



OSI Geospatial Inc. (TSX: OSI; OTCBB: OSIIF)

2006 Second Quarter Financial Results Conference Call July 12, 2006 at 8 a.m. ET

Introduction: Tracy Rawa, Manager Investor Relations

Thank you operator. Good morning everyone, and thanks for joining us to discuss OSI Geospatial's 2006 second quarter financial results. Our results were issued about two hours ago. If you have not been able to get 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 morning on the call are Ken Kirkpatrick, president and CEO, and John Sentjens, vice president Finance.

We'll begin this morning with Ken Kirkpatrick who will review the quarter and the progress we've made on our goals for the year. John Sentjens will follow with the financial and operating highlights. We will then open the call for your 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, unless otherwise indicated.

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



Second Quarter Business Review: Ken Kirkpatrick, President and CEO

Thank you, Tracy. Good morning everyone and thank you for taking the time to join us for our Q2 conference call.

Overall we had a solid quarter with positive earnings before tax, revenue of \$6.1 million and quarter-over-quarter revenue growth of \$4.6 million. Top line results were solid and contract awards in Q2 were strong at \$6.9 million. I am also encouraged by the contract awards totaling more than \$4 million in the first month of our third quarter.

As many of you already know, on June 5th we changed our name to OSI Geospatial and the response to the new name has been very positive. The new name better reflects our business and market focus. We continue to show steady progress against our goals for fiscal 2006. Since the last conference call we have announced a very important contract which delivers on our stated objective to secure a significant U.S. Navy contract. Overall, I am pleased with our performance in Q2.

Before I begin my review of the quarter, I would like to inform you that effective Q2 2006 we have changed our reporting currency from Canadian dollars to U.S. dollars. In general this change results from an increase in the overall proportion of business activities conducted in U.S. dollars. Going forward our financial results and all historical comparisons will be reported in U.S. dollars.

Now I would like to review our achievements since the last call. As I already mentioned, we continue to build on the accomplishments of the first quarter and are on track to meet the goals we have set for 2006. We are focused on growing company revenues, strengthening our leadership in the international defense and commercial market, and demonstrating our ability to penetrate the U.S. defense, homeland security and commercial markets.

We have targeted for our first goal – strong annual revenue growth and I am pleased to report that we are making good progress on our plan. We are confirming our Canadian dollar revenue guidance of \$28 million to \$32 million, and in support of our change to U.S. dollar reporting, we have converted our guidance to U.S. dollars of \$24 million to \$28 million.

Our second goal for 2006 is focused on demonstrating U.S. market access by securing a significant U.S. Navy contract. In May we achieved this goal with the award of a \$1.8 million contract by L-3 Communications for the development and integration of one of our command and control products for a U.S. Navy program. We expect to announce further details about this contract once we receive the required customer approvals.

This development not only delivers on one of our annual goals but also marks a significant company milestone. For many years the company has competed in the U.S. naval market but with limited success. We have participated in a number of U.S. Navy programs with future revenue potential but have not won a contract delivering the company immediate revenue. The contract awarded by L-3 meets this important objective. In fact the value of the contract is the



largest awarded in the company's history for a U.S. Navy initiative. This is a solid beginning to what we expect will be a growing business.

This contract also marks the most significant sale of our command and control products since our entry into this market in 2003. Our command and control products integrate information from a variety of geospatial data sources into a single combined display and enable a shared understanding of the terrain. These products address the needs of not only Navy applications but also Army and Air Force as well as Special and Coalition Force operations. We see much potential for the deployment of our command and control products across military forces and in many different markets.

Our third goal for 2006 focuses on market development with existing customers and in particular – our ability to secure a significant prime contract with the British Royal Navy. We are actively pursuing several opportunities with the Royal Navy and are confident that we will achieve this goal by the end of the third quarter in 2006.

We continue to demonstrate solid traction with our existing customer base and since the last conference call have booked business with the U.S. Air Force, U.S. Army and Teekay Shipping. As we have discussed on past calls, the initial deployment of our technology requires significant infrastructure and capital investment by our customers and we generally report substantial follow-on business. We take customer retention very seriously as this return business is important for our continued growth and success.

Our fourth goal is to secure a new customer in each of the three defense domains: air, land, and sea. Last quarter we announced a new marine customer in the U.S. and this quarter we announced the Royal Norwegian Navy. The acquisition of new customers continues to be a focus as we aim to diversify our revenue base, and we expect to announce further success in coming quarters.

Our fifth goal is targeted at closing a teaming agreement with a top-tier defense contractor. We already work with some of the industry's biggest and best contractors. This quarter we added L-3 Communications to our list of industry allies after they awarded us a contract for the U.S. Navy. L-3 is a formidable company and one of the top ten largest U.S. defense contractors. We are pleased with the short-term results from our relationship with L-3 and we are confident that our relationship will strengthen and lead to future successes.

Our final goal for 2006 is to diversify our product offering into new market sectors by leveraging our core technology. Last quarter we discussed the launch of our integrated navigation system and simplified voyage data recorder. This product addresses a large market opportunity of more than 30,000 ships that must meet a new International Maritime Organization mandate by July 2010.. Many competitors in this space are marketing standalone systems but few offer an integrated solution. Our competitive advantage is our ability to deliver an electronic navigation system that provides operational benefits while allowing customers to meet the new mandate. The majority of vessels are just beginning to make plans for compliance, and we are actively pursuing several opportunities in this market.



Since our last call, we have continued our expansion into the commercial market with two major developments – our first European-based commercial customer and the expansion of our relationship with Teekay Shipping.

Our first commercial customer in Europe, the Peter Döhle shipping group of Germany, is the operator and exclusive chartering agent for a modern fleet of about 170 container ships and bulk carriers. We signed a contract with them for the installation and service of eight commercial grade navigation systems to be installed on their mini bulk carriers. We look forward to developing a strong long-term relationship with them.

In the last couple weeks we also signed a contract with Teekay Shipping for dual navigation systems to be installed on six vessels currently under construction. Our navigation system will allow Teekay to meet International Maritime Organization requirements for paperless navigation on these vessels. Teekay is an international leader of marine services transporting more than 10 percent of the world's seaborne oil. We began our relationship with them in 2004 with an initial installation of 15 single navigation systems. A further 11 systems were acquired and installed in 2005 and early 2006.

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

Financial Review: John Sentjens, Vice President Finance

Thanks Ken and good morning everyone.

As Ken mentioned, this quarter we adopted U.S. dollars as our reporting currency and today's results are in U.S. dollars.

Consolidated revenues of \$6.1 million increased by \$4.6 million from Q2 2005. This includes \$2.4 million in land and air systems revenue gained through our U.S. systems operations as well as increases of approximately \$1.7 million in marine systems revenue and \$585,000 in mapping revenue.

This quarter we reported a gross profit percentage of 42 percent compared to 21 percent for Q2 2005. Notably higher revenue and gross profit were largely due to the increase in software product revenue compared to the prior year's quarter.

Operating expenses were \$2.5 million for Q2 2006 compared to \$1.5 million for Q2 2005. This quarter includes approximately \$500,000 of expenses related to our new U.S. systems operations. Higher royalty payments and lower contributions to Technology Partnerships Canada increased expenses by \$165,000. G&A expenses increased by approximately \$350,000 reflecting increased staff levels to support our growth plans, higher stock-based compensation costs and higher public company costs.



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Overall we reported earnings before tax of \$93,983 and a net loss after taxes of \$2,137. The loss is primarily due to approximately \$73,000 of tax owed on preferred share dividends paid in the quarter. This compares to a loss before taxes of approximately \$1.2 million and a net loss after tax of \$1.4 million for Q2 2005.

As at May 31, 2006, total backlog was \$32.8 million compared to \$17.5 million at May 31, 2005. Firm backlog – which consists of firm, fixed, and signed orders at quarter-end – was \$12.4 million compared to \$6.6 million at May 31, 2005. Option backlog – which is unexercised or unfunded contract provisions - was \$20.4 million compared to \$10.9 million at May 31, 2005.

Now turning to our balance sheet.

At May 31, 2006, current assets were \$10.6 million and current liabilities were \$4.0 million. Working capital was \$6.7 million at quarter-end. We generated cash from operations of \$1 million this quarter and were cash flow positive by approximately \$270,000. Our cash and marketable securities totaled \$1.6 million at quarter-end. We have enough cash to manage the business and expect to continue to generate positive cash flows through 2006.

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

Closing: Ken Kirkpatrick, President and CEO

Thanks John. Q2 provides a solid finish to the first half of the year. The company has a clear focus on driving performance, and we remain committed to executing on our growth strategy. With that John and I would be pleased to take your questions.