



## Press Release

Offshore Systems International Ltd.

TSX:OSI | OTCBB:OFSYF

For Immediate Release

### **OSI Reports 2006 First Quarter Financial Results**

- Reiterates Revenue Guidance of \$28 million to \$32 million for 2006

**Vancouver, Canada, April 11, 2006** – Offshore Systems International Ltd. (TSX: OSI; OTCBB: OFSYF) (OSI) today announced its financial results for the first fiscal quarter ended February 28, 2006, reported in Canadian dollars and in accordance with U.S. GAAP. This is the company's first earnings report to include the acquisition of CHI Systems Inc., completed December 14, 2005, which now constitutes the company's U.S. Systems Operations.

For the first quarter of 2006, OSI reported revenue of \$4.2 million, up from \$2.3 million for the same quarter in 2005. The 87 percent increase includes \$2.1 million in land and air systems revenue gained through the company's recent U.S. acquisition and higher mapping revenue. Marine systems revenue declined 24 percent due to the timing of contract awards and the delivery of existing contracts.

For the first quarter of 2006, the company reported a net loss of \$1.5 million or \$0.05 per share compared to a net loss of \$219,591 or \$0.01 per share for the same quarter in 2005. The larger net loss in the first quarter of 2006 was attributable to both lower gross profit percentage and higher operating expenses when compared to the first quarter of 2005. The decline in gross profit percentage was due to product mix influenced by a reduction in software revenue compared to the prior year's quarter and the addition of lower margin revenue generated in the company's recently acquired operations. Higher operating expenses are attributed to the addition of costs from the company's acquired operations, new product launch activities, an increase in staff to support the company's growth plans, and a negative foreign exchange impact.

"During the quarter, we remained focused on the implementation of our U.S. market access strategy," said Ken Kirkpatrick, president and chief executive officer of OSI. "Looking forward, we expect to expand upon the sales from the U.S. businesses recently acquired in addition to driving greater growth in our marine systems business. We have set clear goals for this year and are confident in our strategy to strengthen OSI and accelerate growth."

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## First Quarter Highlights

- Acquired CHI Systems Inc, a key technology supplier for the U.S. Department of Defense, for \$10.3 million in a combination of cash and stock.
- Secured land and air systems contracts totaling approximately \$1.7 million with the U.S. Air Force and U.S. Army.
- Secured marine systems contracts totaling approximately \$950,000 with the Royal Australian Navy and Canadian Navy.
- Gained new mapping business of approximately \$4.5 million, including a prime mapping contract of \$3.0 million by Washoe County, Nevada.
- Announced installation of military navigation systems on three vessels in U.S. Department of Defense programs testing future capabilities.

## Outlook

“We are on track to achieve the goals we set for fiscal 2006, including our target for annual revenue of \$28 million to \$32 million and profitability in 2006,” said Mr. Kirkpatrick. “Last week we achieved a significant product diversification milestone with the launch of our integrated navigation and simplified voyage data recording (S-VDR) system. This product provides a significant opportunity for OSI with an estimated 30,000 ships requiring S-VDR installation by July 2010.”

Management has outlined the following goals for the fiscal year ending November 30, 2006:

- Revenue in the range of \$28 million to \$32 million.
- Demonstrate U.S. market penetration by winning a significant U.S. Navy contract.
- Demonstrate market development in the company’s existing customer base by securing a significant prime contract from the Royal British Navy.
- Expand the company’s customer base by securing one new customer in each of the three defense domains: air, land, and sea.
- Accelerate U.S. and international market penetration by signing a teaming agreement with a top-tier defense contractor.
- Diversify into new market sectors by leveraging the company’s core navigation technology in the development of new products.

## Conference Call

OSI will present the results from the 2006 first quarter at 5:00 p.m. Eastern Time (2:00 p.m. Pacific Time), today, April 11, 2006. The conference call may be accessed on the company investor site at [www.osil.com](http://www.osil.com). To listen to the conference call live by telephone, dial 866-400-2280 for participants in North America and 416-850-9143 for Toronto area and international participants approximately ten minutes before the start time. A telephone playback will available via telephone for two business days, beginning approximately two hours after the call. To listen to the telephone replay please dial 800-374-1796 and for international callers, dial 402-220-0876. Enter access code 7031281.



## Press Release

### **About OSI**

Offshore Systems International Ltd. (OSI) is the world's leading developer and supplier of military navigation systems. Focused on the commercial, defense, and homeland security markets, OSI delivers advanced systems and software to address the growing need for enhanced situational awareness in command, control, and intelligence applications. By providing essential tactical and geospatial information, the company's systems and software help decision-makers know the precise location of mission operations across all military forces while integrating information with allies. OSI systems are in use by military, government, and commercial customers around the world. The company is publicly traded on the Toronto Stock Exchange (OSI) and the Over the Counter Bulletin Board (OFSYF). For additional information please visit [www.osil.com](http://www.osil.com).

### **Forward-Looking Statements:**

This news release contains items that constitute forward-looking statements within the meaning of securities laws including Section 27a of the Securities Act of 1933, as amended, and Section 21e of the Securities Exchange Act of 1934, as amended. These statements are made under the 'safe harbor' provisions of the Private Securities Litigation Reform Act of 1995 and, as such, involve known and unknown risks and uncertainties and other factors that may cause the actual results to be materially different from the results implied herein. Offshore Systems International can give no assurances that its representations will be achieved or that it will update them at any time in the future.

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# Press Release

**Offshore Systems International Ltd.**  
Consolidated Balance Sheets (Unaudited)  
(in Canadian dollars, U.S. GAAP)

	February 28 <b>2006</b>	November 30 <b>2005</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,332,750	\$ 9,599,801
Marketable securities	287,950	–
Restricted cash	–	221,264
Accounts receivable	8,173,796	11,002,470
Inventory	1,203,940	1,094,634
Prepaid expenses and deposits	782,514	624,629
	<u>11,780,950</u>	<u>22,542,798</u>
Plant and equipment	1,247,027	1,015,057
Intangible and other assets	1,069,210	732,912
Goodwill	9,147,243	481,014
	<u>\$ 23,244,430</u>	<u>\$ 24,771,781</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,680,087	\$ 3,919,534
Income taxes payable	106,797	284,833
Unearned revenue	819,298	530,321
	<u>3,606,182</u>	<u>4,734,688</u>
Deferred income taxes	406,164	230,806
	<u>4,012,346</u>	<u>4,965,494</u>
<b>Capital stock</b>		
Authorized		
Issued and outstanding		
30,262 Class A preference shares – Series A (2005 – 30,262)	30,262	30,262
341,240 Class B preference shares – Series 2 (2005 – 341,240)	11,614,713	11,412,208
31,435,284 common shares (2005 – 30,367,309)	23,697,952	22,832,892
	<u>35,342,927</u>	<u>34,275,362</u>
Warrants	5,207,234	5,207,234
Additional paid in capital	4,772,106	4,743,012
Accumulated deficit	(26,143,652)	(24,446,827)
Accumulated other comprehensive income	53,469	27,506
	<u>19,232,084</u>	<u>19,806,287</u>
	<u>\$ 23,244,430</u>	<u>\$ 24,771,781</u>



# Press Release

**Offshore Systems International Ltd.**  
Consolidated Statements of Earnings (Loss) (Unaudited)  
(in Canadian dollars, U.S. GAAP)

Three months ended February 28  
**2006** **2005**

## Revenue

Marine systems	\$ 1,478,943	\$ 1,952,277
Land and air systems	2,126,731	—
Mapping	616,944	307,586
	<u>4,222,618</u>	<u>2,259,863</u>
Cost of sales	2,835,431	1,027,755
Gross profit	<u>1,387,187</u>	<u>1,232,108</u>

## Expenses

General and administrative	1,552,085	1,036,193
Research and development	625,921	319,232
Sales and marketing	636,438	552,256
Depreciation and amortization	152,215	53,746
Interest expense	6,952	12,716
Interest income	(14,841)	(109)
Foreign exchange loss (gain)	111,895	(73,144)
Technology Partnerships Canada royalty	65,645	54,691
Technology Partnerships Canada contribution	(243,276)	(265,517)
	<u>2,893,034</u>	<u>1,690,064</u>
Net loss before income taxes	(1,505,847)	(457,956)
Income tax recovery	(11,527)	(238,365)
Net loss	<u>\$ (1,494,320)</u>	<u>\$ (219,591)</u>
Net loss attributable to common shareholders	<u>\$ (1,696,825)</u>	<u>\$ (296,313)</u>

## Loss per share

Basic	\$ (0.05)	\$ (0.01)
Diluted	<u>\$ (0.05)</u>	<u>\$ (0.01)</u>



# Press Release

**Offshore Systems International Ltd.**  
Consolidated Statements of Cash Flows (Unaudited)  
(in Canadian dollars, U.S. GAAP)

Three months ended February 28

**2006** **2005**

**Cash flows provided by (used in) operating activities**

Loss for the period	\$ (1,494,320)	\$ (219,591)
Items not affecting cash		
Depreciation and amortization	215,959	84,670
Stock-based compensation	29,094	2,524
Deferred income taxes	(14,906)	(238,365)
Changes in non-cash working capital items		
Accounts receivable	4,246,059	980,286
Inventory	(109,306)	(213,127)
Prepaid expenses and deposits	82,913	(297,321)
Accounts payable and accrued liabilities	(2,078,656)	(765,414)
Income taxes payable	(167,413)	–
Unearned revenue	288,978	(5,520)
	<u>998,402</u>	<u>(671,858)</u>

**Cash flows provided by (used in) financing activities**

Proceeds from operating line of credit	–	548,394
Class B preference share dividend paid	–	(86,566)
	<u>–</u>	<u>461,828</u>

**Cash flows used in investing activities**

Purchase of CHI Systems, net of acquired cash	(9,143,191)	–
Increase in marketable securities	(287,950)	–
Decrease in restricted cash	221,264	–
Additions to plant and equipment	(55,128)	(27,424)
Additions to intangible and other assets	(46,282)	(13,583)
Additions to goodwill on acquisition of Mapcon Mapping	(264)	–
	<u>(9,311,551)</u>	<u>(41,007)</u>

Effect of exchange rate changes on cash and cash equivalents	<u>46,098</u>	<u>–</u>
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<b>Decrease in cash and cash equivalents</b>	<b>(8,267,051)</b>	<b>(251,037)</b>
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<b>Cash and cash equivalents – beginning of period</b>	<u>9,599,801</u>	<u>251,037</u>
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<b>Cash and cash equivalents – end of period</b>	<u>\$ 1,332,750</u>	<u>\$ –</u>
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