



FOR IMMEDIATE RELEASE

OSI Geospatial Reports 2006 Second Quarter Financial Results

**July 12, 2006
Vancouver, Canada**

OSI Geospatial Inc. (TSX: OSI; OTCBB: OSIIF) announced today its financial results for the second fiscal quarter ended May 31, 2006. Effective the second quarter of 2006, the company has changed its reporting currency to U.S. dollars from Canadian dollars. All amounts are reported in U.S. dollars and in accordance with U.S. GAAP, unless otherwise indicated.

For the second quarter of 2006, OSI Geospatial reported revenue of \$6.1 million, up from \$1.5 million for the same quarter in 2005. The \$4.6 million increase includes \$2.4 million in land and air systems revenue gained through the company's new U.S. systems operations. Marine systems revenue increased approximately \$1.7 million and mapping revenue increased approximately \$585,000 compared to the prior year's quarter. The increase in marine systems and mapping revenue reflects contract awards during the period from new and existing customers.

For the second quarter of 2006, the company reported earnings before taxes of \$93,983 and a net loss after taxes of \$2,137 compared to a net loss before taxes of \$1.2 million and a net loss after tax of \$1.4 million for the same quarter in 2005. The improvement is attributable to the substantial increase in revenue and higher gross profit from an increase in software revenue. The net loss available to common shareholders was \$715,055 or \$0.02 per share for the second quarter of 2006 and includes approximately \$525,000 for dividends paid to preferred shareholders. This compares to the net loss available to common shareholders of \$5.6 million or \$0.20 per share in the prior year's quarter.

"Overall we had a very strong quarter with substantial revenue growth. Contract awards were strong at \$6.9 million. Top line results were solid in all of our businesses. Gross and operating margins rose and our business was profitable before taxes," said Ken Kirkpatrick, president and chief executive officer of OSI Geospatial. "This quarter we demonstrated excellent progress against our goals to grow company revenue, strengthen our leadership in the international defense and commercial market, and demonstrate our ability to penetrate the U.S. defense, homeland security and commercial markets."

Second Quarter Highlights

- Secured land and air systems contracts totaling \$2.7 million with the U.S. Department of Defense
- Secured marine systems contracts totaling \$2.8 million, including a \$1.8 million contract by L-3 Communications Marine Systems for a U.S. Navy program
- Secured mapping contracts totaling \$1.4 million, including the company's first prime contract in California with a mapping project for Stanislaus County



- Announced the Royal Norwegian Navy has selected the company's surface and subsurface navigation systems for deployment on its mine warfare vessels and submarines
- Launched the simplified voyage data recorder (S-VDR) product for the commercial shipping market that will enable ship operators to benefit from the company's proven, world-leading navigation technology while meeting newly mandated International Maritime Organization (IMO) carriage requirements

Outlook

"We continue to show steady progress against all of our goals for fiscal 2006. Since the last investor conference call we have announced a very important contract with L-3 Communications Marine Systems which delivers on our stated objective to win a significant U.S. Navy contract," continued Mr. Kirkpatrick. "We have also expanded our presence in the commercial maritime market – signing our first commercial customer in Europe and announcing a contract with Teekay Shipping to install our navigation systems on vessels under construction."

Management reiterates revenue guidance of C\$28 million to C\$32 million for fiscal 2006. In support of the reporting currency change from Canadian dollars to U.S. dollars, the company has converted its Canadian dollar guidance to US\$24 million to US\$28 million.

Management has outlined the following goals for the fiscal year ending November 30, 2006 and is pleased to report the following progress:

1. Revenue in the range of \$24 million to \$28 million
 - Reported \$9.8 million in revenue for the first half of fiscal 2006
2. Demonstrate U.S. market penetration by winning a significant U.S. Navy contract
 - Signed a \$1.8 million contract with L-3 Communications Marine Systems for the delivery of one of the company's command and control products for a U.S. Navy program
3. Demonstrate market development in the company's existing customer base by securing a significant prime contract from the British Royal Navy
 - The company is pursuing several opportunities and expects to meet this goal by the end of the third quarter of 2006
4. Expand the company's customer base by securing one new customer in each of the three defense domains: air, land, and sea
 - Announced contracts with the U.S. Office of the Naval Research and the Royal Norwegian Navy
5. Accelerate U.S. and international market penetration by signing a teaming agreement with a top-tier defense contractor
 - The company is making solid progress towards completing this goal
6. Diversify into new market sectors by leveraging the company's core navigation technology in the development of new products
 - Launched the S-VDR product for the commercial maritime market

Conference Call

OSI Geospatial will present the results from the 2006 second quarter at 8:00 a.m. Eastern Time (5:00 a.m. Pacific Time), today, July 12, 2006. The conference call may be accessed on the company's investor site at www.osigeospatial.com. To listen to the conference call live by telephone, dial +1-866-400-2280 for participants in North America and +1-416-850-9143 for Toronto area and international participants approximately ten minutes before the start time. A telephone playback will be available via telephone for two business days, beginning approximately two hours after the call. To listen to the



telephone replay please dial +1-888-567-0782 and for international callers, dial +1-402-220-2884. Enter access code 2352238.

About OSI Geospatial

OSI Geospatial Inc. delivers advanced systems and software to address the growing need for enhanced situational awareness in command, control, communications, 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 Geospatial 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 (OSIIF). For additional information please visit www.osigeospatial.com.

Forward-Looking Statements

Certain statements made in this news release that are not based on historical information (including those in the section entitled "Outlook") are forward-looking statements which are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934 and Section 138.4(9) of the Ontario Securities Act. These forward-looking statements are subject to risks and uncertainties. Actual results may differ from these projections. The risks associated with the Company's business include risks related to its reliance on international government contracts; the number of large customer transactions and the related lengthy sales cycles in executing those opportunities; uncertainties associated with competitive bidding processes and contract negotiations; actions by government authorities; the effects of general economic and political conditions; changing foreign exchange rates; and challenges related to the company's ability to introduce, develop and implement new products and enhancements to existing products that respond to customer requirements in a changing, complex, technological market. A complete discussion of the company's risk factors is presented in the company's most recent annual reports, filed with the United States Securities and Exchange Commission ("SEC") and the Canadian Securities Administrators ("CSA"), as well as other periodic reports filed with the SEC and the CSA. The Company does not undertake any obligation to update the forward-looking statements.

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OSI Geospatial Inc.
Consolidated Balance Sheets (Unaudited)
(in U.S. dollars, U.S. GAAP)

	May 31 2006	November 30 2005
Assets		
Current assets		
Cash and cash equivalents	\$ 1,419,553	\$ 8,222,226
Marketable securities	159,685	-
Restricted cash	60,000	189,519
Accounts receivable	7,223,816	9,419,395
Inventory	1,109,450	937,554
Prepaid expenses and deposits	672,779	532,282
	10,645,283	19,300,976
Plant and equipment	1,080,632	869,398
Intangible and other assets	870,558	625,799
Goodwill	8,130,396	405,681
	<u>\$ 20,726,869</u>	<u>\$ 21,201,854</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,017,715	\$ 3,359,656
Income taxes payable	62,022	242,411
Unearned revenue	874,823	454,220
	3,954,560	4,056,287
Deferred income taxes	342,697	200,998
	<u>4,297,257</u>	<u>4,257,285</u>
Stockholders' Equity		
Issued and outstanding		
30,262 Class A preference shares – Series A (2005 – 30,262)	19,227	19,227
317,240 Class B preference shares – Series 2 (2005 – 341,240)	8,750,314	9,040,914
32,857,048 common shares (2005 – 30,367,309)	17,060,916	15,373,529
	25,830,457	24,443,670
Warrants	4,286,060	4,286,060
Additional paid in capital	3,860,761	3,995,835
Accumulated deficit	(20,202,694)	(18,061,619)
Accumulated other comprehensive income	2,655,028	2,290,623
	16,429,612	16,944,569
	<u>\$ 20,726,869</u>	<u>\$ 21,201,854</u>



OSI Geospatial Inc.
Consolidated Statements of Earnings (Loss) (Unaudited)
(in U.S. dollars, U.S. GAAP)

	Three months ended May 31		Six months ended May 31	
	2006	2005	2006	2005
Revenue				
Marine systems	\$ 2,435,442	\$ 783,226	\$ 3,717,882	\$ 2,372,381
Land and air systems	2,370,118	-	4,221,681	-
Mapping	1,334,309	750,019	1,863,057	998,748
	<u>6,139,869</u>	<u>1,533,245</u>	<u>9,802,620</u>	<u>3,371,129</u>
Cost of sales	<u>3,544,897</u>	<u>1,216,568</u>	<u>6,013,942</u>	<u>2,049,336</u>
Gross profit	<u>2,594,972</u>	<u>316,677</u>	<u>3,788,678</u>	<u>1,321,793</u>
Expenses				
General and administrative	1,514,184	836,773	2,859,976	1,678,981
Research and development	450,592	372,761	992,859	633,270
Sales and marketing	605,817	543,530	1,158,039	992,314
Depreciation and amortization	137,878	63,712	269,905	107,478
Interest expense	6,218	6,950	12,264	17,234
Interest income	(6,849)	(31,347)	(19,683)	(31,437)
Foreign exchange loss (gain)	(21,147)	62,307	267	24,328
Technology Partnerships Canada royalty	107,668	30,459	164,572	74,861
Technology Partnerships Canada contribution	(293,372)	(378,386)	(503,840)	(594,399)
	<u>2,500,989</u>	<u>1,506,759</u>	<u>4,934,359</u>	<u>2,902,630</u>
Net earnings (loss) before income taxes	<u>93,983</u>	<u>(1,190,082)</u>	<u>(1,145,681)</u>	<u>(1,580,837)</u>
Income tax expense (recovery)				
Deferred income tax expense (recovery)	(23,321)	113,378	(7,594)	(94,440)
Current income tax expense	119,441	66,587	93,706	82,116
	<u>96,120</u>	<u>179,965</u>	<u>86,112</u>	<u>(12,324)</u>
Net loss	<u>\$ (2,137)</u>	<u>\$ (1,370,047)</u>	<u>\$ (1,231,793)</u>	<u>\$ (1,568,513)</u>
Net loss available to common shareholders	<u>\$ (715,055)</u>	<u>\$ (5,560,039)</u>	<u>\$ (2,120,971)</u>	<u>\$ (5,780,204)</u>
Loss per share				
Basic and diluted earnings per share	\$ (0.02)	\$ (0.20)	\$ (0.07)	\$ (0.21)
Weighted average number of common shares outstanding				
Basic and diluted	32,301,357	27,488,074	31,790,928	27,488,074



OSI Geospatial Inc.
Consolidated Statements of Cash Flows (Unaudited)
(in U.S. dollars, U.S. GAAP)

	Three months ended May 31		Six months ended May 31	
	2006	2005	2006	2005
Cash flows provided by operating activities				
Net loss for the period	\$ (2,137)	\$ (1,370,047)	\$ (1,231,793)	\$ (1,568,513)
Items not affecting cash				
Depreciation and amortization	201,225	95,068	388,578	164,107
Stock-based compensation	78,569	10,725	103,743	12,961
Deferred income taxes	2,414	114,050	(7,594)	(78,239)
	<u>280,071</u>	<u>(1,150,204)</u>	<u>(747,066)</u>	<u>(1,469,684)</u>
Changes in non-cash working capital items				
Accounts receivable	(1,636)	1,165,596	3,636,020	1,975,522
Inventory	(15,732)	(24,397)	(109,663)	(198,072)
Prepaid expenses and deposits	32,421	88,843	92,307	(153,706)
Accounts payable and accrued liabilities	630,745	1,073,781	(1,148,540)	379,972
Income taxes payable	(30,699)	60,915	(171,219)	60,915
Unearned revenue	126,302	(2,095)	377,912	(6,623)
	<u>741,401</u>	<u>2,362,643</u>	<u>2,676,817</u>	<u>2,058,008</u>
	<u>1,021,472</u>	<u>1,212,439</u>	<u>1,929,751</u>	<u>588,324</u>
Cash flows used in investing activities				
Purchase of CHI Systems Inc., net of cash acquired	(239,642)	–	(8,122,800)	–
Purchase of Mapcon Mapping Consultants Inc., net of cash acquired	–	(972,421)	–	(972,421)
Decrease (increase) in marketable securities	98,531	–	(159,685)	–
Decrease (increase) in restricted cash	(60,000)	(175,271)	129,519	(175,271)
Additions to plant and equipment	(39,249)	(60,771)	(87,017)	(82,910)
Additions to intangibles and other assets	(52,723)	(19,211)	(92,999)	(30,278)
	<u>(293,083)</u>	<u>(1,227,674)</u>	<u>(8,332,982)</u>	<u>(1,260,880)</u>
Cash flows provided by (used in) financing activities				
Payment to operating line of credit	–	(442,386)	–	–
Issue of common shares	6,480	–	6,480	–
Issue of Class B Series 2 preference shares and warrants, net of issue costs	–	13,798,195	–	13,798,195
Repurchase of Class B Series 2 preference shares	–	(2,298,327)	–	(2,298,327)
Class B preference share dividends declared and paid	(526,406)	(132,972)	(526,406)	(201,921)
	<u>(519,926)</u>	<u>10,924,510</u>	<u>(519,926)</u>	<u>11,297,947</u>
Translation adjustment	<u>62,209</u>	<u>(243,712)</u>	<u>120,484</u>	<u>(171,500)</u>
Increase (decrease) in cash	<u>270,672</u>	<u>10,665,563</u>	<u>(6,802,673)</u>	<u>10,453,891</u>
Cash and cash equivalents – beginning of period	1,148,881	–	8,222,226	211,672
Cash and cash equivalents – end of period	<u>\$ 1,419,553</u>	<u>\$ 10,665,563</u>	<u>\$ 1,419,553</u>	<u>\$ 10,665,563</u>