



2005 Annual Report

Growth Strategy

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2005 Achievements

EXPAND ACCESS INTO KEY MARKETS



- OSI completes private placement raising net proceeds of \$14.2 million to support acquisition strategy
- OSI acquires U.S.-based digital land mapping company, Mapcon Mapping Consultants
- Mapping division generates \$3.5 million in new U.S. business following acquisition
- OSI acquires U.S.-based CHI Systems, a key technology supplier to the U.S. military

LEVERAGE CORE TECHNOLOGY INTO NEW MARKETS



- OSI becomes one of the few companies to provide both surface and submarine technology meeting NATO's navigation standard for warships
- Common Operational Picture – Tactical Display Server products delivered to customers in Canada and the U.S.
- Common Operational Picture product line in first full deployment by the Royal Danish Navy

DEVELOP NEW AND EXISTING CUSTOMER RELATIONSHIPS



- OSI asked to meet with 15 military, intelligence, and other government agencies in the U.S., New Zealand, and Canada, with additional requests expected from the U.K. and Australia, following global counter-terror demonstration of Common Operational Picture technology
- OSI secures \$3.8 million in additional software licenses and long-term support to outfit the U.K. Royal Navy
- OSI secures \$1.7 million prime contract to supply integrated submarine navigation systems for the Canadian Navy's Victoria Class submarines
- OSI secures contracts exceeding \$1.1 million from the Royal Australian Navy
- OSI secures contracts valued at more than \$1.2 million from the Danish Home Guard patrol and Royal Danish Navy
- OSI secures \$800,000 contract for Royal New Zealand Navy's shipbuilding program
- OSI secures \$450,000 in additional marine systems contracts with the Portuguese Navy

PARTNER WITH THE BIGGEST AND THE BEST IN THE INDUSTRY



- OSI signs agreement with Raytheon Marine GmbH to pursue integrated bridge system opportunities: project underway to incorporate OSI's warship navigation system into the integrated bridge system on the new destroyer being built for the U.K. Royal Navy
- OSI signs teaming agreement with Terma A/S to integrate the Common Operational Picture product line into Terma's next-generation command and control system. The agreement also allows for ongoing business development in Denmark and other markets.
- Microsoft Canada partners with OSI to demonstrate its Sharepoint® portal solution using the OSI Common Operational Picture product line at the Coalition Warrior Interoperability Demonstration (CWID)

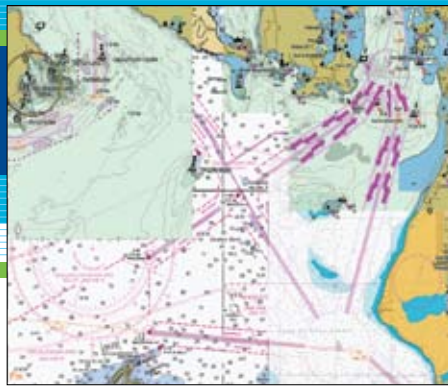


MARINE

LAND



Command & Control



INTELLIGENCE

AIR



OSI systems and software provide essential geospatial and tactical data to help decision-makers know the precise location of mission operations across all forces – sea, ground, and air.

Our systems improve mission safety and effectiveness.

OSI has been a major force in driving the adoption of digital navigation technology. Today our systems are the standard for six NATO and allied naval fleets and are in use by two more. To win business in the competitive international defense and commercial markets, we have strongly differentiated our products, teamed with top-tier defense contractors, and forged long-term customer relationships. Our current partners include BAE Systems, Kelvin Hughes, Lockheed Martin, Nautronix, Northrop Grumman, Raytheon, and Terma.

The majority of our research and development is devoted to sustaining the leadership of our product lines and ensuring that our customers have a path to continued improvements. Significant infrastructure investment is required by customers to deploy our technology, and beyond the initial deployment, our customers increasingly fund research and development to build additional functionality. In 2005, most of our revenue came from existing customers to upgrade, improve, and add to their technological capabilities.

Ultimately, defense and government spending is driven by real-world threats. OSI develops technologies and systems to improve the quality of tactical and geospatial data available to decision-makers as they respond to these threats. We believe the increasing need and value derived from the enhanced situational awareness provided by our products, as well as our strong partnerships and customer relationships, will be important growth drivers.

The image below is a fielded tactical display in use today on many of the world's warships. The screen on the right shows the significant improvement in the information displayed after deploying OSI technology.

Standard Tactical Display



Enhancing Situational Awareness

Growth Opportunities

We deliver products and services to a large and fast-growing part of the defense and homeland security market, which generates an estimated US\$500 million of annual spending in the U.S. alone. Our systems and software address critical issues – namely the need for enhanced situational awareness, interoperability, and network-enabled warfare – in the following two market areas:

Marine Systems

Even today many of the world's major warships still navigate using paper charts. OSI is leading the adoption of electronic chart navigation systems by NATO and its allied community. Our advanced software and systems strengthen the analytical and decision-making ability of navies around the world by enabling them to know their precise location as well as the details of their surroundings. We have also developed a full suite of commercial grade navigation products aimed at large ocean-going commercial vessels.

With the adoption of our Common Operational Picture product line (COP PL), enhanced situational awareness is migrating from the bridge to the operations room. First launched in late 2003, COP PL is specifically designed for joint and coalition force applications that require open architectures and network-enabled capabilities.

Land and Air Systems

The need for interoperability during coalition operations combined with a growing emphasis on geospatial intelligence to support strategic decision-making is driving demand for enhanced situational awareness in land and air systems. Our advanced technology systems provide critical capability for defense and intelligence forces by enabling multiple users to share information from a variety of data sources.

Our command, control, and intelligence applications, including COP PL and C3Core, deliver fully integrated, rapidly deployable, and scalable decision-support capability for network-enabled, distributed operations. Our iGEN® simulation-based training systems focus on military applications and provide advanced training functionality based on cognitive agent technology.

We have over 20 years experience in producing precise and standardized mapping and marine chart data products. We estimate the annual market in North America for digital map production services is approximately US\$500 million.

Mapping

Urban growth and technological change increase the need for land map production. In particular the extensive adoption of Geographical Information Systems (GIS) throughout North America has driven digital map production. Compared to paper, digital maps bring greater precision, flexibility, and a broader range of applications.

Through our acquisition strategy, we have developed visibility in high growth areas of the mapping market and are focused on securing prime contract work in the U.S. with government, military, and commercial customers.

OSI Advantages

- Pioneer in electronic chart navigation
- Leading supplier of military navigation systems
- Eight NATO and allied naval customers
- Leads industry in ships under contract
- Most advanced submarine-specific electronic navigation product available today
- Partnerships with top-tier defense contractors
- U.S. acquisitions add market-specific expertise in command and control and mapping applications
- Industry reputation for delivering high quality mapping products under demanding schedules

Tactical Display with Enhanced Situational Awareness



➔ Our vision is to become the leading provider of software and systems for enhancing situational awareness in command, control, and intelligence applications.

2005 was a breakthrough year for our company: we acquired the U.S. market access we need to move forward with our growth strategy.



Vision



Letter to the Shareholders



Raymond Johnston
Chair of the Board



Kenneth Kirkpatrick
President and CEO

Growing Opportunities Drive Demand

OSI is ideally positioned to capitalize on a number of trends that suggest significant and lasting demand in the defense and homeland security markets for products targeted at enhanced situational awareness.

MILITARIES PERFORM COMBAT OPERATIONS CLOSER TO SHORE AND IN COMPLEX URBAN ENVIRONMENTS.

The shift to network-enabled and “three block war” style of combat is forcing technology advancements and infrastructure upgrades which seek to enable greater interaction and cooperation of troops.



Fellow Shareholders:

2005 was a significant year.

OSI is world-renowned for its pioneering of electronic chart navigation technology. Over the years we have grown to be the market leader in military navigation systems. To date we have assembled an impressive contingent of NATO and allied customers and have formed strong partnerships with top-tier defense contractors.

Years ago, we successfully forecasted the adoption of electronic navigation by the world’s leading naval powers – and today the decision to adopt an electronic navigation system is no longer a decision of “if” but “when”.

Our customers’ needs continue to grow and change, and we are well positioned to use our accumulated technical and market expertise to meet their evolving requirements. Today we are



COUNTRIES CONDUCT MILITARY OPERATIONS AS COALITIONS.

Coalition forces require mission-critical technologies enhancing situational awareness and enabling interoperability among allies to aid decision-making at all levels of the military.

DEFENSE AND HOMELAND SECURITY IS A GROWING PRIORITY.

Funding for defense programs providing enhanced situational awareness remains a priority as military services accelerate integration of advanced technologies into current platforms.

DEMAND IS RAPIDLY ON THE RISE FOR FAST, FLEXIBLE, AND PRECISE MAPPING PRODUCTS.

Urban expansion and new technologies are facilitating growth in military and commercial mapping applications.

taking the technology and capability of our navigation systems to deliver the value of enhanced situational awareness beyond the ship's bridge and for use by other military services.

It has always been critical for OSI to pursue a strategy that will help us to grow rapidly and, over time, substantially increase our size and capabilities. To do this, our ongoing focus has been on developing innovative products, forming valuable partnerships, building strong customer relationships, and retaining a skilled team of dedicated employees. In 2005, we continued to demonstrate our ability to execute on these and other measures. Most importantly, in the past year we have expanded our capabilities by growing through strategic acquisitions.

Acquisitions Lead to U.S. Market Access

Direct access to the U.S. market was our highest priority in 2005. To that aim, we targeted for acquisition successful U.S.-based companies with a complementary product and market focus.

Through a private placement of preferred shares completed in April, we raised net funds of \$14.2 million to pursue strategic acquisitions. By the end of that month we had closed our first U.S.-based acquisition and purchased Mapcon Mapping Consultants for approximately \$1.3 million in cash. This acquisition builds on our existing mapping business and solidly positions us in the U.S. digital mapping market. In only eight months, our mapping division reported approximately \$3.5 million in new U.S. business from virtually no U.S. mapping business in the prior year. This is a clear indication that our U.S. market access strategy is working.

We began negotiations in mid-summer to purchase a second U.S.-based company, one which would double our size and provide access to the U.S. military services. Subsequent to our fiscal year-end in December, we completed the acquisition of CHI Systems, a privately-held technology supplier to the U.S. Department of Defense, for a combination of cash and stock valued at approximately \$10.3 million. We intend to maintain CHI Systems' current operations headquartered in Philadelphia, and have

retained the existing management team that fostered revenue growth and profitability through the company's 20-year history. We expect the acquisition to be accretive to our operations and anticipate the addition of revenue from CHI Systems will help to smooth quarter-to-quarter shifts in our consolidated revenue.

As a combined company, we will benefit from the union of our complementary product offerings, customer base, and market expertise. Like OSI, CHI Systems is focused on command and control applications, and their expertise in land and air systems complements our technology leadership in the marine market. Together we will pursue significant opportunities in the global defense industry. We expect to benefit from the ability to market and sell existing products and services to each other's customers and look forward to sharing technologies and competencies in the development of new offerings.

Developing Strong, Long-term Customer Relationships

In 2005, we continued to target new customers and increase business with our existing customer base. Initial deployment of our systems requires significant infrastructure and capital investment by our customers. This encourages customers to partner long-term with suppliers that can develop and customize mission-critical systems to meet their specific requirements. To date we lead the industry in fleet customers and ships under contract. This year we reported strong business from our existing customer base. Approximately \$15.5 million in contracts were awarded by existing customers in Australia, Canada, Denmark, New Zealand, Portugal, the United Kingdom, and the United States. Furthermore, the Canadian Navy expanded its partnership with OSI by adopting our sub-surface navigation system on its Victoria class submarines.

Market-Leading Product Innovation

Our ability to deliver innovative new products to the market is a pillar of our competitive strength. Our research and development team employs some of the most creative and skilled people in our field. They have consistently delivered

Celebrating the Best in the Industry

More than 160 vessels from over 35 countries celebrated the 200th anniversary of the Battle of Trafalgar held in Portsmouth in July 2005.

In addition to commemorating the achievements of Admiral Lord Nelson and his victory, Trafalgar 200 also recognized the strong maritime bonds of friendship and heritage shared by many countries.



At the event, the U.K. Royal Navy referred to the OSI electronic chart navigation system as a "world-class system" and "an important step forward in the history of the Royal Navy's navigation."





OSI's world-leading electronic chart navigation system was on board several vessels attending the Trafalgar 200 event, including the HMCS Montreal from Canada and the HMS Illustrious, HMS Nottingham and HMS Westminster from the United Kingdom. Other customers of OSI attending the celebration included the navies of Australia, Canada, Denmark, Portugal, and the United States.



innovative products that exceed expectations and offer enduring value to our customers. Key to our product development strategy for new markets, we have leveraged our core technology to diversify our product offering. This year two products based on our world-leading technology for safe navigation and situational awareness captured their first contract wins. Our Shipboard Navigation and Plotting System is being deployed by the Canadian Navy and the U.K. Royal Navy, and the Royal Danish Navy will be the first to fully deploy our Common Operational Picture product line on their vessels.

Partnering with Industry Leaders

We continue to pursue strategic partnerships with the biggest and the best in our industry. In 2005, we extended our relationship with Terma A/S for our Common Operational Picture product line and also signed a teaming agreement with Raytheon Marine in Germany to pursue integrated bridge system opportunities. Strong partnerships are a necessity in our industry and remain an essential building block of our strategy.

Building for the Future

2005 was a year of significant change and progress. While our financial performance this year has not demonstrated the strength originally forecasted, we have addressed key challenges and invested resources to increase our market reach. We closed the year positioned solidly in the U.S. with offices in Philadelphia, Orlando, Salt Lake City, and San Diego. We have a strategy to penetrate the U.S. defense and homeland security markets and innovative, leading-edge products to win in those markets.

Through the year the OSI team has demonstrated themselves adept at managing the competing demands of our growing company. We want to extend our gratitude to the entire OSI team. Looking ahead, we see momentum for OSI as a result of our actions in 2005. Together as a team, we will drive performance and growth.

Focus and Growth in 2006

Our long-term goal is to become the leading provider of software and systems for enhancing situational awareness in command, control, and intelligence applications. We intend to reach this goal through the execution of our growth strategy and disciplined management of our operations.

Our products and services address the critical needs of customers in three key segments: marine systems, land and air systems, and mapping. Each represents a significant market opportunity.

We believe the marine systems market demonstrates significant demand, and we intend to use our technology leadership to pursue business with new and existing customers. We are encouraged by the positive feedback from our naval customers about our Common Operational Picture product line. With the first full deployment underway by the Royal Danish Navy, we expect other opportunities to integrate this functionality on naval vessels. In the mapping and the land and air systems markets, we have been building our capabilities over the last few years. These businesses have been fortified by the U.S. acquisitions made in 2005, and we will dedicate the resources in the next year to fully capitalize on their value.

We believe the investments made in 2005 will enable significant growth and market penetration and generate value for shareholders into 2006 and beyond.

Sincerely,



Kenneth Kirkpatrick
President and CEO



Raymond Johnston
Chair of the Board



Through strategic customer partnerships, we continue to pursue business in the commercial shipping industry with both confined waters and deep-sea shipping companies. We supply systems to some of the world's leading shipping operators, including Teekay Shipping Corporation and Canada Steamship Lines. Our commercial navigation solutions are based on International Maritime Organization (IMO) type approved software. Complete system solutions are designed to fit customer-specific applications.

→ Directors & Officers

Raymond Johnston ^{1,2,3}

Chair of the Board
Director

E. Brinton Cox

Director

Kenneth Kirkpatrick

President & Chief Executive Officer
Director

Helmut Lobmeier ^{1,2,3}

Director

Capt. Walter Purio ^{1,2,3}

Director

Gerald Shields

Director

Andrew Carniel

Vice President
Corporate Development

John Sentjens

Vice President Finance

¹ Member of Audit Committee

² Member of Human Resources and
Compensation Committee

³ Member of Executive Committee

→ Corporate Headquarters

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Orlando, FL
32826 USA

102A – 11838 Bernardo Plaza Court
San Diego, CA
92128-2413 USA

Mapcon Mapping Inc.
4545 South, 2300 East
Salt Lake City, UT
84117-1078 USA

Offshore Systems Ltd.
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North Vancouver, BC
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→ Investor Inquiries

Inquiries relating to shares or dividends should be directed to the Company's Registrar and Transfer Agent:

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T: 514-982-7555 (International)
F: 866-249-7775
service@computershare.com
www.computershare.com

Inquiries relating to the Company's operating activities and financial information should be directed to:

Tracy Rawa
Manager, Investor Relations
T: 1-888-880-9797 or 604-904-4627
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Registered and Records Office

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V6C 3H1 Canada

Stock Listings

The Company's common shares are traded on the Toronto Stock Exchange under the symbol OSI and on the Over the Counter Bulletin Board under the symbol OFSYF.

Annual Meeting

Date: Wednesday, April 12, 2006

Time: 1:30 p.m. Pacific Time

Metropolitan Hotel

645 Howe Street

Vancouver, BC Canada

Offshore Systems International Ltd. (OSI) is the world's leading developer and supplier of military navigation systems. Focused on the commercial, defense, and homeland security markets, OSI delivers advanced systems and software to address the growing need for enhanced situational awareness in command, control, and intelligence applications. By providing essential tactical and geospatial information, our systems and software help decision-makers know the precise location of mission operations across all military forces while integrating information with allies. OSI systems are in use by military, government, and commercial customers around the world.

Based in Vancouver, Canada, OSI trades on the TSX (OSI) and the Over the Counter Bulletin Board (OFSYF). Learn more at www.osil.com.

Offshore Systems International Ltd.

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