

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

In 2003 and early 2004, we gained strong momentum in all areas of our business. We clearly established OSI as a leading supplier in the naval navigation systems niche, made excellent progress in expanding our hydrographic and land-mapping unit, and built the foundation for future growth in other opportunities for electronic geography.

We committed a substantial amount of resources to business development during 2003 and our efforts paid off in 2004 with a contract to supply the Royal Australian Navy and our largest-ever order, from the U.K. Royal Navy. Selection by the Royal Navy was a major achievement for our company, validating years of development work on ECPINS® and strongly reinforcing the strategy we implemented several years ago. This win also kept our perfect record intact: OSI has been awarded all five open international procurements for naval navigation systems. We are strongly positioned to build on our commanding lead in this market and emerge as the navigation standard for NATO countries and their allies.

Our successes in naval navigation were matched by key wins in our Geomatics business unit. In a short time, we have demonstrated the ability to compete in the large market for land mapping services using our core strengths in producing, managing and displaying geographic data. OSI Geomatics, in its first full year of operation, made a very meaningful contribution to our overall financial results and improved our revenue stability.

In addition to enhancing our near-term growth prospects, in 2003 we developed and launched a highly promising new application of our technology within the market for command and control systems, which are used to manage everything from the maintenance and security of vehicles to missile tracking.

In 2003 and early 2004, we gained strong momentum in all areas of our business.

To capitalize on this opportunity, we established a new Applications business unit that will package and integrate OSI's proprietary electronic mapping technology into command and control systems. We have begun to market the first software application, COP-IDS®, to defence departments and major system integrators worldwide, and the initial response has been overwhelmingly positive. In fact, our first two demonstrations resulted in immediate sales, signaling to us that there is a market need and that our solution is unique.

In corporate developments during the year, we placed US\$2 million in preferred shares with a group of institutional investors to strengthen our balance sheet and support future growth. We also added depth and strength to our board with the addition of Peter Roberts as the financial expert. At the end of the year, we launched a new corporate identity program, including a new web site at www.osil.com. In addition, we enhanced the investor section of our web site and added conference calls to our investor communications program.

Looking ahead, we believe OSI is well positioned financially and strategically to capitalize on some exceptional opportunities. Indeed, we have never been more optimistic about our prospects for growth.

Our established businesses in Navigation Systems and Geomatics are poised for continued progress in 2004. OSI Applications, while still at an early stage, addresses a clear need in a large market and is, based on early sales, showing promising signs for future growth. Over time, we expect this business to generate significant recurring software revenue.

Our key priorities in 2004 include the pursuit of additional fleet orders from NATO navies and allies for the ECPINS® product. We're also looking at commercial opportunities in deep-sea shipping and plan to work with large industry players to develop a broader understanding of those market needs.

OSI Geomatics will aggressively pursue prime contract business in the United States and Canada, in addition to the sub-contract work that has generated most of our revenues to date in the land mapping market. Prime contract awards are important references to strengthen our reputation and enable us to win larger projects.

The key priority for OSI Applications this year is to win several design contracts. These are small contracts that cement COP-IDS® into large, multi-year programs, which should contribute to our order book starting in 2005 and 2006.

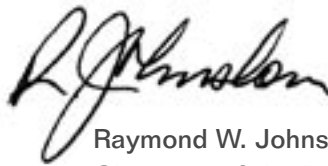
In summary, we enter 2004 with momentum in all areas of our business and great confidence that our recent achievements will yield measurable financial results over the next several years.

In closing, we would like to thank OSI's talented employees, whose passion for delivering quality, innovation and performance has been fundamental to our success and our ability to gain more momentum going forward.

OSI is well positioned financially and strategically to capitalize on some exceptional opportunities.



John A. Jacobson
President & Chief Executive Officer



Raymond W. Johnston
Chairman of the Board