



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

**2007 Second Quarter Financial Results Conference Call
July 12, 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 2007 second quarter 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 2007 second quarter results. John Sentjens will follow with the financial and operating highlights, and then 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.



Second Quarter Review: Ken Kirkpatrick, President and CEO

Thanks Megan. Good afternoon everyone and thank you for taking the time to join us for our second quarter conference call.

I'll begin by giving a high level overview of our financials. In the second quarter, we booked revenue of 6.1 million dollars, similar to the second quarter of 2006. We generated a net loss after tax of 480,000 dollars compared to a net loss after tax of 2,000 dollars in the second quarter of 2006. The increased loss is primarily due to a foreign exchange loss, the cessation of our Technology Partnership Canada program and our planned increase in sales and marketing expenses.

Year to date, we have signed contracts valued at more than 18 million dollars and we have been awarded additional contracts worth approximately 23 million dollars. We believe that the awarded contracts will be signed before the end of the year, and we are actively pursuing many other opportunities in all of our markets. In fact, our sales funnel has never been larger and we expect 2007 to be a record year for booking business.

We remain very confident that we will achieve our revenue guidance, generate a profit and meet all of our established objectives for 2007. We expect Q3 and Q4 to be very strong quarters for the company.

Now, I'd like to discuss our second quarter achievements and some more recent developments.

Early in the quarter, we signed a contract to provide the U.S. Navy with navigation systems for a small boat new build program. Small boats are generally considered platforms less than 100 feet. These vessels will be used to support protection operations for U.S. Navy major combatants. The U.S. military and other countries around the world are building thousands of small boats over the next 3 to 5 years to support force protection and homeland defense operations. This is a high priority market and we have been working hard to position the company to win our share of this business. We expect to see further success in 2007.

This quarter, we secured more than \$2 million dollars in contracts to provide our leading edge training technology to the U.S. Army. For many years, the U.S. Army has been a significant supporter of our technology. The need for training technology that improves performance, reduces costs and increases throughput is in high demand around the world. Our technology addresses these needs and we believe that we will see continued success in the U.S. and around the world.

We also continue to make solid progress in the development of our small unit situational awareness product for military, special operations, first responders, fire departments and police forces. The U.S. Army is using our product and we continue to receive excellent feedback. This provides us considerable credibility when we are marketing in other countries, such as the United Kingdom. There is a significant market for this technology around the world and we are positioning the company to get our share. We continue to identify new applications for this technology and we have recently signed a 750,000



dollar contract for the U.S. Navy to develop a hand held system that will support decision making during urgent medical situations in the battlefield.

Recently, we announced follow on contracts with another long term customer, the U.K. Royal Navy valued at \$1.8 million dollars. To be clear, these are not exercised options, but new contracts for upgraded hardware and software for both our Warship ECDIS and Warship-AIS programs. In the four years we have been working with the U.K. Navy, we have developed a business relationship that is now worth more than 44 million dollars. The U.K. Royal Navy is an important customer, and the U.K. defense market is a high priority for our company. We are committed to expanding our business with the U.K. Ministry of Defence.

Moving on to mapping for a moment... I am very pleased with our mapping operation's success this year. We are making solid progress in developing the U.S. Government County and City market, and have been awarded more than 6.0 million dollars of new business in the first six months of the year. We expect our mapping operations to continue to add new customers, win increasingly larger contracts and exceed its financial objectives in 2007.

We continue to bring in solid repeat business from existing customers. During the quarter we secured approximately 1.4 million dollars from our existing land and air customers and 1.1 million dollars from our marine customers, similar to the first quarter this year. We remain committed to growing our repeat business with existing customers as this maintains a solid foundation as we continue to expand our customer base and increase our revenues.

Now, regarding our new business unit -- in June we announced the creation of our new business unit "Layered Security Solutions" to provide integrated vulnerability assessments and technology solutions for the government "national security" and commercial "business continuity" Critical Infrastructure Protection or CIP market. CIP is a major concern and a high priority for the U.S. and many other countries around the world. The U.S. CIP market outlay for 2006 was 17 billion dollars and it is forecasted to increase to more than 33 billion dollars by 2015. The world-wide CIP market outlay for 2006 was 23 billion dollars and it is forecasted to increase to more than 56 billion dollars by 2015. The integrated vulnerability assessment process is the key driver to identify risks and to determine how budgets are spent to mitigate these risks.

Critical infrastructure is defined as systems and assets, whether physical or virtual, so vital to a country or company that the incapacity or destruction of such systems and assets would have a debilitating impact on security, economic interests, public health or safety, or any combination of those matters. Some sectors considered as critical infrastructure include: Chemical and Hazardous Materials, Defense Industrial Base, Emergency Services, Energy and Transportation.

Our Layered Security Solutions team will be led by retired Commander James G. Liddy U.S. Navy SEAL, the former leader of the U.S. Navy's elite Anti Terrorism Assessment Team "Red Cell". His team consists of an elite group of subject matter experts with extensive experience. This team's expertise was developed through the combined



experience of more than 250 integrated vulnerability assessments of critical infrastructure sites around the world.

Later in June we announced that we had signed a 2.1 million dollar contract to provide the U.S. Department of Homeland Security with critical infrastructure protection integrated vulnerability assessments. This is our first project with DHS and the first win for the Layered Security Solutions team. This is an extremely important win for the company, as it provides us immediate credibility in the national security market. We will leverage this win to develop significant additional business with the Department of Homeland Security.

The CIP market will grow significantly over the next 10 years, and we are now well positioned to leverage many of our existing technologies and offer unique solutions to the CIP market. We believe we will become a key solutions provider in the U.S. and internationally, and we are confident that our new business unit will lead to significant future business for us in the rapidly expanding critical infrastructure protection market.

Lastly, I will give you a brief update on our Ottawa office. As I've mentioned several times, we are relocating our corporate management and establishing a senior business development team in Ottawa to 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. I am now working from our Ottawa office along with Bob Parsons, our director of International Business Development. By the end of the year, I will have a team of approximately eight working out of this office.

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 of 2007.

Second Quarter Financial Review: John Sentjens, Vice President, Finance

Thanks Ken and good afternoon everyone.

Consolidated revenues for the first quarter of 2007 were 6.1 million dollars, similar, as Ken mentioned, to the revenue we generated in the second quarter of 2006.

Our segmented revenues essentially remained consistent quarter over quarter with marine systems generating 2.5 million dollars of revenue, land and air systems generating 2.3 million dollars and mapping operations generating 1.3 million dollars of revenue.

This quarter we reported a gross profit percentage of 40 percent compared to 42 percent in Q2 2006.

The lower gross profit was largely due to a decrease in high margin software revenue in our marine systems business compared to the prior year's quarter.



General and administrative expenses were 1.5 million dollars, a decrease of 2% over our second quarter 2006 expense. As we mentioned in the past, we do not expect G&A expense to change substantially.

Engineering expenses decreased 13% to 389 thousand dollars, due to lower staff levels and expenses. As I mentioned in the last call, we expect these expenses to continue to decrease in future quarters, as our engineering teams transition to revenue generating projects.

Sales and marketing expenses increased 30% to 791 thousand dollars. This increase is due to our heavier emphasis on sales and marketing activities. We are aggressively pursuing expanded business development opportunities in the U.S., the U.K., Canada, NATO and allied countries.

We are no longer receiving funding from Technology Partnership Canada that in the past offset our operating expenses, and this impacted our Q2 2007 results by 293 thousand dollars when compared to Q2 2006.

Another factor impacting our Q2 2007 results was the strengthening of the Canadian dollar relative to foreign currencies, resulting in a 107 thousand dollar foreign exchange loss for the company compared to a 21 thousand dollar foreign exchange gain for the second quarter of 2006.

At May 31, 2007, total backlog was 69.3 million dollars compared to 32.8 million dollars at May 31, 2006. Firm backlog – which consists of firm, fixed, and signed orders at quarter-end – was 44.5 million dollars compared to 12.4 million dollars at May 31, 2006. Option backlog – which is unexercised or unfunded contract provisions - was 24.8 million dollars compared to 20.4 million dollars at May 31, 2006.

Overall we reported a net loss before tax of 446 thousand dollars and a net loss after tax of 480 thousand dollars for Q2 2007, compared to net earnings before tax of 93 thousand dollars and a net loss after tax of two thousand dollars in Q2 2006. The increase in net loss for the second quarter of 2007 was due to the completion of our Technology Partnerships Canada program, the addition of planned sales and marketing resources and the strengthening of the Canadian dollar against foreign currencies.

The net loss attributable to common shareholders was one million dollars or three cents per share compared to a net loss of 715 thousand dollars or two cents per share in Q2 2006.

Now, turning to our balance sheet:

At May 31, 2007, current assets were 9.9 million dollars and current liabilities were 4.7 million dollars. Working capital was 5.2 million dollars at quarter end.

Our current assets and working capital have decreased primarily due to a reduction in accounts receivable.



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We generated a positive cash flow from operations of more than 411 thousand dollars in the quarter. At May 31, 2007 we had borrowed 544 thousand dollars against our credit facilities compared to 384 thousand dollars at the end of the first quarter. We have 2.6 million dollars available under our revolving credit facilities.

We have enough cash and credit facilities to manage the business, and we expect cash flow from operations will improve as scheduled contract milestones will be paid on multiple contracts over the next several quarters.

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

Closing: Ken Kirkpatrick, President and CEO

Thanks John. We are confident that we will meet all of our established objectives for 2007 and I look forward to our Q3 conference call. We'll now be happy to take analyst questions.