



**2006 Third Quarter Financial Results Conference Call  
October 16, 2006 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 third quarter 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](http://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 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 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.



**Third Quarter 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 Q3 conference call.

This quarter, we generated revenue of 4.3 million dollars, an increase of 1.7 million dollars, or 60% over the same quarter in 2005. Our net loss was 766 thousand dollars compared to 308 thousand dollars for the same quarter in 2005.

As I have communicated in the past, our results can vary substantially quarter over quarter, as the timing of contract awards in our business can be very difficult to predict. That said, we have the ability to generate a substantial amount of revenue in a very short period of time and with all of our recent contract awards, we are positioned extremely well to make this happen in the fourth quarter.

I am pleased with our progress in the third quarter, as we closed on more than 8.8 million dollars of new business, mostly coming from the U.S. defense market. Then, in September, we announced the award of a significant prime contract valued at approximately 3.8 million dollars by the U.S. Defense Threat Reduction Agency to provide GPS denied personal navigation technology. Our expansion in the U.S. market is an extremely important aspect of our growth strategy and we are making excellent progress.

Also important to our growth strategy is expansion into the U.K. market. It is one of the largest defense markets in the world and a high priority for us. We have invested significant time and effort in the development of our U.K. business. We expect to see significant results in both the short and the long term.

I am pleased to report that we have achieved four of our five strategic objectives for the year, and we are very close on the final one. And, I want to be clear; we fully expect to meet our revenue guidance and report a profit for the year.

Our first goal for 2006 was to generate revenue of 24 to 28 million dollars. Due to the delays in closing planned contracts, we now expect our revenue to be in the range of 24 to 26 million dollars. Since the end of our second quarter, we have secured new business of more than 13 million dollars and we are well positioned to meet our revenue guidance.

Our second goal for 2006 was to secure a significant U.S. Navy contract that demonstrates our ability to access the U.S. market. As you know, in May we achieved this goal with the award of 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. The DDG 1000 is one of the U.S. Navy's most important development programs for future ship technology. In addition, we recently announced that our COP product has been provided to the U.S. Joint Unmanned System Common



Control program and will be used for the U.S. Littoral Combat Ship program. Acquiring our U.S. Operations this year has been instrumental in gaining key access to the U.S. defense market.

Our third goal for 2006 was to secure a significant prime contract with the United Kingdom Royal Navy. We were unable to close this contract by August 31, 2006, as anticipated, due to longer than expected contract negotiations. However, we are on track to close this contract and recognize a portion of the revenue in the fourth quarter of 2006.

Our fourth goal was to secure a new customer in each of the three defense domains: air, land, and sea. We have now 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. Expanding our customer base is critical to our growth strategy and we continue to make great progress in this area.

Our fifth goal was targeted at closing a teaming agreement with a top-tier defense contractor. We recently announced that we have signed a teaming agreement with L-3 Communications to pursue opportunities in the worldwide naval market. Under the terms of the agreement, the companies will jointly market and sell products, including integrated bridge and command and control systems. We are actively working with L-3 in developing business in the United States, United Kingdom and Canada.

Our final goal for 2006 was 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 for the commercial shipping market. We are making good progress on developing opportunities in this market and expect to see results in the first half of 2007. In September, we announced 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 environments where GPS positioning is not available. We have identified several applications for this technology and we are actively developing business in this market.

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, as we have successfully secured eight navies, and we are the navigation standard for six of the eight. This success has led to several new product and market opportunities, and I will share some exciting developments on this front during the year end conference call.

In closing, I'd like to confirm that we will meet our revenue guidance and achieve all of our strategic objectives for 2006.



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

**Financial Review: John Sentjens, Vice President Finance**

Thanks Ken and good morning everyone.

Consolidated revenues of 4.3 million dollars increased by 1.7 million dollars from Q3 2005. This includes 2.0 million dollars of revenue gained through our U.S. systems operations as well as an increase of approximately 210 thousand dollars in mapping revenue. International systems revenue decreased 534 thousand dollars due to the timing of contract awards.

This quarter we reported a gross profit percentage of 32 percent compared to 56 percent for Q3 2005. This lower percentage is due to the lower margin revenue associated with our U.S. systems operations, decreased software revenue in our International systems operations, and a decrease in the mapping operation's margins.

Operating expenses were 2.3 million dollars for Q3 2006 compared to 1.7 million dollars for Q3 2005. This quarter includes approximately 400 thousand dollars of expenses related to our U.S. systems operations. Corporate and public company costs increased approximately 200 thousand dollars, reflecting higher professional fees and regulatory related public company costs.

Overall we reported a net loss of 766 thousand dollars. This loss is primarily due to the lower gross profits from our international systems operations and higher public company expenses. This compares to a net loss of 308 thousand in Q3 2005.

At August 31, 2006, total backlog was 35.2 million dollars compared to 17.1 million dollars at August 31, 2005. Firm backlog – which consists of firm, fixed, and signed orders at quarter-end – was 14.9 million dollars compared to 9.8 million dollars at August 31, 2005. Option backlog – which is unexercised or unfunded contract provisions - was 20.3 million dollars compared to 7.3 million dollars at August 31, 2005.

Now turning to our balance sheet, at August 31, 2006, current assets were 9.7 million dollars and current liabilities were 3.7 million dollars. Working capital was 6.0 million dollars at quarter-end. Our cash and marketable securities totaled 989 thousand dollars at quarter-end. We have enough cash to manage the business and expect to generate positive cash flows through 2006 and into 2007.

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



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

**Closing: Ken Kirkpatrick, President and CEO**

Thanks John. Throughout the year, we have remained focused on driving performance and executing on our strategic goals, and we are pleased with our results to date, including meeting four of our five strategic objectives. With that John and I would be pleased to take your questions.