2007	2006	2007	2006
<b>Revenue</b>				
Marine systems	\$ 3,124	\$ 1,240	\$ 6,267	\$ 4,958
Land and air systems	2,627	2,022	7,294	6,244
Mapping	1,591	1,054	3,489	2,917
	<u>7,342</u>	<u>4,316</u>	<u>17,050</u>	<u>14,119</u>
<b>Cost of sales</b>	<u>4,294</u>	<u>2,913</u>	<u>10,878</u>	<u>8,927</u>
<b>Gross profit</b>	<u>3,048</u>	<u>1,403</u>	<u>6,172</u>	<u>5,192</u>
<b>Expenses</b>				
General and administrative	1,451	1,460	4,249	4,320
Engineering	231	389	1,101	1,382
Sales and marketing	755	510	2,252	1,668
Depreciation and amortization	75	142	220	412
Interest expense	22	3	48	15
Interest income	-	-	(7)	(20)
Foreign exchange loss (gain)	43	(18)	65	(18)
Loss on sale of fixed assets	-	2	-	2
Technology Partnerships Canada royalty	139	55	276	220
Technology Partnerships Canada contribution	-	(227)	-	(731)
	<u>2,716</u>	<u>2,316</u>	<u>8,204</u>	<u>7,250</u>
<b>Net earnings (loss) before income taxes</b>	<u>332</u>	<u>(913)</u>	<u>(2,032)</u>	<u>(2,058)</u>
Future income tax recovery	(10)	(117)	(59)	(140)
Current income tax expense (recovery)	63	(87)	103	(65)
<b>Income tax expense (note 9)</b>	<u>53</u>	<u>(204)</u>	<u>44</u>	<u>(205)</u>
<b>Net earnings (loss)</b>	<u>\$ 279</u>	<u>\$ (709)</u>	<u>\$ (2,076)</u>	<u>\$ (1,853)</u>
<b>Net earnings (loss) available to common shareholders (note 7d)</b>	<u>\$ 109</u>	<u>\$ (972)</u>	<u>\$ (2,628)</u>	<u>\$ (2,642)</u>
<b>Earnings (loss) per share (note 7d) - basic and diluted</b>	\$ 0.00	\$ (0.03)	\$ (0.07)	\$ (0.08)
<b>Weighted average number of common shares outstanding (note 7d) – basic and diluted</b>	42,377,958	32,891,635	39,635,112	32,160,508
<b>Dividends declared per share</b>				
Class B preference shares – Series 2	\$ -	\$ -	\$ 1.64	\$ 1.59

The accompanying notes are an integral part of the consolidated financial statements.

# OSI Geospatial Inc.

## Consolidated Statements of Shareholders' Equity and Accumulated Deficit (unaudited) For the nine months ended August 31, 2007

In thousands of U.S. dollars except share numbers

	Units		
<b>Class A preference shares</b>			
Balance at November 30, 2006	30,262	\$	19
Balance at August 31, 2007	30,262	\$	19
<b>Class B preference shares</b>			
Balance at November 30, 2006	279,840	\$	7,115
Class B preference shares converted to common shares	(89,170)		(2,265)
Balance at August 31, 2007	190,670	\$	4,850
<b>Common shares</b>			
Balance at November 30, 2006	35,137,046	\$	15,887
Class B preference shares converted to common shares	5,245,280		2,265
Shares issued	5,860,000		3,219
Share issue costs, net of tax benefit			(313)
Balance at August 31, 2007	46,242,326	\$	21,058
<b>Warrants</b>			
Balance at November 30, 2006	13,788,368	\$	4,286
Warrants issued	2,780,000		332
Balance at August 31, 2007	16,568,368	\$	4,618
<b>Contributed surplus</b>			
Balance at November 30, 2006		\$	1,343
Share based broker compensation			74
Stock-based compensation			145
Balance at August 31, 2007		\$	1,562
<b>Accumulated deficit</b>			
Balance at November 30, 2006		\$	(13,296)
Dividends on Class B preference shares			(382)
Tax expense on dividends			(52)
Net loss for the period			(2,076)
Balance at August 31, 2007		\$	(15,806)
<b>Accumulated other comprehensive income</b>			
Foreign currency translation adjustment			
Balance at November 30, 2006		\$	2,427
Adjustment for the period			(181)
Balance at August 31, 2007		\$	2,246
<b>Total shareholders' equity</b>		<b>\$</b>	<b>18,547</b>

The accompanying notes are an integral part of the consolidated financial statements.

# OSI Geospatial Inc.

## Consolidated Statements of Cash Flows (unaudited)

Three and Nine Months Ended August 31, 2007 and 2006

In thousands of U.S. dollars	Three Months ended August 31,		Nine months ended August 31,	
	2007	2006	2007	2006
<b>Cash flows from (used in) operating activities</b>				
Net earnings (loss) for the period	\$ 279	\$ (709)	\$ (2,076)	\$ (1,853)
Items not affecting cash				
Depreciation and amortization	129	191	377	580
Stock-based compensation	5	-	145	104
Future income taxes	(83)	(116)	(177)	(73)
	330	(634)	(1,731)	(1,309)
Changes in non-cash working capital items				
Accounts receivable	(2,644)	690	2,504	4,326
Inventory	96	(190)	(155)	(300)
Prepaid expenses and deposits	75	(151)	36	(59)
Accounts payable and accrued liabilities	367	(167)	(1,381)	(1,387)
Income taxes payable	87	(85)	(143)	(256)
Unearned revenue	(57)	12	(330)	390
Deferred rent	363	-	363	-
	(1,713)	109	894	2,714
	(1,383)	(525)	(837)	1,405
<b>Cash flows from (used in) investing activities</b>				
Purchase of CHI Systems Inc., net of cash acquired (note 4b)	-	(4)	-	(8,127)
Purchase of Liddy International Inc. (note 4a)	-	-	(25)	-
Decrease (increase) in marketable securities	-	16	-	(143)
Decrease in restricted cash	-	-	-	129
Additions to equipment and furnishings	(111)	-	(225)	(83)
Additions to leasehold improvements	(540)	-	(540)	-
Additions to intangibles and other assets	-	(12)	(31)	(109)
	(651)	-	(821)	(8,333)
<b>Cash flows from (used in) financing activities</b>				
Payments to operating line of credit	(548)	-	(904)	-
Issue of common shares	2,812	53	2,812	59
Issue of warrants	332	-	332	-
Class B preference share dividends	(382)	-	(382)	(527)
	2,214	53	1,858	(468)
<b>Effect of foreign exchange on cash</b>	22	(34)	2	87
<b>Increase (decrease) in cash</b>	202	(506)	202	(7,309)
<b>Cash – beginning of period</b>	-	1,419	-	8,222
<b>Cash – end of period</b>	\$ 202	\$ 913	\$ 202	\$ 913

The accompanying notes are an integral part of the consolidated financial statements.

# OSI Geospatial Inc.

## Notes to the Consolidated Financial Statements (unaudited) Three and Nine Months Ended August 31, 2007 and 2006

### 1 Basis of presentation

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 OSI Geospatial or the Company. These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") and all amounts have been expressed in thousands of U.S. dollars unless otherwise noted.

The annual and interim consolidated financial statements issued to date in 2007, 2006 and 2005 were prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). These previously released financial statements included a reconciliation to Canadian GAAP. The Company has restated all comparative amounts presented in the financial statements in accordance with Canadian GAAP and will re-issue the unaudited interim consolidated financial statements for the quarters ended February 28, 2007 and May 31, 2007, including full comparative information presented in accordance with Canadian GAAP.

These unaudited interim consolidated financial statements do not include all the information and footnote disclosures required by Canadian GAAP for annual financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto.

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.

The preparation of these unaudited interim consolidated financial statements and requires management to make estimates and assumptions that affect the amounts reported. 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. 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 provides digital land map and electronic nautical chart production services, and produces and distributes electronic nautical chart data.

### 3 Accounting changes

#### a) Changes in accounting policies

In line with the conversion to Canadian GAAP referred to in Note 1 above, the Company has adopted the provisions of CICA Handbook Section 3855 *Financial Instruments – Recognition and Measurement*, CICA Handbook Section 3861 *Financial Instruments – Presentation and Disclosure*, CICA Handbook Section 3865 *Hedges* and CICA Handbook Section 1530 *Comprehensive Income*. These provisions became effective for the fiscal year beginning December 1, 2006.

#### (i) Financial Instruments – Recognition and Measurement

# OSI Geospatial Inc.

## Notes to the Consolidated Financial Statements (unaudited)

### Three and Nine Months Ended August 31, 2007 and 2006

This standard prescribes the recognition and measurement of financial instruments. Section 3855 requires that all financial assets and liabilities (including derivatives) be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on the classification of the instruments. All financial instruments must be classified as one of the following categories: held for trading, held to maturity, loans and receivables, available for sale assets and other financial liabilities.

The financial assets categorized as held for trading are measured at fair value with unrealized gains and losses recognized in net income. Section 3855 permits an entity to designate any financial instruments as held for trading on initial recognition or adoption of this standard, even if that instrument would not otherwise meet the definition of held for trading as specified in Section 3855. The Company's financial instruments classified as held for trading have included forward contracts and marketable securities, when used. The Company has historically measured these instruments at fair value and any unrealized gains and losses have been included in income.

Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The Company currently has no assets classified as available for sale.

The financial assets classified as loans and receivables and held to maturity are measured at amortized cost. There is no change in accounting treatment for these financial instruments as a result of adoption of Section 3855.

#### **(ii) Financial Instruments – Presentation and Disclosure**

CICA Handbook Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Effective December 1, 2007, the Company will be required to adopt two new CICA standards: Section 3862 Financial Instruments – Disclosures; and Section 3863 Financial Instruments – Presentation, which will replace Section 3861 Financial Instruments – Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in December 2006 and the Company is assessing the impact on its consolidated financial statements.

#### **(iii) Hedges**

This standard sets out the criteria of when hedge accounting is applied and how it is applied. It provides the option of designating qualifying transactions as hedges for accounting purposes. The qualifying hedging relationships include fair value hedges, cash flow hedges, and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. The changes in the fair value of the hedging derivatives will be recognized in net earnings or other comprehensive income depending on the nature of the hedging relationships. Any gains and losses resulting from any ineffectiveness in hedging relationships are recognized in net income immediately. The Company does not currently have any hedges and as a result there is no change on adoption of Section 3865.

#### **(iv) Comprehensive Income**

This section establishes standards for the reporting and disclosure of other comprehensive income ["OCI"] in a new category, Accumulated Comprehensive Income, which will be added to shareholders' equity on the consolidated balance sheet. Comprehensive income includes all changes in equity of the Company during a period except those resulting from investments by shareholders and distributions to shareholders. The major components included in Accumulated Comprehensive Income are unrealized gains and losses on financial assets classified as available for sale, and unrealized foreign exchange gains and losses arising on translation of the financial statements of self-sustaining foreign operations.

# OSI Geospatial Inc.

## Notes to the Consolidated Financial Statements (unaudited)

### Three and Nine Months Ended August 31, 2007 and 2006

As a result of previously preparing the Company's financial statements in accordance with U.S. GAAP, the adoption of Section 1530 alongside the conversion to Canadian GAAP has not resulted in any change in disclosure on the Company's balance sheet.

#### b) 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. 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 foreign currency translation adjustment.

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

## 4 Acquisitions

### a) Liddy International Inc.

On April 23, 2007, the Company through its subsidiary CHI Systems Inc., acquired the assets of Liddy International Inc. ("Liddy"), a United States defense contracting company and established Layered Security Solutions ("LSS"). LSS provides business continuity solutions against hazards and has the capability to develop deterrence, response and recovery strategies designed to deal with global threats to business and government. Under the terms of the agreement, the Company paid approximately \$184,000 for assets and goodwill of Liddy, of which \$25,000 was paid in cash with the balance paid by the issuance of 300,000 common shares of the Company of which 200,000 common shares are held in escrow subject to the satisfaction of certain contractual provisions.

The following table summarizes the fair value of the assets acquired by the Company at April 23, 2007, the date of acquisition. The acquisition was accounted for using the purchase method whereby assets acquired were recorded at their fair values at April 23, 2007. 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 three months subject to the final review by an independent business valuator.

In thousands of U.S. dollars

#### Assets

Furniture and Fixtures	\$	8
Computer Equipment		17
Goodwill		200
<b>Total assets acquired</b>		<u>225</u>
Net assets acquired (cash and common share consideration)		184
Direct acquisition costs incurred by the Company		<u>41</u>
<b>Total acquisition costs</b>	\$	225
Less fair value of net identifiable assets acquired		<u>25</u>
<b>Goodwill</b>		<u>200</u>

The assets acquired are fully deductible for US tax purposes.

# OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2007 and 2006

## b) CHI Systems Inc.

On December 14, 2005, the Company acquired CHI Systems Inc. ("CHI Systems"), 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. Information regarding this acquisition can be found in the company's audited consolidated financial statements for the year ended November 30, 2006 as reported in our 2006 Annual Report filed on SEDAR at [www.sedar.com](http://www.sedar.com) or our annual Form 20-F reported on EDGAR at [www.sec.gov](http://www.sec.gov). The results of CHI Systems' operations have been included in the consolidated financial statements commencing December 14, 2005.

## 5 Accounts receivable

In thousands of U.S. dollars

	August 31, 2007	November 30, 2006
Trade	\$ 5,232	\$ 5,143
Unbilled revenue	4,961	7,257
Technology Partnerships Canada contribution	32	269
Other	254	97
Allowance for doubtful accounts	(54)	(59)
	<u>\$ 10,425</u>	<u>\$ 12,707</u>

## 6 Inventory

In thousands of U.S. dollars

	August 31, 2007	November 30, 2006
Materials and components	\$ 1,107	\$ 958
Finished goods	229	105
	<u>\$ 1,336</u>	<u>\$ 1,063</u>

## 7 Capital Stock

### a) Class A preference shares

The Company has 30,262 (November 30, 2006 – 30,262) Class A preference shares outstanding that have a value of \$19,000 (November 30, 2006 - \$19,000) 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) Issued and outstanding common shares

- (i) During the nine months ended August 31, 2007, 89,170 Class B preference shares were converted into 5,245,280 common shares. The Class B preference shares were reduced, and the common shares were increased, by \$2.3 million, the carrying value of the shares converted. An additional 300,000 common shares were issued as part of the Liddy acquisition (note 4a).
- (ii) On July 31, 2007, the Company closed a private placement offering resulting in the placement of 5,560,000 units (the "Units") of the Company at a price of \$0.61 per Unit (CDN \$0.65), for gross

# OSI Geospatial Inc.

## Notes to the Consolidated Financial Statements (unaudited)

### Three and Nine Months Ended August 31, 2007 and 2006

proceeds of \$3.4 million. Each Unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.75 per common share (CDN \$0.80) for a period of 24 months expiring July 31, 2009.

The gross proceeds from the private placement were allocated as follows: \$3.1 million was allocated to the 5,560,000 common shares issued and \$332,000 was allocated to the 2,780,000 warrants issued. Share issue costs associated with the private placement amounted to \$322,000 and included a \$74,000 broker compensation warrant entitling the broker to purchase up to 333,600 Units of the Company at a price of \$0.61 per Unit (CDN \$0.65) for a period of 24 months from the closing of the offering.

#### c) Stock option plans

A summary of the status of the Company's stock option plans at August 31, 2007 is as follows:

In U.S. dollars

	Number of shares	Weighted average exercise price
Outstanding – November 30, 2006	3,417,584	\$ 0.89
Granted	625,000	0.60
Cancelled	(203,000)	0.87
Expired	(698,418)	1.03
Outstanding – August 31, 2007	3,141,166	0.81
Exercisable – August 31, 2007	3,057,207	0.82

#### Stock-based compensation

For the three and nine months ended August 31, 2007 the Company incurred non-cash stock-based compensation expense of \$5,000 and \$145,000, related to 625,000 stock options granted (three and nine months ended August 31, 2006 - \$nil and \$104,000). Of the options granted in the nine month period ended August 31, 2007, 521,000 options vested immediately, 52,000 will vest over one year and 52,000 will vest over two years from the grant date. The expense was included in general and administrative costs and was recorded in contributed surplus.

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

	2007	2006
Risk-free interest rate	4.09%	2.98%
Volatility	49%	54%
Estimated average option lives	5 years	5 years
Dividend yield	0.0%	0.0%

# OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2007 and 2006

## d) Earnings (loss) per share

In thousands of U.S. dollars except share related data	<b>For the three months ended August 31,</b>	
<b>Earnings (loss) per share – basic and diluted</b>	<b>2007</b>	<b>2006</b>
Net earnings (loss) for the period	\$ 279	\$ (709)
Less:		
Class B preference share dividends	(170)	(263)
Net earnings (loss) available to common shareholders	\$ 109	\$ (972)
Weighted average number of common shares outstanding – basic and diluted	42,377,958	32,891,635
Earnings (loss) per share – basic and diluted	\$ 0.00	\$ (0.03)

In thousands of U.S. dollars except share related data	<b>For the nine months ended August 31,</b>	
<b>Loss per share – basic and diluted</b>	<b>2007</b>	<b>2006</b>
Net loss for the period	\$ (2,076)	\$ (1,853)
Less:		
Class B preference share dividends	(552)	(789)
Net loss available to common shareholders	\$ (2,628)	\$ (2,642)
Weighted average number of common shares outstanding – basic and diluted	39,635,112	32,160,508
Loss per share – basic and diluted	\$ (0.07)	\$ (0.08)

The preference shares, the outstanding warrants and stock options were anti-dilutive for the purposes of calculating diluted earnings (loss) per share for the three and nine months ended August 31, 2007 and 2006.

If all preferred shares were converted, and all warrants and options were exercised, there would be a total of 77,198,001 common shares outstanding at August 31, 2007 (November 30, 2006 – 68,834,425). As a result of the exercise of all warrants and options, the Company would receive cash of \$16.2 million (November 30, 2006 - \$13.4 million).

## 8 Commitments and Contingency

The Company has entered into a one year guarantee for one of the Company's subsidiaries, CHI Systems Inc. The Company has guaranteed CHI's bank line of credit that was put in place by the previous owners prior to OSI Geospatial's acquisition of CHI. The maximum potential amount of future payments the Company could be required to make under this guarantee is \$600,000. At August 31, 2007, the carrying amount of the liability was nil.

# OSI Geospatial Inc.

## Notes to the Consolidated Financial Statements (unaudited)

### Three and Nine Months Ended August 31, 2007 and 2006

In July 2002, two of the Company's subsidiaries, Offshore Systems Ltd. and OSI Geomatics Ltd. (now Mapcon Mapping 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, 2007 in respect of these claims because the potential liability for the claims and the amount of damages, if any, cannot be reasonably estimated.

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

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

The company has entered into operating leases for its office premises in Canada, United States and for certain equipment. Minimum lease payments required under the remaining terms of the leases are as follows:

Payments due by period	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
In thousands of U.S. dollars					
Facility leases	\$ 3,761	\$ 643	\$ 1,194	\$ 869	\$ 1,055
Equipment leases	79	32	38	9	-
Total contractual obligations	<u>\$ 3,840</u>	<u>\$ 675</u>	<u>\$ 1,232</u>	<u>\$ 878</u>	<u>\$ 1,055</u>

## 9 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, 2007 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, and items not deductible for income tax purposes. The change in effective tax rate from 2007 to 2006 was due primarily to the effect of the change in valuation allowance.

At August 31, 2007, the Company adjusted its valuation allowance against future 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 future tax assets for which there is significant uncertainty of future realization.

In thousands of U.S. dollars	Three months ended August 31,		Nine months ended August 31,	
	2007	2006	2007	2006
Future income tax recovery	\$ (10)	\$ (117)	\$ (59)	\$ (140)
Current income tax expense (recovery)	63	(87)	103	(65)
Income tax expense	<u>\$ 53</u>	<u>\$ (204)</u>	<u>\$ 44</u>	<u>\$ (205)</u>
Effective tax rate	16%	22%	(2%)	10%

# OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2007 and 2006

## Segmented information

The Company's reportable segments are as outlined below. 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.

In thousands of U.S. dollars

Three Months Ended August 31, 2007

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 2,390	\$ 3,361	\$ 1,591	\$ -	\$ 7,342
Gross profit	1,331	1,127	590	-	3,048
Technology Partnerships Canada	139	-	-	-	139
Interest expense	-	7	-	15	22
Income tax expense (recovery)	-	(5)	36	23	54
Net earnings (loss)	287	578	194	(781)	279
Equipment and furnishings expenditures	441	15	170	25	651
Intangible expenditures	5	(12)	6	1	-
Depreciation and amortization	\$ 56	\$ 43	\$ 28	\$ 2	\$ 129

In thousands of U.S. dollars

Nine Months Ended August 31, 2007

	International Systems Operations	U.S. Systems Operations	Mapping Operations	Corporate and Public Company Costs	Total
Revenue	\$ 5,533	\$ 8,028	\$ 3,489	\$ -	\$ 17,050
Gross profit	2,915	2,092	1,165	-	6,172
Technology Partnerships Canada	276	-	-	-	276
Interest expense	-	8	-	40	48
Income tax expense	-	(17)	(25)	86	44
Net earnings (loss)	(656)	859	117	(2,396)	(2,076)
Equipment and furnishings expenditures	489	58	183	35	765
Intangible expenditures	15	(3)	18	1	31
Depreciation and amortization	\$ 159	\$ 113	\$ 101	\$ 4	\$ 377

# OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2007 and 2006

In thousands of U.S. dollars

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)	-	(204)
Net earnings (loss)	(91)	25	85	(728)	(709)
Equipment and furnishings expenditures	(4)	4	2	(2)	-
Intangible expenditures	1	10	1	-	12
Depreciation and amortization	\$ 48	\$ 77	\$ 65	\$ 1	\$ 191

In thousands of U.S. dollars

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)	11	12	(218)	(10)	(205)
Net earnings (loss)	169	75	(35)	(2,062)	(1,853)
Equipment and furnishings expenditures	42	19	24	(2)	83
Intangible expenditures	53	23	33	-	109
Depreciation and amortization	\$ 145	\$ 230	\$ 201	\$ 4	\$ 580

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, 2007	\$ 8,995	\$ 10,578	\$ 3,692	\$ 277	\$ 23,542
As at November 30, 2006	\$ 10,483	\$ 10,599	\$ 3,283	\$ (20)	\$ 24,345

# OSI Geospatial Inc.

Notes to the Consolidated Financial Statements (unaudited)

Three and Nine Months Ended August 31, 2007 and 2006

Geographically, revenues reported are based on the location of the Company's customers as follows:

In thousands of U.S. dollars	Three months ended August 31,		Nine months ended August 31,	
	2007	2006	2007	2006
Europe	\$ 1,166	\$ 651	\$ 3,297	\$ 1,084
Australia/New Zealand	1,121	149	1,556	933
United States	4,235	3,304	9,773	10,006
Canada	820	212	2,424	2,096
<b>Total</b>	<b>\$ 7,342</b>	<b>\$ 4,316</b>	<b>\$ 17,050</b>	<b>\$ 14,119</b>

Geographically, equipment and furnishings, and intangible and other assets are reported based on location. At August 31, 2007 and November 30, 2006, all of the Company's equipment and furnishings, and intangible and other assets were located in Canada and the U.S. as follows:

In thousands of U.S. dollars	August 31, 2007		
	Canada	U.S.	Total
Equipment and furnishings	\$ 1,406	\$ 284	\$ 1,690
Intangible and other assets	463	235	698
Goodwill		8,330	8,330
<b>Total</b>	<b>\$ 1,869</b>	<b>\$ 8,849</b>	<b>\$ 10,718</b>

In thousands of U.S. dollars	November 30, 2006		
	Canada	U.S.	Total
Equipment and furnishings	\$ 859	\$ 230	\$ 1,089
Intangible and other assets	322	472	794
Goodwill	-	8,129	8,129
<b>Total</b>	<b>\$ 1,181</b>	<b>\$ 8,831</b>	<b>\$ 10,012</b>