



OSI Geospatial Inc.

**Consolidated Financial Statements
November 30, 2006 and 2005
(expressed in US dollars)**

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

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
OSI Geospatial Inc.

We have audited the consolidated balance sheets of **OSI Geospatial Inc.** as at November 30, 2006 and 2005 and the consolidated statements of earnings (loss), stockholders' equity and accumulated deficit and cash flows for each of the years in the three-year period ended November 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of OSI Geospatial Inc. as at November 30, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended November 30, 2006 in conformity with United States generally accepted accounting principles.

As discussed in Note 3b to the consolidated financial statements, during 2006, the Company changed its policy for accounting for share based payments.

Vancouver, Canada,
February 16, 2007.

Ernst & Young LLP

Chartered Accountants

OSI Geospatial Inc.

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

Consolidated Balance Sheets

As at November 30, 2006 and 2005

In thousands of U.S. dollars

| | 2006 | 2005 |
|---|-----------|-----------|
| Assets (note 12) | | |
| Current assets | | |
| Cash and cash equivalents | \$ - | \$ 8,222 |
| Restricted cash (note 6) | - | 190 |
| Accounts receivable (note 7) | 12,707 | 9,419 |
| Income taxes recoverable | 28 | - |
| Inventory (note 8) | 1,063 | 938 |
| Prepaid expenses and deposits | 535 | 532 |
| | <hr/> | <hr/> |
| | 14,333 | 19,301 |
| Plant and equipment (note 9) | 1,089 | 869 |
| Intangible and other assets (note 10) | 794 | 626 |
| Goodwill (note 5) | 8,129 | 406 |
| | <hr/> | <hr/> |
| | \$ 24,345 | \$ 21,202 |
| Liabilities | | |
| Current liabilities | | |
| Bank indebtedness | \$ 904 | \$ - |
| Accounts payable and accrued liabilities (note 11) | 4,887 | 3,360 |
| Income taxes payable | 86 | 242 |
| Unearned revenue | 667 | 454 |
| | <hr/> | <hr/> |
| | 6,544 | 4,056 |
| Deferred income taxes (note 17) | 20 | 201 |
| | <hr/> | <hr/> |
| | 6,564 | 4,257 |
| Stockholders' Equity | | |
| Issued and outstanding | | |
| 30,262 Class A Series A preference shares (2005 – 30,262) (note 13b) | 19 | 19 |
| 279,840 Class B, Series 2 preference shares (2005 – 341,240) (note 13c) | 8,696 | 9,624 |
| 35,137,046 common shares (2005 – 30,367,309) | 18,222 | 15,274 |
| | <hr/> | <hr/> |
| | 26,937 | 24,917 |
| Warrants (note 13e) | 4,286 | 4,286 |
| Additional paid in capital | 3,357 | 3,852 |
| Accumulated deficit | (19,226) | (18,401) |
| Accumulated other comprehensive income | 2,427 | 2,291 |
| | <hr/> | <hr/> |
| | 17,781 | 16,945 |
| | <hr/> | <hr/> |
| | \$ 24,345 | \$ 21,202 |

Commitments and Contingency (note 15)

Approved by the Board of Directors

"Raymond Johnston" Director

"Donald Young" Director

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

OSI Geospatial Inc.

Consolidated Statements of Earnings (Loss)

For the years ended November 30, 2006, 2005 and 2004

In thousands of U.S. dollars, except share related data

| | 2006 | 2005 | 2004 |
|--|-----------------|-------------------|----------------|
| Revenue | | | |
| Marine Systems | \$ 11,274 | \$ 8,181 | \$ 8,090 |
| Land and air systems | 8,761 | - | - |
| Mapping | 4,102 | 2,945 | 2,321 |
| | <u>24,137</u> | <u>11,126</u> | <u>10,411</u> |
| Cost of sales | <u>13,162</u> | <u>5,696</u> | <u>4,393</u> |
| Gross profit | <u>10,975</u> | <u>5,430</u> | <u>6,018</u> |
| Expenses | | | |
| General and administrative | 6,034 | 3,923 | 2,531 |
| Engineering | 1,783 | 1,670 | 1,611 |
| Sales and marketing | 2,527 | 2,354 | 2,421 |
| Depreciation and amortization | 510 | 245 | 177 |
| Interest expense | 21 | 23 | 2 |
| Interest income | (37) | (156) | (22) |
| Foreign exchange loss (gain) | (233) | 90 | (35) |
| Loss on sale of plant and equipment | 2 | 4 | - |
| Technology Partnerships Canada royalty (note 14) | 493 | 243 | 99 |
| Technology Partnerships Canada contribution (note 14) | (760) | (1,090) | (1,112) |
| | <u>10,340</u> | <u>7,306</u> | <u>5,672</u> |
| Net earnings (loss) before income taxes | <u>635</u> | <u>(1,876)</u> | <u>346</u> |
| Deferred income tax expense (recovery) | (265) | 726 | (491) |
| Current income tax expense | 207 | 147 | 534 |
| Income tax expense (recovery) (note 17) | <u>(58)</u> | <u>873</u> | <u>43</u> |
| Net earnings (loss) | <u>\$ 693</u> | <u>\$ (2,749)</u> | <u>\$ 303</u> |
| Net loss attributable to common shareholders (note 13(f)) | <u>\$ (825)</u> | <u>\$ (9,400)</u> | <u>\$ (14)</u> |
| Loss per share (note 13(f)) | | | |
| Basic | \$ (0.03) | \$ (0.34) | \$ (0.00) |
| Diluted | \$ (0.05) | \$ (0.34) | \$ (0.00) |
| Weighted average number of common shares outstanding (note 13(f)) | | | |
| Basic | 32,381,992 | 27,989,832 | 27,147,246 |
| Diluted | 48,843,168 | 27,989,832 | 29,856,412 |
| Dividends declared per share | | | |
| Class B preference shares – Series 1 | \$ - | \$ 2.36 | \$ 3.48 |
| Class B preference shares – Series 2 | \$ 3.13 | \$ 3.52 | \$ - |

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

OSI Geospatial Inc.

Consolidated Statements of Stockholders' Equity and Accumulated Deficit For the years ended November 30, 2006, 2005 and 2004

In thousands of U.S. dollars except share numbers

| | 2006 | | 2005 | | 2004 | |
|--|------------|-------------|------------|-------------|------------|------------|
| | Number | Amount | Number | Amount | Number | Amount |
| Class A preference shares | | | | | | |
| Balance at beginning of year | 30,262 | \$ 19 | 30,262 | \$ 19 | 30,262 | \$ 19 |
| Balance at end of year | 30,262 | \$ 19 | 30,262 | \$ 19 | 30,262 | \$ 19 |
| Class B preference shares | | | | | | |
| Balance at beginning of year | 341,240 | \$ 9,624 | 57,711 | \$ 1,441 | 61,244 | \$ 1,434 |
| Accretion of discount on Class B Series 1 preference shares | - | - | - | 262 | - | - |
| Repurchase of Class B Series 1 preference shares | - | - | (57,711) | (1,179) | - | - |
| Issue of Class B Series 2 preference shares, net | - | - | 390,000 | 9,908 | - | - |
| Beneficial Conversion feature on Class B Series 2 preference shares | - | - | - | (3,948) | - | - |
| Accretion of beneficial conversion on Class B series 2 preference shares | - | - | - | 3,948 | - | - |
| Accretion of discount on Class B Series 2 preference shares | - | 674 | - | 431 | - | 112 |
| Class B preference shares converted to common shares | (61,400) | (1,707) | (48,760) | (1,239) | (3,533) | (90) |
| Tax benefit related to share issue costs | - | 99 | - | - | - | - |
| Share issue costs | - | 6 | - | - | - | (15) |
| Balance at end of year | 279,840 | \$ 8,696 | 341,240 | \$ 9,624 | 57,711 | \$ 1,441 |
| Common shares | | | | | | |
| Balance at beginning of year | 30,367,309 | \$ 15,274 | 27,488,074 | \$ 12,937 | 26,807,475 | \$ 12,540 |
| Shares Issued to CHI shareholders (note 5) | 1,067,975 | 753 | - | - | - | - |
| Class B preference shares converted to common shares | 3,611,762 | 2,135 | 2,868,235 | 2,330 | 160,752 | 90 |
| Exercise of stock options | 90,000 | 60 | 11,000 | 7 | 519,847 | 307 |
| Balance at end of year | 35,137,046 | \$ 18,222 | 30,367,309 | \$ 15,274 | 27,488,074 | \$ 12,937 |
| Warrants | | | | | | |
| Balance at beginning of year | 13,788,368 | \$ 4,286 | 1,393,301 | \$ 437 | 1,393,301 | \$ 437 |
| Issue of warrants – net of issue costs | - | - | 12,395,067 | 3,849 | - | - |
| Balance at end of year | 13,788,368 | \$ 4,286 | 13,788,368 | \$ 4,286 | 1,393,301 | \$ 437 |
| Additional paid-in capital | | | | | | |
| Balance at beginning of year | | \$ 3,852 | | \$ 598 | | \$ 594 |
| Repurchase of Class B Series 1 preference shares | | - | | (442) | | - |
| Beneficial conversion feature on Class B Series 2 preference shares | | - | | 3,948 | | - |
| Class B preference shares converted to common shares | | (599) | | (494) | | - |
| Stock-based compensation | | 104 | | 242 | | 4 |
| Balance at end of year | | \$ 3,357 | | \$ 3,852 | | \$ 598 |
| Accumulated deficit | | | | | | |
| Balance at beginning of year | | \$ (18,401) | | \$ (9,001) | | \$ (8,987) |
| Repurchase of Class B Series 1 preference shares | | - | | (659) | | - |
| Accretion of beneficial conversion on Class B series 2 preference shares | | - | | (3,948) | | - |
| Accretion of discount on Class B Series 1 preference shares | | - | | (262) | | - |
| Accretion of discount on Class B Series 2 preference shares | | (674) | | (431) | | (112) |
| Difference between conversion consideration and carrying value of Class B Series 2 preference shares | | 170 | | (598) | | - |
| Dividends on Class B preference shares | | (1,014) | | (753) | | (205) |
| Net earnings (loss) for the year | | 693 | | (2,749) | | 303 |
| Balance at end of year | | \$ (19,226) | | \$ (18,401) | | \$ (9,001) |
| Accumulated other comprehensive income | | | | | | |
| Foreign currency translation adjustment | | | | | | |
| Balance at beginning of year | | \$ 2,291 | | \$ 1,691 | | \$ 1,024 |
| Adjustment for the year | | 136 | | 600 | | 667 |
| Balance at end of year | | \$ 2,427 | | \$ 2,291 | | \$ 1,691 |
| Total stockholders' equity | | \$ 17,781 | | \$ 16,945 | | \$ 8,122 |

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

OSI Geospatial Inc.

Consolidated Statements of Cash Flows

For the years ended November 30, 2006, 2005 and 2004

| In thousands of U.S. dollars | 2006 | 2005 | 2004 |
|--|----------------|-----------------|----------------|
| Cash flows from (used) in operating activities | | | |
| Net earnings (loss) for the year | \$ 693 | \$ (2,749) | \$ 303 |
| Items not affecting cash | | | |
| Depreciation and amortization | 763 | 404 | 278 |
| Loss on disposal of equipment | 2 | 3 | - |
| Stock-based compensation | 104 | 242 | 4 |
| Deferred income taxes | (319) | 764 | 43 |
| | <u>1,243</u> | <u>(1,336)</u> | <u>628</u> |
| Changes in non-cash working capital items | | | |
| Accounts receivable | (1,995) | (1,222) | (3,684) |
| Inventory | (109) | (363) | 33 |
| Prepaid expenses and deposits | 185 | (362) | 216 |
| Accounts payable and accrued liabilities | 809 | 1,079 | 247 |
| Income taxes payable | (173) | 131 | (10) |
| Unearned revenue | 197 | 356 | 27 |
| | <u>(1,086)</u> | <u>(381)</u> | <u>(3,171)</u> |
| | <u>157</u> | <u>(1,717)</u> | <u>(2,543)</u> |
| Cash flows used in investing activities | | | |
| Purchase of CHI Systems Inc., net of cash acquired (note 5) | (8,146) | - | - |
| Purchase of Mapcon Mapping Consultants Inc., net of cash acquired (note 5) | - | (973) | - |
| Decrease (increase) in restricted cash | 189 | (189) | - |
| Additions to plant and equipment | (290) | (70) | (110) |
| Additions to intangibles and other assets | (237) | (216) | (158) |
| | <u>(8,484)</u> | <u>(1,448)</u> | <u>(268)</u> |
| Cash flows from (used in) financing activities | | | |
| Advances from operating line of credit | 904 | - | - |
| Issue of common shares | 60 | 7 | 307 |
| Issue of Class B Series 2 preference shares and warrants, net of issue costs | - | 13,756 | - |
| Class B preference share issue costs | 6 | - | (15) |
| Repurchase of Class B Series 1 preference shares | - | (2,281) | - |
| Class B preference share dividends declared and paid | (1,014) | (753) | (205) |
| | <u>(44)</u> | <u>10,729</u> | <u>87</u> |
| Translation adjustment | <u>149</u> | <u>446</u> | <u>(13)</u> |
| Increase (decrease) in cash and cash equivalents | <u>(8,222)</u> | <u>8,010</u> | <u>(2,737)</u> |
| Cash and cash equivalents – beginning of year | <u>8,222</u> | <u>212</u> | <u>2,949</u> |
| Cash and cash equivalents – end of year | <u>\$ -</u> | <u>\$ 8,222</u> | <u>\$ 212</u> |

Refer to note 20 for supplemental cash flow information

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

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Notes to the Consolidated Financial Statements

November 30, 2006 and 2005

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 audited 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 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 thousands of U.S. dollars unless otherwise noted. As described in Note 21, these principles differ in certain material respects from those that the Company would have followed had the consolidated financial statements been prepared in accordance with Canadian generally accepted accounting principles.

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 (formerly the Geomatics business unit) provides digital land map and electronic nautical chart production services, and produces and distributes electronic nautical chart data.

3 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 foreign currency translation adjustment.

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

b) Changes in accounting policies relating to the adoption of U.S. GAAP

Effective December 1, 2004, the Company elected to report its consolidated financial statements in conformity with U.S. GAAP. All accounting policies are the same as described in note 4 to the Company's audited financial statements for the year ended November 30, 2004, which were prepared in accordance with Canadian GAAP filed with the appropriate securities commissions except for the following which have been retroactively adopted to comply with U.S. GAAP:

Stock-based compensation

The Company grants stock options to employees, officers, directors, and persons providing management or consulting services to the Company pursuant to the stock option plans described in note 13(d). As allowed by Statement of Financial Accounting Standard 123 Accounting for Share-Based Payments,

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("SFAS 123") as amended by Statement of Financial Accounting Standard 148, the Company followed the Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees, ("APB 25") and presented pro forma information required by SFAS 123. APB 25 required compensation cost for stock-based employee compensation plans to be recognized over the vesting period based on the difference, if any, between the quoted market price of the Company's stock as of the grant date and the amount an employee must pay to acquire the stock.

For stock options granted to non-employees, the Company followed the requirements of SFAS 123 and related interpretations. Costs were measured at the estimated fair value of the consideration received or the estimated fair value of the stock options issued, whichever was more reliably measurable. The value of the stock options issued for consideration other than employee services is determined on the earlier of a performance commitment or completion of performance by the provider of goods or services. Effective December 1, 2005 the Company adopted the provisions of Statement of Financial Accounting Standard 123(R) Accounting for Share-Based Payments, see note 4(o).

Beneficial conversion feature and accretion of discount on preference shares issued with attached warrants

For U.S. GAAP purposes, during the fiscal year 2005, the Company recorded beneficial conversion features of \$3.9 million on the issuance of Class B Series 2 preference shares, 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. The conversion feature of the preference shares vested immediately and the Company recorded the accretion of the full amount of the beneficial conversion feature. 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 \$674,000 for the Series 2 and \$nil for the Series 1 to accumulated deficit for the year ended November 30, 2006 (\$431,000 for the Series 2 and \$262,000 for the Series 1 to accumulated deficit for the year ended November 30, 2005).

Under Canadian GAAP, there is not a requirement to record the beneficial conversion feature and accretion of discount when preference shares are issued with attached warrants.

Derivative financial instruments

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.

c) Recent pronouncements

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

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beginning after December 15, 2006. The Company has not completed its analysis of the adoption of FIN 48 at this time.

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.

4 Summary of significant accounting policies

a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated on consolidation.

b) Foreign currency translation

For Canadian subsidiaries, the Canadian dollar is the functional currency. In accordance with the Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation," the financial statements of these subsidiaries are translated into U.S. dollars as follows: assets and liabilities at year-end exchange rates; income, expenses and cash flows at average exchange rates; and shareholders' equity at historical exchange rates. For those subsidiaries for which the Canadian dollar is the functional currency, the resulting translation adjustment is recorded as a component of accumulated other comprehensive income in the consolidated financial statements.

For U.S. subsidiaries, operations are conducted primarily in U.S. dollars, which is therefore the functional currency.

The Company purchases foreign exchange forward contracts to hedge sales to customers denominated in U.S. dollars, Australian dollars and Euros and the related accounts receivable. Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated U.S. dollar, Australian dollar, and Euro denominated sales are recognized as an adjustment of the revenues when the sale is recorded. The Company does not utilize derivative financial instruments for trading or speculative purposes.

c) Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the years reported. Actual results could differ from these estimates.

d) Cash and cash equivalents

Cash and cash equivalents consist of cash and deposit instruments with an initial maturity of three months or less.

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e) Accounts receivable

The Company maintains an allowance for doubtful accounts against its accounts receivable for estimated losses that may arise if any of its customers are unable to make required payments. Management specifically analyzes the age of outstanding customer balances, historical bad debts, customer credit-worthiness and changes in customer payment terms when making estimates of the uncollectability of the Company's accounts receivable. If the Company determines that the financial condition of any of its customers deteriorates, increases in the allowance may be made.

f) Inventory

Materials and components are stated at the lower of cost and replacement value as determined by the first-in first-out method. Work-in-process and manufactured parts are stated at the cost of materials and direct labour applied to the product and the applicable share of overhead. Finished goods are stated at the lower of cost and net realizable value. The Company assesses the need for inventory write-downs based on its assessment of estimated replacement or net realizable value using assumptions about future demand and market conditions. If market conditions differ from those originally estimated by the Company, an additional inventory write-down may be required.

g) Plant and equipment

Plant and equipment are recorded at cost. Amortization is provided using the methods indicated below and rates based on the assets' estimated useful lives as follows:

| | Method | Percentage |
|------------------------|-------------------|-------------------|
| Equipment | Declining balance | 20 – 25 |
| Vehicles | Declining balance | 30 |
| Furniture and fixtures | Declining balance | 20 |
| Leasehold improvements | Straight line | 50 |

An impairment loss is recognized when the undiscounted cash flows expected from use and eventual disposition of the asset are less than the carrying amount of the asset. An impairment charge is recorded to reduce the carrying value of the asset to its fair value.

h) Intangible and other assets

Intangible and other assets are recorded at cost. Amortization is provided using the methods indicated below and rates based on the assets' estimated useful lives as follows:

| | Method | Percentage |
|------------------------|-------------------|-------------------|
| Computer software | Declining balance | 33 |
| Customer contracts | Straight line | 75 |
| Customer relationships | Straight line | 10 – 25 |
| Security clearance | Straight line | 17 |
| Licenses and patents | Declining balance | 10 |

An impairment loss is recognized when the undiscounted cash flows expected from use and eventual disposition of the asset are less than the carrying amount of the asset. An impairment charge is recorded to reduce the carrying value of the asset to its fair value.

i) Goodwill

Acquisitions are accounted for using the purchase method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition. The excess of purchase price over such fair value is recorded as goodwill. The Company evaluates, on at least an annual basis, the carrying amounts of

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goodwill for impairment. To accomplish this, the Company compares the fair value of the reporting unit to the carrying amount. If the carrying value of the reporting unit were to exceed its fair value, the Company would perform the second step of the impairment test. In the second step, the Company would compare the fair value of the reporting unit goodwill to the carrying amount and any excess would be written down.

j) Income taxes

The Company accounts for income taxes using the liability method of tax allocation. Under the liability method, deferred income tax assets and liabilities are determined based on differences between their financial reporting and tax bases and are measured using enacted tax rates and laws expected to be in effect when the differences are expected to reverse. The Company provides a valuation allowance against deferred tax assets to the extent that the Company does not consider them to be more likely than not of being realized.

k) Revenue recognition

Revenue from certain projects in the International and U.S. Systems Operations segments are recognized using the percentage of completion method of accounting, whereby revenue and profit in the period are based on the ratio of costs incurred to total estimated costs of the project for each segment of the project. Costs include all direct costs including material, labor and subcontracting costs and certain indirect costs related to contracts. A provision is made for the entire amount of future estimated losses, if any, on contracts in progress.

Revenue from certain projects in the Mapping Operations segment are recognized using the proportional performance method of accounting, whereby revenue and profit in the period are based on the output completed to total units of work completed of the project for each segment of the project. A provision is made for the entire amount of future estimated losses, if any, on contracts in progress.

Certain other systems and system components revenue, and software revenue from the International and U.S. Systems Operations segments are recognized at the time of delivery of the system to the customer or the delivery of the software and software locks to the customer if persuasive evidence exists of an agreement with the customer, the price is fixed or determinable, collection is probable, and there are no ongoing obligations of the Company to provide future services with the exception of warranties and maintenance.

Revenue from the sale of products by Mapcon is recorded at the time of delivery. Revenue from systems components and other revenues are recorded at the time of delivery or as the services are provided.

Revenue from contracts with multiple deliverables is recognized based on the division of the multiple deliverables into separate units of accounting and arrangement consideration is allocated among separate units based on their relative fair values. Revenue from each unit is recognized in accordance with the applicable policies as described above.

Maintenance and technical support revenues are recognized ratably based on the terms of the respective contract agreements, which is generally one to four years.

Revenue under bill-and-hold arrangements in the International and U.S. Systems Operations segments, whereby revenue has been recognized but the goods have not been shipped, is recognized when risks of ownership have been passed on to the customer, there is a signed contract with the customer, the customer has a substantial business purpose for ordering the goods on a bill-and-hold basis, a fixed delivery schedule has been established with the customer, and the Company does not retain any specific performance obligations such that the earnings process is not complete. Goods held under such arrangements are segregated, ready for shipment and not subject to being used to fill other orders. The customers are charged additional fees for storage and other associated costs until shipment occurs.

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l) Unbilled revenue

Unbilled revenue is revenue that has been recognized using the percentage of completion or the proportional performance methods of accounting less amounts billed to the customer in accordance with the milestone terms of the contract. Unbilled revenue is reduced when customers are invoiced and the respective accounts receivable is recorded.

m) Unearned revenue

Unearned revenue is amounts that have been billed to the customer but have not been recognized in revenue.

n) Engineering

Engineering research costs are expensed in the period incurred.

o) Government assistance

Government assistance is recorded when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions necessary to obtain the government assistance. Government assistance towards current research expenditures is recorded as a reduction of expenses in the consolidated statement of earnings (loss). The liability to repay government assistance is recognized as an expense in the period in which conditions arise that cause the government assistance to be repayable.

p) Stock-based compensation

Effective December 1, 2005 the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R) ("FAS 123(R)", "Share-Based Payment", which establishes accounting for equity instruments exchanged for services. Under the provisions of FAS 123(R), share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). The Company elected to adopt the modified prospective transition method as provided by FAS 123(R) effective December 1, 2005 and, accordingly, financial statement amounts for the prior periods presented have not been restated to reflect the fair value based method of expensing share-based compensation. Compensation cost is recognized for all awards granted, modified or cancelled on or after December 1, 2005, as well as all awards granted prior to December 1, 2005 that were unvested as of November 30, 2005.

Prior to December 1, 2005, the Company accounted for stock-based compensation in accordance with the intrinsic value method of the Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and has adopted only the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", to present the fair value of grants under the Company's existing stock-based compensation plans to employees. APB No. 25 requires compensation cost for stock-based employee compensation plans to be recognized over the vesting period based on the difference, if any, between the quoted market price of the Company's stock as of the grant date and the amount an employee must pay to acquire the stock. Compensation was recognized for grants made under the stock option plan where the market price exceeds the exercise price.

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Prior to December 1, 2005, for stock options granted to non-employees, the Company followed the requirements of SFAS No. 123 and related interpretations. Costs were measured at the estimated fair value of the consideration received or the estimated fair value of the stock options issued, whichever was more reliably measurable. The value of the stock options issued for consideration other than employee services was determined on the earlier of a performance commitment or completion of performance by the provider of goods or services.

q) Earnings per share

Basic earnings per share are computed using the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted earnings per share. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period. Stock options and warrants are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

r) Guarantees

The Company guarantees that its software and hardware products will operate substantially in conformity with product documentation and that the physical media will be free from defect. The specific terms and conditions of the warranties are generally one year but may vary depending on the country in which the products are sold. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified warranty issues based on historical activity. To date, the Company has had no material warranty claims.

s) Derivative financial instruments

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposure to reduce its exposure to fluctuations in foreign exchange on certain committed and anticipated transactions. The Company formally documents the relationships between derivative financial instruments and hedged items, as well as the risk management objective and strategy. The Company assesses, on an ongoing basis, whether the derivative financial instruments continue to be effective in offsetting changes in fair values or cash flows of the hedged transactions.

Changes in fair value of foreign currency denominated derivative financial instruments used to hedge anticipated or committed foreign currency exposures are recognized as an adjustment to the related operating costs, or revenue when the hedged transaction is recorded. Derivatives that are not subject to hedge accounting are recorded on the balance sheet with the changes in fair value being recorded in the statement of earnings (loss) each period.

5 Acquisitions

a) 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. The results of CHI Systems' operations have been included in the consolidated financial statements commencing December 14, 2005.

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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.

In thousands of U.S. dollars

Assets

| | | |
|-----------------------------|----|-------|
| Current assets | \$ | 2,058 |
| Plant and equipment | | 225 |
| Intangible and other assets | | 439 |
| Goodwill | | 7,714 |

Total assets acquired \$ 10,436

Liabilities

| | | |
|--|--|-----|
| Current liabilities not including deferred tax liabilities | | 720 |
| Deferred tax liabilities | | 181 |

Total liabilities assumed \$ 901

| | | |
|---|----|-------|
| Net assets acquired (cash and common share consideration) | \$ | 8,849 |
| Direct acquisition costs incurred by the Company | | 699 |

Total acquisition costs 9,548

Less fair value of net identifiable assets acquired 1,821

Goodwill \$ 7,727

Cash of acquired operations \$ 627

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

The following table presents details of the purchased intangible assets:

In thousands of U.S. dollars

| | Estimated useful life | Amount |
|--------------------------------|------------------------------|---------------|
| Patents | 5 years | \$ 6 |
| Customer contracts | 2 to 36 months | 158 |
| Security clearance | 6 years | 275 |
| Total intangible assets | | <u>\$ 439</u> |

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

In thousands of U.S. dollars except loss per share

| | Year Ended November 30, | |
|--|--------------------------------|-------------|
| | 2006 | 2005 |
| Revenue | \$ 24,520 | \$ 22,185 |
| Net income (loss) | 605 | (1,957) |
| Net loss attributable to common shareholders | (913) | (8,608) |
| Net loss per share – basic | (0.03) | (0.31) |
| Net loss per share – diluted | \$ (0.06) | \$ (0.31) |

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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 and electronic geomatics data production market. The results of Mapcon Mapping's operations have been included in the consolidated financial statements commencing April 1, 2005.

The following table summarizes the fair value of the assets acquired and liabilities assumed by the Company at April 1, 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 April 1, 2005. The excess of the purchase price over the fair market value was recorded as goodwill.

In thousands of U.S. dollars

| Assets | |
|--|---------------|
| Current assets | \$ 677 |
| Equipment | 173 |
| Deferred tax assets – current | 153 |
| Intangible assets | 290 |
| Goodwill | 402 |
| Total assets acquired | <u>1,695</u> |
| Liabilities | |
| Current liabilities not including deferred tax liabilities | 164 |
| Deferred tax liabilities – current | 224 |
| Deferred tax liabilities – long term | 60 |
| Total liabilities assumed | <u>\$ 448</u> |
| Net assets acquired (cash consideration) | \$ 1,115 |
| Direct acquisition costs incurred by the Company | <u>132</u> |
| Total acquisition costs | <u>1,247</u> |
| Less fair value of net identifiable assets acquired | <u>845</u> |
| Goodwill | <u>\$ 402</u> |
| Cash of acquired operations | <u>\$ 223</u> |

The following table presents details of the purchased intangible assets:

| In thousands of U.S. dollars | Estimated useful life | Amount |
|------------------------------|-----------------------|---------------|
| Customer contract | 16 months | \$ 130 |
| Customer relationships | 4 to 10 years | 160 |
| Total intangible assets | | <u>\$ 290</u> |

6 Restricted cash

Restricted cash consists of cash pledged with a bank as collateral for bid bonds. The restricted cash is held in an interest-bearing bank account.

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7 Accounts receivable

In thousands of U.S. dollars

| | November 30, | |
|---|------------------|-----------------|
| | 2006 | 2005 |
| Trade | \$ 5,143 | \$ 6,218 |
| Unbilled revenue | 7,257 | 2,564 |
| Technology Partnerships Canada contribution | 269 | 625 |
| Other | 97 | 48 |
| Allowance for doubtful accounts | (59) | (36) |
| | <u>\$ 12,707</u> | <u>\$ 9,419</u> |

As at November 30, 2006, government contract trade receivables were \$4,044,000 (2005 - \$5,121,000) and unbilled government contract revenues were \$6,680,000 (2005 - \$1,935,000).

8 Inventory

In thousands of U.S. dollars

| | November 30, | |
|--------------------------|-----------------|---------------|
| | 2006 | 2005 |
| Materials and components | \$ 958 | \$ 938 |
| Finished goods | 105 | - |
| | <u>\$ 1,063</u> | <u>\$ 938</u> |

9 Plant and equipment

In thousands of U.S. dollars

November 30, 2006

| | Cost | Accumulated Amortization | Net Amount |
|------------------------|-----------------|-----------------------------|-----------------|
| Equipment | \$ 4,629 | \$ 3,710 | \$ 919 |
| Vehicle | 9 | 3 | 6 |
| Furniture and fixtures | 599 | 482 | 117 |
| Leasehold improvements | 300 | 253 | 47 |
| | <u>\$ 5,537</u> | <u>\$ 4,448</u> | <u>\$ 1,089</u> |

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In thousands of U.S. dollars

November 30, 2005

| | Cost | Accumulated Amortization | Net Amount |
|------------------------|-----------------|-------------------------------------|-------------------|
| Equipment | \$ 3,575 | \$ 2,771 | \$ 804 |
| Vehicle | 9 | 1 | 8 |
| Furniture and fixtures | 120 | 92 | 28 |
| Leasehold improvements | 201 | 172 | 29 |
| | <u>\$ 3,905</u> | <u>\$ 3,036</u> | <u>\$ 869</u> |

10 Intangible and other assets

In thousands of U.S. dollars

November 30, 2006

| | Cost | Accumulated Amortization | Net Amount |
|------------------------|-----------------|-------------------------------------|-------------------|
| Computer software | \$ 1,189 | \$ 791 | \$ 398 |
| Customer contracts | 288 | 278 | 10 |
| Customer relationships | 160 | 42 | 118 |
| Security clearance | 275 | 46 | 229 |
| Licenses and patents | 80 | 41 | 39 |
| | <u>\$ 1,992</u> | <u>\$ 1,198</u> | <u>\$ 794</u> |

In thousands of U.S. dollars

November 30, 2005

| | Cost | Accumulated Amortization | Net Amount |
|------------------------|-----------------|-------------------------------------|-------------------|
| Computer software | \$ 1,020 | \$ 618 | \$ 402 |
| Customer contracts | 132 | 67 | 65 |
| Customer relationships | 162 | 17 | 145 |
| Licenses and patents | 49 | 35 | 14 |
| | <u>\$ 1,363</u> | <u>\$ 737</u> | <u>\$ 626</u> |

The aggregate amortization expense for intangible assets for the fiscal year was \$288,000 (2005 - \$81,000, 2004 - \$nil).

The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

In thousands of U.S. dollars

| Year ending November 30 | |
|-------------------------|--------|
| 2007 | \$ 207 |
| 2008 | 154 |
| 2009 | 124 |
| 2010 | 95 |
| 2011 | 78 |
| 2012 and after | 136 |

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11 Accounts payable and accrued liabilities

In thousands of U.S. dollars

| | November 30, | |
|--|-----------------|-----------------|
| | 2006 | 2005 |
| Trade | \$ 2,016 | \$ 1,895 |
| Accrued employee compensation | 1,318 | 545 |
| Accrued employee benefits and payroll deductions | 280 | 341 |
| Accrued royalties (note 14) | 490 | 256 |
| Other accrued liabilities | 783 | 323 |
| | <u>\$ 4,887</u> | <u>\$ 3,360</u> |

12 Credit facilities

In March 2006, the Company renewed certain credit facilities with a Canadian chartered bank, which consist of an operating line, a foreign exchange forward contract facility and standby letters of credit. The operating line bears interest at the chartered bank's prime lending rate plus 0.5% with interest payable monthly. The prime lending rate at November 30, 2006 was 6.00% (2005 – 4.75%). The Company also has an operating line with a U.S. chartered bank. Funds drawn on the operating lines and the standby letters of credit are repayable on demand. As of November 30, 2006, letters of credit, relating principally to customer contracts, amounting to Australian \$nil (2005 – Australian \$284,000) have been issued. The Company utilizes letters of credit to back certain performance obligations with its customers.

The maximum amount available to the Company under the operating lines are CAD \$2,000,000 and US \$600,000 and under the foreign exchange forward contract facility is US \$2,000,000 (2005 – US \$2,000,000). The credit facilities are collateralized by a general assignment of book debts, a general security agreement and general security agreements, from each of Offshore Systems Ltd., Mapcon Mapping Ltd and Mapcon Mapping Inc. In addition, the Company is required to meet certain covenants as outlined in the credit facilities agreement. As at November 30, 2006, the Company had not drawn on its foreign exchange contract facility.

13 Capital Stock

a. Authorized

100,000,000 Class A preference shares with no par value, issuable in series, of which:

10,000,000 shares are designated Series A voting non-cumulative, retractable, convertible at a ratio of 1:1, 1% preference shares

100,000,000 Class B preference shares with a par value of \$50 each, issuable in series, of which:

10,000,000 shares are designated Series 1 voting, cumulative, convertible shares at a ratio of 1:45.5, 6% preference shares, and

10,000,000 shares are designated Series 2 voting, cumulative, convertible shares at a ratio of 1:58.82, 7% preference shares

Unlimited Class C preference shares without par value, issuable in series

Unlimited common shares without par value

b. Class A preference shares

The Company has 30,262 (November 30, 2005 – 30,262) Class A preference shares outstanding that have a value of \$19,000 (November 30, 2005 - \$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.

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c. Class B preference shares

i. Series 1

On April 11, 2005, 57,711 Class B Series 1 preference shares were repurchased by the Company at their par value of \$41.15 (CAD \$50) per share for aggregate cash consideration of \$2.3 million. The unamortized discount in the amount of \$321,000 as of the repurchase date was amortized and accreted to the Class B Series 1 preference shares and the beneficial conversion feature of \$442,000 was deducted from additional paid in capital. The repurchase resulted in an increase of \$659,000 to deficit. As a result of the repurchase of all remaining Class B Series 1 preference shares, the remaining un-accreted balance of the discount has been accreted to accumulated deficit in the amount of \$355,000 for fiscal 2005.

ii. Series 2

On April 11, 2005, the Company completed a private placement consisting of 19,500 units for total gross proceeds of \$16.0 million. The issue price was \$823.05 (CAD \$1,000.01) per unit. Each unit consist of 20 voting Class B Series 2 preference shares ("preference shares") and 588 share purchase warrants ("warrants"). The preference shares entitle the holders to receive a fixed preferential cumulative 7% dividend payable semi-annually. Each preference share is convertible at the option of the holder at any time into 58.8235 of the Company's common shares, calculated by dividing the issue price of CAD \$50.00 for each preference share by the conversion price of CAD \$0.85. Each warrant entitles the holder to purchase one of the Company's common shares at the exercise price of CAD \$0.85 for a period of five years. Fees for advisory, investment banking and legal and other professional services in connection with this private placement were paid in the amount of \$2.0 million and 929,064 warrants were issued to an investment bank and related party (note 16) in connection with the private placement. The fair value of the finder's fee warrants was estimated to be CAD \$0.47 per warrant, using the Black-Scholes option pricing model, and has been recognized as a share issue cost.

The gross proceeds of \$16.0 million were allocated between the preference shares and warrants based on their relative fair value at the date of issuance. The \$16.6 million fair value of the preference shares has been estimated based on the fair value of the underlying common shares. The \$4.3 million fair value of the warrants has been estimated using the Black-Scholes option pricing model. Assumptions used in the pricing model included: (i) risk free interest rate of 2.88%, (ii) expected volatility of 59%, (iii) an estimated life of five years and (iv) an expected dividend rate of 0%. The Company has recorded a beneficial conversion feature of \$4.0 million 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. The conversion feature of the preference shares vested immediately and the Company recorded the accretion of the full amount of the beneficial conversion feature. The preference share discount that resulted from the allocation of the gross proceeds is accreted over the five-year life of the warrants. This resulted in an accretion of \$674,000 to accumulated deficit for year ended November 30, 2006 (2005 – \$431,000).

Each Series 2 preference share entitles the holder to one vote either in person or by proxy at any general meeting of the shareholders of the Company. The Company has the right to require the shareholders of the preference shares to convert each such share into 58.8235 common shares if (i) at any time after 13 months following the issuance of the preference shares, the closing trade price of the Company's common shares exceeds CAD \$2.13 for at least 20 consecutive trading days, or (ii) at any time, the Company completes a firm public underwritten offering of its common shares for more than CAD\$40,000,000 at a price per common share greater than CAD \$1.70. The preference shares are redeemable at the option of the Company at any time after the third anniversary of the issuance date for an amount equal to the original issuance price plus a premium of 20% of the original issue price. The preference shares are not subject to any right of redemption at the option of the holder.

During the fiscal year 2006 61,400 preference shares were converted into 3,611,762 common shares with an aggregated fair market value of \$2.1 million (2005 - 48,760 preference shares were converted into 2,868,235 common shares with an aggregate fair market value of \$2.3 million). The Class B preference

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shares were reduced by \$1.7 million (2005 - \$1.2 million) the carrying value of the shares converted, and the beneficial conversion feature attributed to the converted shares resulted in a deduction of \$599,000 (2005 - \$494,000) from additional paid in capital. The conversion resulted in a decrease of \$170,000 (2005 - increase of \$598,000) to deficit.

d. Stock option plans

The Company has established three stock option plans under which stock options to purchase common shares may be granted to directors, officers and employees of the Company and to any other person or Company permitted by the applicable regulatory authorities to purchase unissued common shares. The number of common shares authorized for grant under the Company's stock option plans is 10,930,732, of which 4,364,494 are available for future granting. The exercise price of stock options granted pursuant to the plans may not be less than the market price of the common shares at the time of grant. The plans provide that stock options may be granted with vesting periods and expiry dates at the discretion of the board of directors. Stock options granted to directors, management and employees vest over periods ranging from immediately to five years.

A summary of the status of the Company's stock option plans at November 30 is as follows:

| In U.S. dollars | 2006 | | 2005 | | 2004 | |
|---------------------------------|------------------|---------------------------------|------------------|---------------------------------|------------------|---------------------------------|
| | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price |
| Outstanding - beginning of year | 3,674,417 | \$ 0.81 | 2,254,047 | \$ 0.94 | 2,890,046 | \$ 0.86 |
| Granted | 247,500 | 0.65 | 3,054,666 | 0.79 | 496,750 | 0.94 |
| Exercised | (90,000) | 0.73 | (11,000) | 0.65 | (519,847) | 0.35 |
| Forfeited | (196,000) | 0.82 | (18,384) | 0.80 | (22,725) | 0.62 |
| Surrendered | - | - | (632,784) | 0.87 | - | - |
| Expired | (218,333) | 0.87 | (972,128) | 0.98 | (590,177) | 0.89 |
| Outstanding - end of year | 3,417,584 | \$ 0.83 | 3,674,417 | \$ 0.82 | 2,254,047 | \$ 0.94 |
| Exercisable - end of year | 3,417,584 | \$ 0.83 | 3,378,417 | \$ 0.81 | 2,108,047 | \$ 0.93 |

A summary of the Company's stock options outstanding and exercisable at November 30, 2006 is as follows:

| In U.S. dollars | Options outstanding | | | Options exercisable | |
|-----------------------------|---|---|------------------------------------|---|------------------------------------|
| Range of Exercise prices \$ | Number outstanding at November 30, 2006 | Weighted average remaining contractual life (years) | Weighted average exercise price \$ | Number exercisable at November 30, 2006 | Weighted average exercise price \$ |
| 0.64 - 0.96 | 2,902,916 | 3.58 | 0.80 | 2,902,916 | 0.80 |
| 0.97 - 1.21 | 514,668 | 0.35 | 1.00 | 514,668 | 1.00 |
| 0.64 - 1.21 | 3,417,584 | 3.10 | 0.83 | 3,417,584 | 0.83 |

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A summary of the Company's stock options outstanding and exercisable at November 30, 2005 is as follows:

| In U.S. dollars | | Options outstanding | | Options exercisable | |
|--------------------------------|---|---|------------------------------------|---|------------------------------------|
| Range of exercise prices \$ | Number outstanding at November 30, 2005 | Weighted average remaining contractual life (years) | Weighted average exercise price \$ | Number outstanding at November 30, 2005 | Weighted average exercise price \$ |
| 0.64 – 0.96 | 3,101,416 | 4.19 | 0.79 | 3,101,416 | 0.79 |
| 0.97 – 1.21 | 573,001 | 1.26 | 0.98 | 573,001 | 0.98 |
| 0.64 – 1.21 | 3,674,417 | 3.73 | 0.82 | 3,674,417 | 0.81 |

A summary of the Company's stock options outstanding and exercisable at November 30, 2004 is as follows:

| In U.S. dollars | | Options outstanding | | Options exercisable | |
|--------------------------------|---|---|------------------------------------|---|------------------------------------|
| Range of exercise prices \$ | Number outstanding at November 30, 2004 | Weighted average remaining contractual life (years) | Weighted average exercise price \$ | Number outstanding at November 30, 2004 | Weighted average exercise price \$ |
| 0.64 – 0.96 | 1,026,047 | 1.08 | 0.85 | 1,026,047 | 0.85 |
| 0.97 – 1.21 | 1,228,000 | 1.12 | 0.99 | 1,082,000 | 1.00 |
| 0.64 – 1.21 | 2,254,047 | 1.10 | 0.94 | 2,108,047 | 0.93 |

Stock-based compensation

For the year ended November 30, 2006, the Company incurred non-cash stock-based compensation expense of \$104,000 (2005 - \$242,000, 2004 - \$4,000) related to stock options granted. The expense was included in general and administrative costs and was recorded in additional paid-in capital.

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

| | 2006 | 2005 | 2004 |
|--------------------------------|---------|-----------|-----------|
| Risk-free interest rate | 4.14% | 2.87% | 2.24% |
| Volatility | 53% | 49% | 58% |
| Estimated average option lives | 5 years | 3.2 years | 3.0 years |
| Dividend yield | 0.0% | 0.0% | 0.0% |

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Prior to December 1, 2005 the Company applied the intrinsic value method for employee stock options granted as prescribed in APB No. 25. Had compensation cost been determined using the fair value approach set forth in SFAS No. 123, the Company's earnings (loss) for the year and earnings (loss) per share would have been in accordance with the pro forma amounts indicated below:

| In thousands of U.S. dollars, except share related data | 2005 | 2004 |
|---|--------------------|------------------|
| Net earnings (loss) for the year – as reported | (2,749) | 303 |
| Stock-based compensation expenses | (836) | (102) |
| Pro forma net earnings (loss) for the year | <u>\$ (3,585)</u> | <u>\$ 201</u> |
| Pro forma net earnings (loss) attributable to common shareholders | <u>\$ (10,236)</u> | <u>\$ (33)</u> |
| Basic earnings (loss) per share – as reported | <u>\$ (0.34)</u> | <u>\$ 0.00</u> |
| Diluted earnings (loss) per share – as reported | <u>\$ (0.34)</u> | <u>\$ 0.00</u> |
| Pro forma basic earnings (loss) per share | <u>\$ (0.37)</u> | <u>\$ (0.00)</u> |
| Pro forma diluted earnings (loss) per share | <u>\$ (0.37)</u> | <u>\$ (0.00)</u> |

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

| | 2005 | 2004 |
|--------------------------------|-----------|-----------|
| Risk-free interest rate | 3.0% | 2.2% |
| Volatility | 54% | 58% |
| Estimated average option lives | 4.2 years | 3.0 years |
| Dividend yield | 0.0% | 0.0% |

Shareholder rights plan

On April 18, 2001, the Board of Directors of the Company adopted a shareholder rights plan (the Rights Plan). The Rights Plan was approved by the Toronto Stock Exchange in accordance with its policies. On March 12, 2004, the Board of Directors carried a resolution regarding the continued existence of the Rights Plan, subject to receipt of shareholder approval, for an additional three year period. The continued existence of the Rights Plan was approved by the shareholders of the Company by ordinary resolution at the annual general meeting of the Company held on April 22, 2004.

The objectives of the Rights Plan are to ensure, to the extent possible, that all shareholders of the Company are treated equally and fairly in connection with any take-over offer for the Company. Take-over offers may not always result in shareholders receiving equal or fair treatment or full value for their investment. In addition, current Canadian securities legislation only requires a take-over offer to remain open for 21 days. The Board believes that this period may be insufficient for the shareholders to evaluate a bid, or for the Board to pursue alternatives that could maximize shareholder value and to make informed recommendations to shareholders.

The Rights Plan is designed to discourage discriminatory or unfair take-over offers for the Company and gives the board time, if appropriate, to pursue alternatives to maximize shareholder value in the event of an unsolicited take-over bid for the Company. The Rights Plan will encourage an offeror to proceed by way of a permitted bid or to approach the Board of Directors with a view to negotiation by creating the potential for substantial dilution of the offeror's position. The permitted bid provisions of the Rights Plan are designed to ensure that, in any take-over bid, all shareholders are treated equally, receive the maximum

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value for their investment and are given adequate time to properly assess the take-over bid on a fully informed basis.

e. Warrants

In Canadian dollars

| Number of Warrants | Exercise Price | Weighed average remaining contractual life in years |
|--------------------|----------------|---|
| 1,393,301 | \$1.10 | 1.21 |
| 12,395,067 | \$0.85 | 3.36 |
| 13,788,368 | \$0.88 | 3.14 |

f. Earnings (loss) per share

In thousands of U.S. dollars, except share related data

| | Years ended November 30, | | |
|--|--------------------------|------------|------------|
| | 2006 | 2005 | 2004 |
| Basic earnings (loss) per share | | | |
| Net earnings (loss) | \$ 693 | \$ (2,749) | \$ 303 |
| Accretion of discount on Class B Series 1 preference shares | | (262) | (112) |
| Accretion of discount on Class B Series 2 preference shares | (674) | (431) | - |
| Accretion of beneficial conversion feature on Class B Series 2 preference shares | - | (3,948) | - |
| Class B Series 1 preference share dividends | - | (51) | (205) |
| Class B Series 2 preference share dividends | (1,014) | (702) | - |
| Difference between conversion consideration and carrying value of Class B Series 2 preference shares | 170 | (598) | - |
| Excess of carrying value of Class B Series 1 preference shares and beneficial conversion feature over repurchase consideration paid. | - | (659) | - |
| Loss available to common shareholders | \$ (825) | \$ (9,400) | \$ (14) |
| Weighted average number of common shares outstanding | 32,381,992 | 27,989,832 | 27,147,246 |
| Basic loss per share | \$ (0.03) | \$ (0.34) | \$ (0.00) |

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In thousands of U.S. dollars, except share related data

Years ended November 30,

| Diluted earnings (loss) per share | 2006 | 2005 | 2004 |
|--|-------------------|-------------------|-------------------|
| Net earnings (loss) | \$ 693 | \$ (2,749) | \$ 303 |
| Accretion of discount on Class B Series 1 preference shares | - | (262) | (374) |
| Accretion of discount on Class B Series 2 preference shares | (3,517) | (431) | - |
| Accretion of beneficial conversion feature on Class B Series 2 preference shares | - | (3,948) | - |
| Class B Series 1 preference share dividends | - | (51) | - |
| Class B Series 2 preference share dividends | - | (702) | - |
| Difference between conversion consideration and carrying value of Class B Series 2 preference shares | 170 | (598) | - |
| Excess of carrying value of Class B Series 1 preference shares and beneficial conversion feature over repurchase consideration paid. | - | (659) | - |
| Loss available to common shareholders | <u>\$ (2,654)</u> | <u>\$ (9,400)</u> | <u>\$ (71)</u> |
| Weighted average number of common shares outstanding | 32,381,992 | 27,989,832 | 27,230,561 |
| Dilutive effect of Class A preference shares – Series A (*1) | - | - | - |
| Dilutive effect of Class B preference shares – Series 1 (*2) | - | - | 2,625,851 |
| Dilutive effect of Class B preference shares – Series 2 (*3) | - | - | - |
| Dilutive effect of warrants (*1) | 16,461,176 | - | - |
| Dilutive effect of stock options (*1) | - | - | - |
| Adjusted weighted average number of common shares outstanding | <u>48,843,168</u> | <u>27,989,832</u> | <u>29,856,412</u> |
| Diluted loss per share | <u>\$ (0.05)</u> | <u>\$ (0.34)</u> | <u>\$ (0.00)</u> |

(*1) The Class A preference shares – Series A, the outstanding warrants and stock options were anti-dilutive for the purposes of calculating diluted earnings per share for the years ended November 30, 2006, 2005 and 2004.

(*2) The Class B preference shares – Series 1 were anti-dilutive for the purposes of calculating diluted earnings per share for the years ended November 30, 2005. There were no Class B preference shares – Series 1 outstanding at November 30, 2006.

(*3) The Class B preference shares – Series 2 were anti-dilutive for the purposes of calculating diluted earnings per share for the years ended November 30, 2006, 2005 and 2004.

14 Technology Partnerships Canada

On April 26, 2004, the Company entered into an agreement with Technology Partnerships Canada (“TPC”) whereby TPC granted financial assistance to the Company for the purpose of funding research and development activities to be completed on or before March 31, 2007. The maximum eligible contribution by TPC is \$3.3 million. At November 30, 2006, the Company has claimed for \$3.3 million of assistance under the agreement (2005 - \$2.5 million, 2004 - \$1.2 million). Accounts receivable at November 30, 2006 includes \$269,000 of amounts receivable from TPC in connection with these claims (2005 – \$625,000).

In addition, the Company is required to pay a royalty of 1.4% on annual gross revenue in the International Systems Operations segment for the period January 1, 2006 to December 31, 2008 and a royalty of 2.5% on

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annual gross revenue in the International Systems Operations segment for the period January 1, 2009 to December 31, 2013. Royalty payments will continue until the cumulative royalties paid or payable to December 31, 2013 are at least \$5.3 million or until December 31, 2017. The Company has not paid royalties in connection with this agreement and has accrued royalties of \$155,000 at November 30, 2006 (November 30, 2005 - \$nil).

In addition, the Company is required to pay a royalty of 3% on annual gross revenue in the International Systems Operations segment for the period December 1, 1999 to November 30, 2008. The Company has paid royalties of \$1.3 million to date (2005 - \$1.1 million) and has accrued royalties of \$335,000 at November 30, 2006 (November 30, 2005 - \$256,000). Royalty payments will continue until the cumulative royalties paid or payable to November 30, 2008 are at least \$6.8 million or until November 30, 2014.

Although the Company believes that its submissions for TPC funding meet the terms and conditions of the TPC agreements, the final determination may be subject to audit by government authorities in the ordinary course of business.

During the year ended November 30, 2005, the Company was subject to three audits by government authorities. The results of the cost audit did not have a financial impact on the Company's results. The results of the compliance audit required a repayment of contributions received of \$105,000 recognized in the current fiscal year as a reduction in TPC contributions. The royalty audit has not yet been concluded. The Company has no reason to believe that the audit will have a material impact on the Company's financial results.

TPC royalties paid and accrued are as follows:

| In thousands of U.S. dollars | Years ended November 30, | | |
|------------------------------|--------------------------|--------|--------|
| | 2006 | 2005 | 2004 |
| Royalties paid | \$ 256 | \$ 263 | \$ 138 |
| Accrued royalties – current | \$ 490 | \$ 256 | \$ 263 |

If the Company causes an event of default, as defined in the agreement, TPC can suspend or terminate any obligation to contribute to the costs of the project or require the Company to repay all or part of the contributions made, together with interest, from the date of demand.

15 Commitments and contingency

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:

| In thousands of U.S. dollars | 2006 |
|------------------------------|----------|
| Years ending November 30 | |
| 2007 | \$ 622 |
| 2008 | 468 |
| 2009 | 439 |
| 2010 | 410 |
| 2011 | 394 |
| | <hr/> |
| | \$ 2,333 |

For the fiscal year ended November 30, 2006, the Company paid basic rent of \$709,000 (2005 - \$240,000). The increase was mainly due to the acquisition of CHI. In addition to basic rent, the Company is required to pay a portion of certain costs and property taxes for the above commitments. In 2006, the Company paid \$88,000 (2005 - \$73,000) for these costs.

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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 November 30, 2006 in respect of these claims because the potential liability for the claims and the amount of damages, if any, cannot be reasonably estimated.

16 Related party transactions

On April 11, 2005, Mr. E. Brinton Coxe, a director of the Company, assisted the Company in structuring and arranging the private placement financing (note 13(c)(ii)). In consideration for his services, the Company paid him compensation of \$672,000 and 350,000 common share purchase warrants. Mr. Coxe has also participated in the financing by purchasing 100 units personally. Mr. Coxe was paid an additional \$125,000 for professional services provided during 2005 and to be provided to April 2006. For the year ended November 30, 2006, \$25,000 was charged to expenses (2005 - \$100,000).

On April 8, 2005, Gerald J. Shields, a related party by virtue of the provision of legal services to the Company by two law firms in which he has an interest (Mr. Shields having moved from his former firm to his current firm in July, 2005) was elected to the Company's Board of Directors. Fees paid to these two law firms for services Mr. Shields provided to the Company during the fiscal year 2006 totalled \$177,000 (2005 - totalled \$164,000). As of November 17, 2006, Mr. Shields no longer has an interest in any law firm that provided legal services to the Company.

17 Income taxes

The Company is subject to Canadian federal and British Columbia provincial taxes in Canada. The Company is also subject to federal income taxes in the U.S and state taxes in Pennsylvania, Utah, California and Florida.

Earnings (loss) before income taxes consisted of the following:

| In thousands of U.S. dollars | 2006 | 2005 | 2004 |
|------------------------------|---------------|-------------------|---------------|
| Canadian income (loss) | \$ 1112 | \$ (2,175) | \$ 172 |
| U.S. income (loss) | (477) | 299 | 174 |
| | <u>\$ 635</u> | <u>\$ (1,876)</u> | <u>\$ 346</u> |

Income tax expense (recovery) consisted of the following:

| In thousands of U.S. dollars | 2006 | 2005 | 2004 |
|------------------------------------|----------------|---------------|--------------|
| Canadian income tax expense | \$ 240 | \$ 729 | \$ - |
| U.S. income tax expense (recovery) | (298) | 144 | 43 |
| | <u>\$ (58)</u> | <u>\$ 873</u> | <u>\$ 43</u> |

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The Company has non-capital losses for Canadian income tax purposes of approximately \$1,563,000, which are available for carry forward to reduce future years' taxable income. These income tax losses expire as follows:

| Year ending November 30 | |
|-------------------------|-----------|
| 2009 | \$ 20,000 |
| 2014 | 197,000 |
| 2015 | 948,000 |
| 2026 | 398,000 |

The Company has net operating losses for U.S. income tax purposes of approximately \$252,000, which are available for carry forward to reduce future years' taxable income. These income tax losses expire as follows:

| Year ending November 30 | |
|-------------------------|------------|
| 2020 | \$ 188,000 |
| 2021 | 28,000 |
| 2025 | 36,000 |

The Company also has investment tax credits for Canadian income tax purposes of approximately \$2.0 million, which can be used to offset future income taxes otherwise payable and expire as follows:

| Year ending November 30 | |
|-------------------------|---------|
| 2011 | 125,000 |
| 2012 | 112,000 |
| 2013 | 175,000 |
| 2014 | 425,000 |
| 2015 | 628,000 |
| 2016 | 193,000 |
| 2026 | 348,000 |

The Company has capital losses for Canadian income tax purposes of approximately \$310,000, which are available for carry forward to reduce future years' income from capital gains. These capital losses carry forward indefinitely.

The Company has un-deducted scientific research and experimental development expenses for Canadian income tax purposes of approximately \$6,805,000, which are available for carry forward to reduce future years' income for tax purposes. These expenses carry forward indefinitely.

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The net deferred tax consists of the following:

| In thousands of U.S. dollars | 2006 | 2005 |
|--|----------------|----------------|
| Deferred tax assets | | |
| Non-capital loss carry-forwards and net operating losses | \$ 585 | \$ 1,486 |
| Net capital loss carry-forwards | 48 | 52 |
| Scientific research and experimental development costs | 2,110 | 1,527 |
| Share issue costs | 376 | 550 |
| Investment tax credits | 1,494 | 717 |
| Plant and equipment | 900 | 841 |
| Accrued operating expenses | 238 | - |
| Other | 20 | 22 |
| | <u>5,771</u> | <u>5,195</u> |
| Valuation allowance | <u>(5,533)</u> | <u>(5,195)</u> |
| Deferred tax assets | <u>\$ 238</u> | <u>\$ -</u> |
| Deferred tax liabilities | | |
| Change in tax accounting method | \$ 67 | \$ 82 |
| Intangible assets | 100 | 77 |
| Plant and equipment | 91 | 42 |
| | <u>258</u> | <u>201</u> |
| Deferred tax assets | 238 | - |
| Deferred tax liabilities | <u>(258)</u> | <u>(201)</u> |
| Net deferred tax | <u>(20)</u> | <u>(201)</u> |

The Company increased its valuation allowance in 2006 against deferred income 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 deferred income tax assets for which the more likely than not criteria of future realization has not been met. Although the Company believes that its tax estimates are reasonable, the ultimate tax determination involves significant judgment that could become subject to audit by tax authorities in the ordinary course of business.

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A reconciliation of the combined Canadian federal and provincial income tax rate with the Company's effective income tax rate is as follows:

| In thousands of U.S. dollars | 2006 | 2005 | 2004 |
|---|---------|----------|--------|
| Expected statutory rate | 34.12% | 35.00% | 35.79% |
| Expected provision for income taxes | \$ 217 | \$ (657) | \$ 124 |
| Change in tax rates applied in valuation allowance | 372 | 128 | 1 |
| Change in valuation allowance | 338 | 1,881 | 65 |
| Foreign tax differentials | (27) | (3) | (6) |
| Foreign exchange effect on valuation allowance | (114) | - | - |
| Temporary differences related to share issues costs and other items arising during the year not included in accounting income | (252) | (650) | (145) |
| Part VI.1 Tax | 34 | 86 | - |
| Non-deductible expenses and other | (626) | 88 | 4 |
| Income tax expense (recovery) | \$ (58) | \$ 873 | \$ 43 |

18 Segmented information

Beginning in the first quarter of fiscal 2006, the Company changed its financial reporting segments in order to reflect changes in management's analysis of the business. The consolidated revenue categories have changed to marine systems, land and air systems, and mapping, and the reportable segments are now International Systems Operations, U.S. Systems Operations, Mapping Operations and Corporate and Public Company costs. The comparative information for 2005 and 2004 has been adjusted to conform to the presentation adopted for 2006.

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 3. 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 | 2006 | | | | |
|--------------------------------------|--|-------------------------------|-----------------------|---|--------|
| | International Systems Operations | U.S. Systems Operations | Mapping Operations | Corporate and Public Company Costs | Total |
| Revenue | \$ 9,518 | 10,517 | 4,102 | - | 24,137 |
| Gross profit | 5,963 | 3,672 | 1,340 | - | 10,975 |
| Technology Partnerships Canada - net | 267 | - | - | - | 267 |
| Interest expense | - | - | - | 21 | 21 |
| Income tax expense (recovery) | 1 | (95) | (202) | 238 | (58) |
| Net earnings (loss) | 1,720 | 1,853 | 205 | (3,085) | 693 |
| Plant and equipment expenditures | 182 | 66 | 40 | 2 | 290 |
| Intangible expenditures | 114 | 88 | 35 | - | 237 |
| Depreciation and amortization | \$ 209 | 296 | 253 | 5 | 763 |

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In thousands of U.S. dollars

2005

| | International Systems Operations | U.S. Systems Operations | Mapping Operations | Corporate and Public Company Costs | Total |
|--------------------------------------|--|-------------------------------|-----------------------|---|---------|
| Revenue | \$ 8,181 | - | 2,945 | - | 11,126 |
| Gross profit | 4,381 | - | 1,049 | - | 5,430 |
| Technology Partnerships Canada - net | 847 | - | - | - | 847 |
| Interest expense | 11 | - | 2 | 10 | 23 |
| Income tax expense | 640 | - | 225 | 8 | 873 |
| Net earnings (loss) | 105 | - | (270) | (2,584) | (2,749) |
| Plant and equipment expenditures | 157 | - | (92) | 5 | 70 |
| Intangible expenditures | 21 | - | 193 | 2 | 216 |
| Depreciation and amortization | \$ 177 | - | 221 | 6 | 404 |

In thousands of U.S. dollars

2004

| | International Systems Operations | U.S. Systems Operations | Mapping Operations | Corporate and Public Company Costs | Total |
|--------------------------------------|--|-------------------------------|-----------------------|---|--------|
| Revenue | \$ 8,090 | - | 2,321 | - | 10,411 |
| Gross profit | 5,213 | - | 805 | - | 6,018 |
| Technology Partnerships Canada - net | 1,013 | - | - | - | 1,013 |
| Interest expense | 2 | - | - | - | 2 |
| Income tax expense | - | - | 43 | - | 43 |
| Net earnings (loss) | 1,825 | - | 63 | (1,585) | 303 |
| Plant and equipment expenditures | 89 | - | 16 | 5 | 110 |
| Intangible expenditures | 19 | - | 132 | 7 | 158 |
| Depreciation and amortization | \$ 177 | - | 97 | 4 | 278 |

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 November 30, 2006 | \$ 10,483 | 10,599 | 3,283 | (20) | 24,345 |
| As at November 30, 2005 | \$ 17,649 | - | 3,553 | - | 21,202 |

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

In thousands of U.S. dollars

2006

2005

2004

| | 2006 | 2005 | 2004 |
|-----------------------|------------------|------------------|------------------|
| Europe | \$ 6,816 | \$ 4,093 | \$ 3,332 |
| Australia/New Zealand | 1,200 | 2,149 | 3,748 |
| United States | 13,717 | 2,410 | 2,186 |
| Canada | 2,404 | 2,415 | 1,145 |
| Other | - | 59 | - |
| Total | \$ 24,137 | \$ 11,126 | \$ 10,411 |

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Approximately 47% of revenue for the year ended November 30, 2006 (2005 - 40%, 2004 – 58%) is derived from the three largest customers at 24%, 15% and 8%, respectively (2005 - 22%, 10%, 8%, 2004 – 26%, 24%, 8%).

The three largest customers for 2006 were the Royal Navy of the United Kingdom, the U.S. Army and the U.S. Navy. The three largest customers for 2005 were the Royal Navy of the United Kingdom, Royal Australian Navy and the Canadian Navy. The three largest customers for 2004 were the Royal Australian Navy, the Royal Navy of the United Kingdom and the U.S. Coast Guard.

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

In thousands of U.S. dollars

| | November 30, 2006 | | |
|-----------------------------|-------------------|----------|----------|
| | Canada | U.S. | Total |
| Plant and equipment | \$ 859 | \$ 230 | \$ 1,089 |
| Intangible and other assets | 322 | 472 | 794 |
| Goodwill | - | 8,116 | 8,116 |
| Total | \$ 1,181 | \$ 8,818 | \$ 9,999 |

In thousands of U.S. dollars

| | November 30, 2005 | | |
|-----------------------------|-------------------|--------|----------|
| | Canada | U.S. | Total |
| Plant and equipment | \$ 817 | \$ 52 | \$ 869 |
| Intangible and other assets | 297 | 329 | 626 |
| Goodwill | - | 406 | 406 |
| Total | \$ 1,114 | \$ 787 | \$ 1,901 |

19 Financial instruments

Fluctuations in foreign currency exchange rates

The Company's Canadian subsidiaries enter into transactions denominated in U.S. dollars, UK pounds, Australian dollars and euros and as such its revenue, expenses, monetary assets and liabilities will be affected by fluctuations in the various currencies relative to its functional currency, the Canadian dollar.

The Company's Canadian subsidiaries use foreign exchange forward contracts to hedge transactions denominated in U.S. dollars, Australian dollars and Euros. The purpose of the Company's hedging activities is to reduce the level of exposure to exchange rate movements. At November 30, 2006, the Company had foreign exchange forward contracts maturing in the following year to sell US \$1,262,000 (2005 – US \$nil), GBP 107,000 (2005 – GBP nil) and Australian \$500,000 (2005 – Australian \$nil).

The fair value of derivative instruments generally reflects the estimated amounts that the Company would receive or pay to settle the contracts at November 30, 2006. The fair value of the above derivative financial instruments was a recorded liability in accounts payable and accrued liabilities of \$55,000 at November 30, 2006 (2005 – \$nil).

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Notes to the Consolidated Financial Statements November 30, 2006 and 2005

20 Supplemental cash flow information

| In thousands of U.S. dollars | 2006 | 2005 |
|--|--------|-------|
| Cash paid during the year for interest | \$ 21 | \$ 23 |
| Cash paid during the year for income taxes | \$ 263 | \$ 5 |

21 Reconciliation of generally accepted accounting principles

The Company prepares its audited consolidated financial statements in accordance with U.S. generally accepted accounting principles which, as applied in these audited 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 based 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, under U.S. GAAP the Company accounts for stock-based compensation to employees and directors in accordance with the fair value based method of FASB Statement 123(R).

(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 \$442,000 and \$3.9 million, respectively, on the issuance of Class B Series 1 and 2 preference shares, 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 \$674,000 for the year ended November 30, 2006 (\$431,000 for the year ended November 30, 2005, \$112,000 for the year ended November 30, 2004).

(c) Under Canadian GAAP, there is a requirement for derivatives outside of hedging relationships to be recognized on the balance sheet at fair 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 \$5,000 for the year ended November 30, 2006 under U.S. GAAP which has not been recorded under Canadian GAAP. With respect to the ineffective portion of derivative's changes in fair value, the Company did not have a foreign exchange gain or loss amount for the year ended November 30, 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 non-employees prior to December 1, 2001. Under U.S. GAAP, the Company is required to

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record stock-based compensation for options granted to non-employees based on the fair value based method as required by SFAS 123(R) retroactive for all prior periods. These stock-based compensation transactions, result in differences of \$649,000 (November 30, 2005 - \$649,000, November 30, 2004 - \$649,000) 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 \$19,000.

(f) For Canadian GAAP financial statement purposes, the Company has recorded a cumulative translation adjustment of \$2.4 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.

(g) If Canadian GAAP were followed:

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

| In thousands of U.S. dollars except earnings (loss) per share | For the year ended November 30, | | |
|--|---------------------------------|------------|------------|
| | 2006 | 2005 | 2004 |
| Earnings (loss), U.S. GAAP | \$ 693 | \$ (2,749) | \$ 303 |
| Adjustment for stock based compensation (a),(d) | - | (855) | (102) |
| Adjustment for loss on derivative (c) | (5) | - | - |
| Earnings (loss), Canadian GAAP | \$ 688 | \$ (3,604) | \$ 201 |
| Loss attributable to common shareholders, Canadian GAAP | \$ (326) | \$ (4,357) | \$ (4) |
| Basic and diluted earnings (loss) per common share, Canadian GAAP | \$ (0.01) | \$ (0.16) | \$ 0.00 |
| Weighted average number of common shares - basic, Canadian GAAP | 32,381,992 | 27,989,832 | 27,230,561 |
| Weighted average number of common shares – diluted, Canadian GAAP | 48,431,168 | 27,989,832 | 29,856,412 |

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

| In thousands of U.S. dollars | At November 30, | |
|--|-----------------|-----------|
| | 2006 | 2005 |
| Common shares (d) | \$ 17,573 | \$ 14,624 |
| Class B Series 2 preference shares (b) | 7,148 | 8,076 |
| Additional paid in capital (a), (b) | 79 | 416 |
| Accumulated deficit (a), (b), (c), (d), (f) | 11,180 | (26,324) |
| Accounts payable and accrued liabilities (c) | 4,832 | 3,360 |

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(h) Pro forma information – Stock based compensation

The following pro forma financial information as required by The Canadian Institute of Chartered Accountants (“CICA”) Handbook section 3870, Stock-based Compensation and Other Stock-based Payments, presents the earnings had the Company recognized stock-based compensation using a fair based value method for all stock awards granted, modified or settled prior to December 1, 2003:

| In thousands of U.S. dollars except earnings (loss) per share | For the year ended November 30, | | |
|---|---------------------------------|-------------------|---------------|
| | 2006 | 2005 | 2004 |
| Earnings (loss) for the period, Canadian GAAP | \$ 698 | \$ (3,604) | \$ 201 |
| Add: Stock-based compensation cost | 104 | 1,069 | 131 |
| Less: Pro forma stock-based compensation cost | (104) | (1,085) | (150) |
| Pro forma income (loss) | <u>\$ 698</u> | <u>\$ (3,620)</u> | <u>\$ 182</u> |
| Pro forma basic earnings (loss) per share | 0.02 | (0.13) | 0.01 |
| Pro forma diluted earnings (loss) per share | 0.01 | (0.13) | 0.01 |
| Weighted average number of common shares – basic | 32,381,992 | 27,989,832 | 27,230,561 |
| Weighted average number of common shares – diluted | 48,431,160 | 27,989,832 | 29,856,412 |

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

| | 2006 | 2005 | 2004 |
|--------------------------------|-----------|-----------|-----------|
| Risk-free interest rate | 4.1% | 3.0% | 2.2% |
| Volatility | 53% | 54% | 58% |
| Estimated average option lives | 5.0 years | 5.2 years | 3.0 years |
| Dividend yield | 0.0% | 0.0% | 0.0% |

22 Subsequent events

On January 17, 2007, the Company signed a 10 year lease for new office facilities. It will relocate its North Vancouver, British Columbia operations to Burnaby, British Columbia on August 1, 2007.

On February 12, 2007, the Company announced that it will relocate its corporate headquarters from North Vancouver, British Columbia to Ottawa, Ontario. The company will maintain its Offshore Systems, Ltd. operations in Vancouver, its CHI Systems Inc. operations in Philadelphia, San Diego and Orlando and its Mapcon Mapping Inc. operations in Salt Lake City and Vancouver. Its Ottawa headquarters will be established by June 2007 and will become the base of operations for the company’s executive management team and senior business development personnel.