



**2006 Fourth Quarter Financial Results Conference Call
February 21, 2007 at 4:30 p.m. ET**

Introduction: Megan Helmer, Manager Investor Relations

Thank you operator. Good afternoon everyone, and thanks for joining us to discuss OSI Geospatial's 2006 fourth quarter and year end financial results. Our results were issued about half an hour ago. If you have not been able to obtain a copy of our news release, it is posted on our website at www.osigeospatial.com. We are also broadcasting this event live on our website.

Joining me this afternoon on the call are Ken Kirkpatrick, president and CEO, and John Sentjens, vice president Finance.

We'll begin this afternoon with Ken Kirkpatrick who will review the fourth quarter and full 2006 results. John Sentjens will follow with the financial and operating highlights. Ken will then provide some insight in to our plans for 2007, and finally, we will open the call to analyst questions.

During the call, we will be making forward-looking statements about OSI Geospatial's business. These statements are subject to risks and uncertainties, which could cause actual results to differ materially. These include risks related to the company's 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 develop, introduce and implement new products and enhancements to existing products that respond to customer requirements in a rapidly changing, complex, technological market. These and other risks are disclosed in the MD&A portion of the company's Annual Reports filed with the relevant securities regulators. Statements made on this call reflect management's analysis as of today, and management does not assume any responsibility or obligation to update any forward-looking statements made during this presentation.

During the call, we will make reference to selected non-GAAP financial measures, including total backlog, firm backlog, option backlog, and working capital. We feel these measures provide meaningful information to investors. These non-GAAP measures do not have a standardized meaning and are not likely comparable to similar measures presented by other issuers. Please note that all financial information is stated in U.S. dollars and in accordance with U.S. GAAP.

With that, I'll turn the call over to Ken Kirkpatrick.



Fourth Quarter and Full Year Business Review: Ken Kirkpatrick, President and CEO

Thank you, Megan. Good afternoon everyone and thank you for taking the time to join us for our year end conference call.

2006 was a very successful year for the company. We closed on more than 56 million dollars of new business, coming from key defense markets such as the United Kingdom and the United States. The continued development of these markets is critical to our growth strategy. I am pleased to re confirm that in 2006 we achieved all of our established strategic objectives.

Firstly, our full year's revenue was 24.1 million dollars, more than double the 11.1 million dollars we generated in 2005. As we expected, we earned a modest profit of 693 thousand dollars compared to a loss of 2.7 million dollars last year. Our investments in 2005 have paid off, and we are committed to improving our profitability in 2007 and in the future.

In the fourth quarter, we earned revenue of 10 million dollars compared to 5.1 in the fourth quarter of 2005. We earned a net profit on the quarter of 2.7 million dollars compared to a net loss of 872 thousand dollars last year. Our fourth quarter results confirm the scalability of our business and a cost base that is in place to support significant revenue growth.

Secondly, we said we would secure a significant U.S. Navy contract that demonstrated our ability to access the U.S. market. Historically, we have had trouble gaining access to the U.S. defense market. As you know, we signed two different U.S. Navy contracts in 2006. The first was a 1.8 million dollar contract by L-3 Communications to provide our COP product for integration into the bridge system of the DDG 1000, the U.S. Navy's next generation destroyer. Additionally, we provided our COP product to the U.S. Joint Unmanned System Common Control program where it will be used for the U.S. Littoral Combat Ship program. This is evidence that acquiring our U.S. systems operations last year has given us the ability to penetrate the U.S. market.

Thirdly, we closed a significant prime contract with the United Kingdom Royal Navy. The contract is valued at more than 29 million dollars and is the largest contract in the history of the company. We were competing against some major players in the defense industry, and we were the winners. This is a major step in the development of our company, and it positions us very well to repeat this success in the future.

Under the terms of this contract we will provide Warship Automatic Identification Systems that will be installed across the Royal Navy fleet. Not only are these systems applicable to naval ships, it can also provide benefits to naval aircraft. We believe there is a significant market opportunity around the world for this technology, and we are going to pursue it aggressively.



Expanding our customer base is critical to our growth strategy. We set as our fourth goal to secure a new customer in each of the three defense domains: air, land, and sea. In 2006 we announced two new sea customers, the U.S. Office of the Naval Research and the Royal Norwegian Navy, a new air customer, the U.S. Air Force Command and Control Battle Lab and a new land customer, the U.S. Defense Threat Reduction Agency.

As our fifth goal, we said we would close a teaming agreement with a top-tier defense contractor. And, in May, we signed a teaming agreement with L-3 Communications to pursue opportunities in the worldwide naval market. We continue to work with L3 to develop new business opportunities in both the U.S. and the U.K defense markets. While we are in a position to be the prime contractor for some programs, it is necessary to leverage strong partners to enter and win others.

Finally, we said we would diversify our product offering into new market sectors by leveraging our core technology. In 2006, we were able to diversify into three new products.

One of the products was the warship automatic identification system or warship-AIS I mentioned earlier. This product will enable military and civil authorities to receive AIS data from commercial ships and use this information to identify and respond to threats in support of coastal defense. These systems will be installed in the operation's room and integrated into the WECDIS system located on the bridge of the UK Royal Navy ships.

The second product we announced was based on a contract to develop a handheld GPS denied personal navigation system for the U.S. Defense Threat Reduction Agency. This technology will improve military operational performance in urban and mountainous environments where GPS positioning is difficult to receive. We have identified several applications for this technology and continue to actively develop business in this market.

Lastly, we launched our integrated navigation and simplified voyage data recorder system, or S-VDR, for the commercial shipping market. We recently announced that our product has now been certified, and we have secured our first customer. All ships greater than 3,000 gross tons will be required to install S-VDR systems by July 2010 and we estimate there are more than 30,000 vessels that will be required to install this technology. We plan to leverage this government mandate to sell our integrated navigation/S-VDR system. The S-VDR provides no operational value, but our integrated system does. We expect to see positive momentum in this market in 2007.

With 2006 behind us, and 2007 underway, the management of OSI will continue to deliver on our commitments as we remain focused on the execution of our growth strategy. To that end, we have decided to relocate our Corporate Headquarters from Vancouver to Ottawa. Relocating to Canada's capital will position us to more effectively develop our Canadian defense business; access key customers in the U.S. and Europe; and access investors in major eastern U.S. and Canadian cities. We strongly believe



that this is an important step in the development of our company and the implementation of our growth strategy. Our Ottawa office will be open for business in June 2007. We are still in the development stage of this plan, and I expect to have more details for you in the first quarter conference call.

With that I will turn the call over to John Sentjens, who will take you through our financial and operating highlights for 2006 and the fourth quarter.

Financial Review: John Sentiens, Vice President Finance

Thanks Ken and good afternoon everyone.

Our 2006 consolidated revenues of 24.1 million dollars increased by 13 million dollars from 2005.

Our marine systems revenue increased by 3.1 million dollars, or 38%, primarily due to both the timing of new contract awards and the delivery schedule of existing contracts. We reported 8.8 million dollars of land and air systems revenue gained through our U.S. systems operations that we acquired last year. Our mapping operations revenue increased by 1.1 million dollars, or 39%, primarily due to new contract awards.

For 2006 we reported a gross profit percentage of 45 percent compared to 48 percent for 2005, a decrease of 4%. This lower percentage is due to the lower margin associated with the business from our acquired U.S. systems operations.

General and administrative expenses increased 54% to 6 million dollars. This is primarily due to the acquisition of our U.S. systems operations and the increase of staff to support our growth. As a percentage of revenue, G and A expenses were down 10% from last year. For 2007, we expect G and A expenses to be similar to 2006.

Engineering expenses increased 7% to 1.8 million dollars, mainly due to higher staff levels and new product activity expenses. As a percentage of revenue, engineering expenses were down 8% from last year. In 2007, we expect to see a decline in engineering expenses, not because we are engaging in less research and development, but because more and more of our customers are paying us to develop our products.

Sales and marketing expenses increased 7% to 2.5 million dollars. The increase is primarily due to the addition of our U.S. Systems operations. We expect to see a significant increase in our sales and marketing expenses in 2007.

As we continue to diversify our core technology into additional products and reach out to a much larger target market, we require additional sales people to effectively develop these markets.

At November 30, 2006, total backlog was 63 million dollars compared to 18 million dollars at November 30, 2005. Firm backlog – which consists of firm, fixed, and signed orders at year-end – was 35 million dollars compared to 10 million dollars at November



30, 2005. Option backlog – which is unexercised or unfunded contract provisions - was 28 million dollars compared to 8 million dollars at November 30, 2005

Overall we reported net earnings of 693 thousand dollars compared to a net loss of \$2.7 million in 2005. This was primarily driven by the improved operating performance from our marine and mapping operations and the addition of our U.S. systems operations.

The net loss attributable to common shareholders was 825 thousand dollars or three cents per share compared to 9.4 million dollars or 34 cents a share, in 2005.

I will now summarize the 2006 fourth quarter results.

Consolidated revenue for Q4 was 10 million dollars, an increase of 95% compared to Q4 2005. Marine systems revenue increased to 2.3 million dollars, an increase of 56%. Mapping revenue increased 83 thousand dollars or 8%. We did not have land and air systems revenue in the fourth quarter of 2005, but in Q4 2006 it contributed 2.5 million dollars. Gross profit percentage was 58% compared to 51% in Q4 2005. Operating expenses were 3.1 million dollars for Q4 2006 compared to 2.7 million in Q4 2005. Net income was 2.7 million dollars compared to a net loss of 872 thousand dollars for the fourth quarter of 2005. This quarter includes operating expenses for our U.S. systems operations that we did not have last year, higher public company costs and higher TPC royalties related to higher revenue.

Now, turning to our balance sheet:

At November 30, 2006, current assets were 14.3 million dollars and current liabilities were 6.5 million dollars. Working capital was 7.8 million dollars at year-end.

Our current assets and working capital have decreased primarily due to the acquisition of our U.S. systems operations.

We have 2.6 million dollars available under our revolving credit facilities, and at November 30, 2006 we had borrowed 904 thousand dollars against those facilities. This was not unexpected, due to the timing of the U.K. royal navy contract. We are pleased to report that we are now back to a positive cash position.

We have enough cash and credit facilities to manage the business, and we expect cash flow from operations will improve so that we are generating positive cash flows in 2007.

Now I would like to turn the call back to Ken.

Closing: Ken Kirkpatrick, President and CEO

Thanks John. Throughout the year, we remained focused on driving performance and executing on our strategic goals. We strongly believe that leveraging our technology and market leadership position will be a major contributor to our future growth. Our strategy



to dominate the naval navigation market is working, and this success is leading to several new product and market opportunities.

Now I would like to detail for you our plans for 2007. As you know, we have again set strategic objectives for the year:

First, we will generate revenue in the range of 28 million to 32 million dollars, with positive net earnings. We are focused on improving our profitability, but we must balance this with sound investments in growing our company more aggressively.

Secondly, we will secure both a significant U.S. Department of Defense and U.K. Ministry of Defence prime contract. These are two of the largest defense markets in the world and we are well positioned to further develop these markets in 2007.

New customers are crucial to our growth strategy. To date we have developed an impressive customer list, and for our third goal, we plan to add to it in 2007 by again securing new customers in each of the three defense domains: air, land, and sea.

Also important to our growth is our ability to diversify into new market sectors by leveraging the company's core technology in the development of new products, and we have again set this as a goal for 2007.

Lastly, we intend to establish the company as a creditable supplier in the global national security and homeland defense market. The world has never seen a time where national security and homeland defense are such a focus. The U.S and other NATO countries are spending billions of dollars and we strongly believe that our success in the naval market has positioned us very well to enter this market.

To conclude, we met each of the strategic objectives we set for ourselves in 2006, and I am confident we will meet our 2007 goals.

With that, I would be happy to take your questions.