



TRANSCRIPT OF Q2 INVESTOR CONFERENCE CALL

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(Operator Instructions)

Amiee Chan, President and Chief Executive Officer

Thank you, Operator. Good morning everyone and thank you for participating in our second quarter conference call. Earlier today, we released our financial results for the three- and six-month period ended June 30th, 2007. The press release and other materials are available on our website at www.norsat.com and will be available on SEDAR.

For today's call, I will summarize the key results for the quarter, review our financial results and conclude with a brief overview of our growth strategy and strategic outlook, after which I will take your questions.

Before beginning with my formal remarks, let me remind you that listeners are cautioned that today's call and the responses to questions may contain forward-looking statements within the meaning of the safe harbour provisions of Canadian provincial securities laws. Forward-looking statements involve risks and uncertainties and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements.

Discussion of factors that may affect results is contained in Norsat's filings with SEDAR. Norsat does not undertake to update any forward-looking statements; such statements speak only as of the date made.

Now, on to the task at hand – our second quarter results

Overall, Q2 marked another quarter of strong financial and operational progress for Norsat. We grew our top- and bottom- line, emerged debt free, and we grew our presence in the military market vertical and gained traction in our reseller pipeline through new contract wins.

From an operations standpoint, we saw success on three key fronts during the quarter.

One, we secured one million dollars in portable satellite system and ancillary equipment orders from the United States Army, which we shipped during the quarter, further strengthening our position in the defense market.

Two, we expanded our product offering. We launched:

- o A family of commercial Low Noise Amplifiers, designed specifically for applications where consistent low noise performance is critical, such as in broadcasting, especially when transmitting HD content.

- o A Satellite News Gathering variant of our GLOBETrekker, which is specifically designed for the broadcast industry – one of the market verticals where we are working to grow our presence.

- o A Chinese language version of our portable satellite user interface, LinkControl. The Asia-pacific region represents a major opportunity for mobile satellite communications, and we are currently the only portable satellite terminal provider that offers a Chinese language user interface.

Our third marked success during the quarter was that as part of a consortium, we won a five-year, indefinite delivery, indefinite quantity contract (IDIQ) under the US General Services Administration SATCOM-II program, which serves as a satellite communication solutions procurement vehicle for US federal and defense agencies. Under this contract, the total value of all orders to be awarded is estimated at seven hundred and fifty million dollars (US) over five years.

As the IDIQ concept may be new to some of you, I'll give you a little more background, as there are some key details to note.

In short, governments use an IDIQ when they cannot predetermine above a specified minimum the precise quantities of supplies or services they will need during the contract period. Under an IDIQ, there is no obligation to make any purchases above the specified minimum over the life of the contract.

In the case of the SATCOM-II Program IDIQ, there are no minimum purchase levels for Norsat specifically. There were twenty five IDIQ contract awardees, a mix of individual companies and consortia. As such, Norsat must still compete for individual opportunities.

So when evaluating this win for Norsat, note that although this has the potential to be a very important opportunity, with this type of contract, there are no guaranteed sales.

Now, moving on to our financial results for the quarter.

Since our September 2006 management change, as I am sure you all know, Norsat has been undergoing a turnaround, with a renewed focus on profitability. Each quarter, we work to drive the growth of the company, while operating from an improved financial platform which is centered on tight cost control. Since implementing this approach we have seen a trend of financial progress, and Q2 was no exception.

Driven primarily by increase military market penetration, revenue grew eighteen percent to four point five million, from three point eight million in Q2 2006. This is in line with our long-term objective of fifteen to twenty percent growth annually.

From a segmented standpoint, revenue from our Microwave Products business, which serves as a fairly stable revenue base for Norsat, was two point five million dollars, compared to two point three million dollars for the same period last year. Revenue from our Satellite Systems, a fairly new and relatively untapped market where we expect to see more attractive growth rates for the foreseeable future, was one point nine million dollars compared to one point four million dollars in Q2 2006.

Something important for investors to note with respect to Norsat's sales cycle is that currently Norsat has a relatively small base of customers, primarily government agencies, who often place orders that represent a significant share of sales for any given quarter. However, with these customers, order size and frequency are often unpredictable, which can lead to sequential sales fluctuations. That said, Norsat is focused on maximizing sales growth over the long-term, and we

are working to best manage our sale process and diversify our customer base to smooth out revenue sequentially.

Our overall gross margin for the quarter improved to two point seven million dollars, or fifty nine percent of revenues, up from one point seven million dollars, or forty seven percent in Q2 2006, predominantly as a result of an increase in sales of higher margin complementary products and services, specifically in our Satellite Systems business.

Operating expenses for the three months ended June 30th, 2007, decreased thirty four percent to one point eight million dollars from two point seven million dollars for the same period last year. The year-over-year decrease reflects the success to date of the cost restructuring initiatives commenced in September 2006.

During the quarter, we saw selling, general and administrative expenses decrease to one point five million dollars from two point seven million dollars in 2006, primarily reflecting reductions in rent expense, salaries and consulting fees.

Another area where we saw a decrease as a result of our cost cutting measures was research and development. To facilitate more cost effective and efficient management of our R&D, we have begun to partner with key suppliers as they take on larger roles in our development process, while our in-house engineering now focus only on our core Norsat products. However, the cost saving benefits of these initiatives are not clearly depicted in our results for the second quarter as compared to last year because R&D expenses in Q2 2006 were off-set by the capitalization of supplies and materials used in the development of GLOBETrekker.

For Q2, net earnings were point six million, or one cent per share, compared to net loss of one million dollars or a loss of two cents per share in 2006.

During the quarter, Norsat generated one point one million dollars in cash from operations, compared to point four million in Q2 2006.

As at June 30th, 2007, our cash balance was point five million dollars, a decrease of one point eight million dollars from December 31, 2006. On May 31, 2007, we eliminated our entire debt position by making the final payment, using cash, on its one million dollar short-term debt. This marks the first time since 1983 that we have been debt free. As a result of the reduction in debt obligations, our working capital improved to four point one million dollars as at June 30th, 2007, from two point three million dollars as at December 31, 2006.

Overall, our Q2 results provide further evidence of the continued success of our turnaround efforts to date. I believe we have demonstrated that we can continue to grow the business with the reduced cost structure we have had in place for the past couple of quarters. We will not lose sight of the need to control costs, although we are not actively seeking further reductions. Our main focus is driving continued growth and profitability.

I am very excited by the market opportunities Norsat is pursuing, and I'd like to take a moment to discuss how we are addressing them.

The Satellite communication industry is undergoing a shift. There is a growing expectation that organizations and individuals are always connected to some form of communication infrastructure, regardless of geographic location; as twenty four hour news coverage has become commonplace, viewers expect media outlets to cover stories near instantaneously; and, as large scale natural disasters have hit over recent years, organizations are recognizing the importance of putting in

place business continuity plans. Overall, users have begun to increasingly seek greater bandwidth, enhanced portability and improved ease of use. These trends are driving significant market growth, specifically in the portable satellite systems sector. So to successfully capitalize on this growing market opportunity in an accelerated fashion, we have refocused our strategy to have a more diversified approach, thus driving growth through many aspects of our business.

Currently we are focused on organic growth, and our strategy consists of two main components:

First, it is to extend and deepen our market reach by expanding our total addressable market.

More and more businesses in a growing pool of industries are turning to satellite systems to establish broadband communication, especially in situations where there is an absence of traditional infrastructure, such as disaster recovery and business continuity. We are working to leverage our thirty years of experience and our market leadership position to expand into these growing market verticals.

The use of satellite systems is also expanding from a geographic markets standpoint. That said many regions are committed to buying products from local companies. As such, we are looking to add strong resellers to our distribution channel. Right now, our primary focus is Asia Pacific.

On these fronts, we are making good headway. Our products are deployed in more than seventeen countries and we are serving seven militaries worldwide. And, although militaries are still our primary customer, we are increasingly selling into the broadcast, media and telecom industries.

The second component of our growth strategy is to enhance our product and service offerings and become an end-to-end solutions provider.

Our customers' demands are constantly evolving, and we remain committed to leading the market by introducing new and innovative products and associated services. During the first half of 2007, we released a total of three products, with more in the pipeline for release throughout the remainder of the year. We also enhanced our GLOBETrekker product family, with the addition of the Chinese language variant.

With growing reliance on satellite communication systems, users are increasingly looking to have a single point of contact for their entire product and service bundle, from airtime to implementation through to ancillary equipment such as propane generators. Norsat is in a great position to be that single point of contact because our product is the centerpiece of the communication system from the customer's point-of-view. We are now working to develop partnerships with airtime providers, other equipment vendors and system integrators. This enables us to grow revenue associated with each sale, and better service our customer from point A all the way to Z, increasing customer loyalty. As demonstrated by the growth in our gross margins for the period, we have begun to realize initial success.

Looking ahead, in addition to the industry-wide shifts I previously mentioned, there are two other market drivers that are gaining momentum and further fueling industry growth, specifically in the portable satellite terminal sector. This, as I previously mentioned, is what Norsat sees as the major growth segment of our business.

More and more powerful satellites are being launched. As satellites become more powerful, users can turn to smaller more portable ground equipment, as smaller ground terminals in combination with the more powerful satellites can now work as effectively and efficiently as larger terminals.

Militaries are moving toward launching their own satellites. This will free up bandwidth on already launched and future launched commercial satellites, enabling more and more users to turn to satellites as a communication solution.

Overall, the satellite communication industry landscape is changing, driven by a variety of forces. Looking at the progress we have made to date, Norsat is now working from a more stable operating and financial platform, positioning us to shift our focus toward increasingly capitalizing on emerging market opportunities.

However, from a shorter-term perspective, as I mentioned, we are faced with the challenge of accurately forecasting government-related Satellite System sales. Moving into Q3 specifically, we are nearing US government end of year spending. We expect this to drive revenue growth, but these sales may be pushed out to the fourth quarter, while we are ramping up inventory during the third quarter in anticipation of these larger orders.

Overall though, we remain focused on the long-term. We are pleased with our continued pattern of profitability and remain confident in the growth of our sales pipeline. We believe the combination of our world leading technology, a 30th year track record of innovation, a strong reputation for quality products and service and a longstanding history of acting as a trusted partner to our clients has Norsat well positioned to continue to deliver top- and bottom-line growth, further expand our margins and grow our presence in the satellite terminal industry as a whole.

We look forward to reporting to you on our continued progress in the coming quarters.

I would now like to open up the call to questions.

Operator

I would just like to remind everyone in order to ask a question please press star, then the number one on your telephone keypad. We now pause for just a moment to compile the Q&A roster. Your first question comes from Martin Salzman from ASM Investments Inc.

Martin Salzman

Amiee, congratulations; it was a great quarter, you know. It's a great job. Amiee, I just have a few questions if I could, unless you have other callers. In the case of your working capital, I noticed that it's definitely increased nicely but is it enough to meet the organic-type growth you're trying to put on plus any of the, you know, innovations and product launches. Do you have enough working capital?

Dr. Amiee Chan

Thank you, Martin. So right now, as of today, we have a lot of accounts receivable. We have over two million dollars in accounts receivables and we are accumulating cash because we are working down our inventory so our working capital is increasing over time. Our current ratio today is about three compared to back in 2006 December, where it was only one, so our current ratio is improving along with our working capital.

Martin Salzman

This two million in receivables, is it basically government contracts?

Dr. Amiee Chan

A combination. We have over hundred customers in the receivables and they are all pretty current.

Martin Salzman

Very very good. The other question I have is pertaining to I guess, it sounded like we had some concern about being able to account for orders in the third quarter. Should we worry about whether their third quarter accountability – if they're going to come anyway, you know, I don't want to get stuck on a third quarter outlook of they're going to end up being compressed into the fourth quarter. Is there a fear that we won't get some of these government contracts that we typically get in the third quarter or have to be accounted for in the fourth quarter?

Dr. Amiee Chan

Well typically, the U.S. military year-end is September, end of September and it's very possible that we may get orders on the very to very last day as we usually do. And in that case, because the last day is on a Saturday, we may end up shipping in the fourth quarter as opposed to third quarter.

Martin Salzman

As long as they come in. As long as they come in our calendar year, that's fine with me. And then, one tough question; I don't know how tough this is but I just wanted to find out how the search was going on the new CFO?

Dr. Amiee Chan

Well, we have selected Korn/Ferry Futurestep as a recruiter. We've gone through the preliminary round of interviews last week with the Board of Directors present and we were quite pleased with the candidates in what's out there on the market. We're going through another round right now and just following through the process. We hope to get a candidate by the end of the year. However, the CFO is a very crucial position at Norsat and we want to make sure we spend the time and go through the proper due diligence to find the right candidate.

Martin Salzman

Okay, very good. Well look, keep up the good work. It's a great job; nice quarter, everything looks super.

Dr. Amiee Chan

Thank you, Martin.

Operator

Again, if you would like to ask a question, please press star then the number one on your telephone keypad. There are no further questions at this time. Do you have any closing remarks?

Dr. Amiee Chan

I just want to thank everyone for spending the time on the conference call. Thank you, everyone.