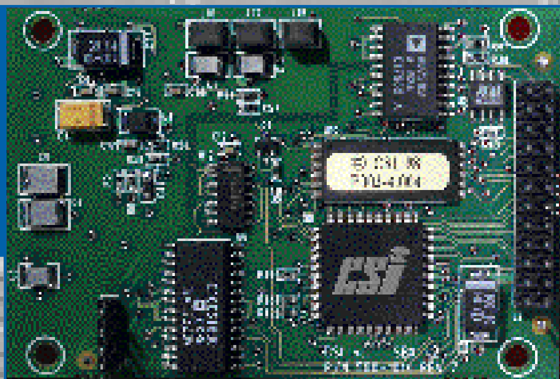
COMMUNICATION SYSTEMS INTERNATIONAL INC.

1998



ANNUAL REPORT

Corporate Profile

“CSI greatly improves GPS accuracy”

Quality System Registration

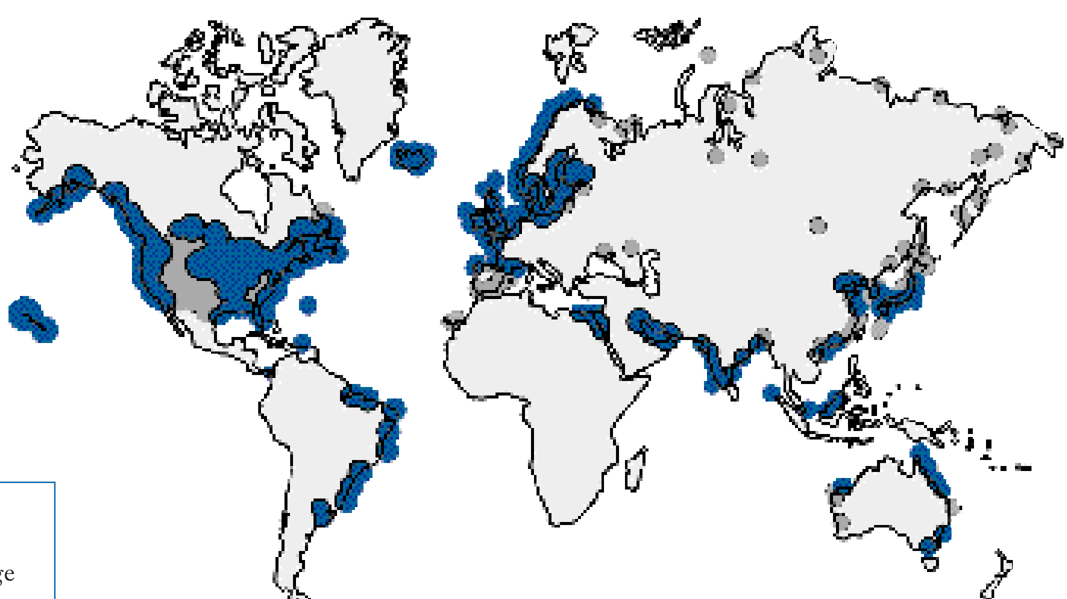
CSI is a global leader providing low cost technology that greatly improves the accuracy of equipment used in the Global Positioning System.

The Global Positioning System (GPS) is a constellation of 24 U.S. Government satellites, which is fast becoming a world utility for navigation and positioning applications. Using a standard GPS receiver, a user is able to determine its position anywhere on earth to within 100 meters.

For many applications this level of accuracy is not sufficient. As a result, a technique was developed called Differential GPS (DGPS). Using DGPS, users are now able to determine their position to within one or two meters anywhere DGPS signals can be obtained - a very significant improvement in accuracy.

CSI designs and manufactures products which incorporate this “differential” aspect of GPS. CSI’s DGPS products utilize the accuracy enhancing signals from an expanding worldwide network of land based beacon reference stations. Illustrated below are the various Government sponsored beacon reference stations located in 31 countries around the world.

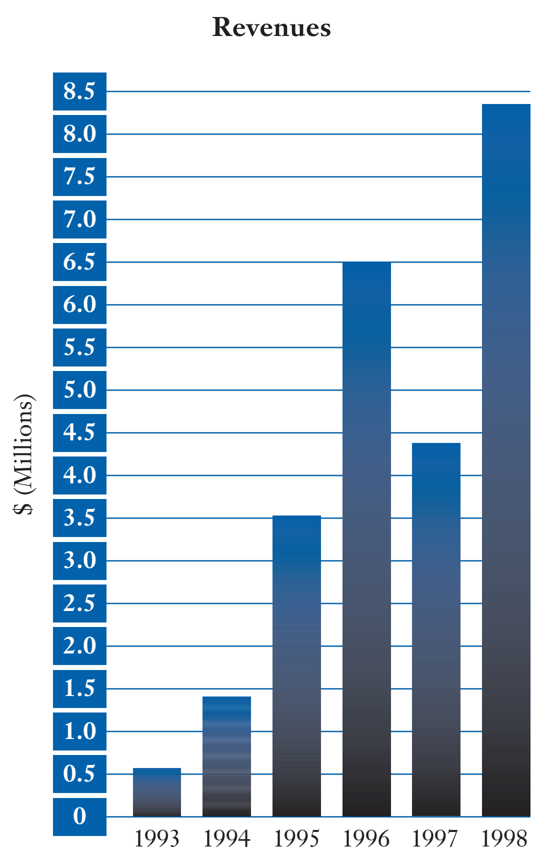
World DGPS Beacon Coverage

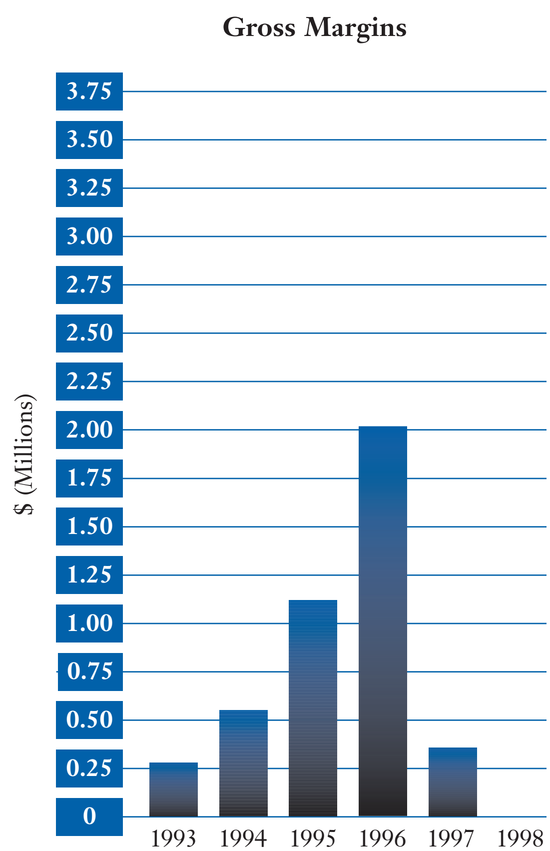


Legend

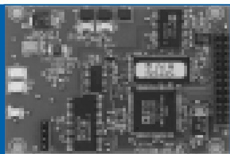
- Current Coverage
- Pending Coverage

	1998	1997	Increase
Income Statement			
Revenues	$ 8,350,000	$ 4,405,000	90%
Gross Margins	$ 3,607,000	$ 303,000	1090%
Net Earnings (loss)	$ 424,000	$ (3,920,000)	N/A
Shares o/s at year-end	6,425,600	6,475,600	N/A
Earnings (loss) Per Share	$ 0.07	$ (0.65)	N/A
Balance Sheet			
Current Ratio	3.1x	2.3x	35%
Working Capital	$ 2,309,000	$ 1,861,000	24%
Shareholders' Equity	$ 3,525,000	$ 3,125,000	13%





SBX-2



- *CSI's core technology*
- *2 channel beacon differential receiver*
- *Advanced digital design*

Stephen Verhoeff
President, Chairman and CEO

Overview

The close of 1998 marks a period of strong recovery for CSI following a challenging 1997. In last year's Annual Report we looked to 1998 with optimism and anticipated a return to our previous growth levels. We not only achieved our objectives for 1998, but exceeded them in many areas. Revenues and profits reached record levels, while our technology received rave reviews from around the globe. This, our ninth year of operations and our second Annual Report, provides a welcome opportunity to report on our turnaround, the milestones achieved and the strategies for future growth.

Year in Review - Record Revenues and Earnings

In 1998 CSI's revenues increased by 90% to a record $8,350,000. Record earnings of $424,000, or $0.07 per share, were also posted in 1998.

CSI's long-awaited next generation technology - the SBX-2 proved to be a top performer and was the core driver of 1998's success. This strong sales growth and renewed profitability has, in turn, generated increased investor confidence and enthusiasm.

We began the year with the introduction of the SBX-2, a low cost, high performance version of our leading Differential Global Positioning (DGPS) radio receiver technology. The SBX-2 makes it cost effective for mass user adoption and integration by OEM (Original Equipment Manufacturer) customers. This credit card size printed circuit board houses CSI's leading DGPS technology which increases the accuracy of standard GPS to within 1 to 5 meters, a substantial improvement over regular GPS accuracies of approximately 100 meters. CSI's DGPS products are employed in a wide range of applications internationally including marine, surveying and mapping, precision farming, geographic information systems (GIS), automatic vehicle location, asset tracking, natural resource management, recreation and vehicle navigation.

The new SBX-2 is much smaller, faster, and more functional than its predecessor, the SBX-1, and most importantly - less expensive. Like silicon chips in computers, this product is integrated into the navigation and positioning devices of CSI's customers as the core accuracy-enhancing engine. Further, the SBX-2 allowed CSI to launch a completely new suite of low-cost high-performance products in 1998. OEM customers also purchase the SBX-2 for integration into their own GPS products to add differential accuracy. The smaller size of the SBX-2 makes it

SBA-1

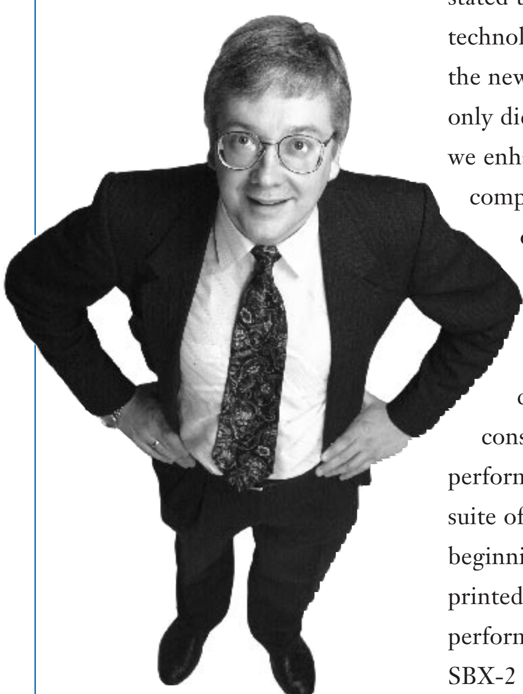
- *New - Smart Beacon Antenna*
- *Combines SBX-2 and antenna*
- *Inexpensive, compact product*

substantially easier for OEM integration, but more importantly, the lower cost of the SBX-2 meets key price points for many OEM customers.

In addition to the release of the SBX-2, and the ongoing global expansion of the worldwide network of beacon reference stations, we believe CSI's success in 1998 can be largely attributed to three main areas of focus: engineering; marketing and sales; and cost controls.

Engineering - Industry Leaders

In last year's Annual Report we stated that CSI would maintain its technological leadership in 1998 with the new SBX-2 based products. Not only did we maintain our leadership, we enhanced it. During the year we completed the transition from outsourced product development to an in-house research and development team. In 1998 our dynamic design and engineering team consistently produced top performing products for CSI's new suite of Differential GPS receivers - beginning with the SBX-2 receiver printed circuit board. Additional performance enhancements to the SBX-2 were also incorporated by mid-year which has lead to increased sales and a larger customer base.



Eric Godberson
Vice-President,
Engineering and R&D

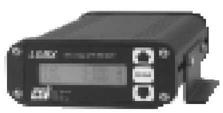
While the SBX-2 is frequently purchased by OEM customers for integration into their own products, it also acts as the differential receiver engine for CSI's suite of leading DGPS/GPS products. In 1998 we delivered on our promise to replace all of our older products which used the SBX-1 technology, with SBX-2 based products. By the end of the second quarter we had completed our entire next generation suite with the SBX-2 integrated inside the ABX-3, MBX-3, and GBX-3 products. All of the new products were well received by our customers resulting in fourth quarter sales 4 times higher than the same period in the previous year.

In addition to the SBX-2 family of products, we introduced the LGBX, a new series of products to our portfolio in 1998 - CSI's L-Band Differential GPS Receiver. The LGBX products use the OmniSTAR satellite system for differential corrections in areas where the beacon system is not available. These products are targeted for several applications, including the GIS market as well as the precision farming market. Initial market feedback has us confident of its success in 1999.

Marketing and Sales - New Products and Markets

When the SBX-2 was released we claimed it would drive revenue growth in 1998. And we delivered that growth.

LGBX



- *New: 3-in-1 receiver*
- *GPS + SBX-2 + OmniSTAR L-Band satellite*
- *Single integrated antenna*

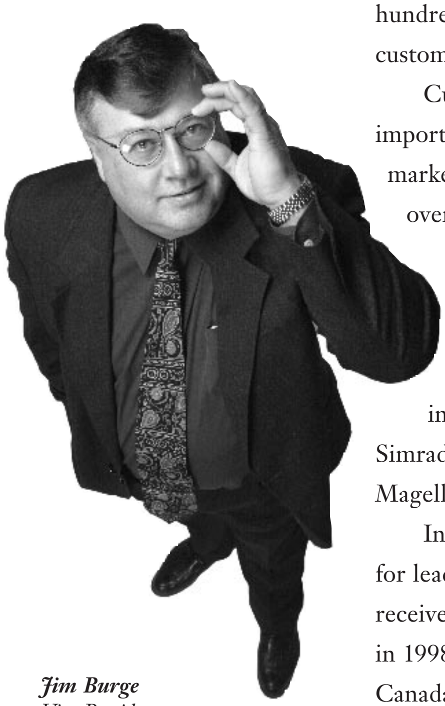
The introduction of the new products in 1998 required a strong marketing initiative. As the year began, the marketing team was reorganized and a new marketing program focused on three key areas: new SBX-2 OEM sales; growth in new international markets; and expand sales of next generation products.

Sales results for 1998 validated CSI's OEM strategy for growth. Our sales and marketing team built on this strategy, selling record volumes of SBX-2 boards to OEM customers. Thousands of SBX-2 boards were sold on an OEM basis in 1998. This is a substantial increase over the few hundred SBX-1 boards sold to OEM customers in 1997.

Customer alliances are an important component of our marketing strategies. CSI now has over 400 customers, representing a 60% increase over 1997.

During 1998, the Company strengthened and expanded several relationships with key industry players, including; Simrad, Leica Geosystems Inc., Magellan and Raytheon.

Internationally CSI is recognized for leadership and value in DGPS receiver technology. 91% of CSI's sales in 1998 were to countries outside of Canada.



Jim Burge
Vice-President,
Sales and Marketing

Cost Management - Back in the Black

The third area that contributed largely to CSI's success in 1998 was the focus on cost management. Following the losses in 1997 due to unexpected product development delays, a proactive restructuring and expense reduction program was implemented, positioning the Company for profitability in 1998. By the beginning of 1998, total expenses were down significantly, setting the stage for the 25% year over year reduction in 1998 operating expenses.

Results for the year demonstrated that our strategy for growth is sound. In addition to record revenues and earnings, gross margins for 1998 increased substantially to 43%. Internal budgets and forecasts were consistently outperformed. Expenses were down, sales were up, debt remains at zero and cash resources are building. While we are pleased with the accomplishments in 1998, we recognize there is much more work to do as we pursue the available growth opportunities.

Future Growth - Building Blocks are in Place

The restructuring and strengthening of CSI in 1998 was only the first stage in our mission. We have returned to growth and profitability as

LGBX-PRO

- *New: 3-in-1 receiver - sub-meter accuracy*
- *GPS + SBX-2 + OmniSTAR L-Band*
- *Single integrated antenna*

we said we would, and we have built a solid platform from which to launch CSI into the new millennium. The Company is now well positioned to grow its core business and pursue related merger and acquisition targets.

For 1999 and beyond, we will continue to expand our product portfolio and extend our leadership in DGPS technology. Expanding our product mix, which includes the new L-band technology as well as the resulting relationship with Omnistar Inc., will firmly ground CSI in the agriculture market. We have many new exciting products in the development stage for the marine market. Hardware requirements for the GIS industry continue to grow as this market matures and we expect solid increases in revenue from this area in 1999.

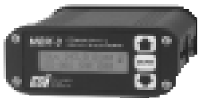
Worldwide expansion of the DGPS beacon system is continuing throughout the world. Many countries have begun or completed their systems this year including Japan, China, Korea, Malaysia, Brazil, Chile, Egypt, Saudi Arabia, India, Spain and the United Kingdom. Various countries including South Africa and Argentina also announced installing new DGPS beacon systems this year. Furthermore, the United States has continued to expand the National Differential System to allow nation-wide seamless differential GPS coverage. As GPS is becoming the standard for all navigation around the globe, the beacon differential is also becoming a standard for providing accuracy to GPS. We are confident of the future as this evolves around the world.

I would like to extend my appreciation to all of our employees and customers who helped make 1998 a successful year, and to the shareholders who also supported us during a period of uncertainty for CSI.

We look forward to seeing you at CSI's Annual General Meeting to be held at the Westin Hotel in Calgary at 3:30 PM on Monday, May 17, 1999.

Stephen Verhoeff
Chairman, President & CEO

MBX-3



- *Fully integrated SBX-2 receiver*
- *Automatic operation*
- *Built-in menu system*

Brian Hamilton
Chief Financial Officer

This review is management's analysis of CSI's 1998 financial results, as compared with 1997. It should be read in conjunction with the other sections of the Company's Annual Report, including the Chairman's Message and the Financial Statements and accompanying Notes.

Key Accomplishments

For the year, revenues increased 90% to $8,350,000, compared with $4,405,000 for 1997. Earnings for the year were $424,000, or $0.07 per share compared with a loss of $3,920,000, or ($0.65) per share in 1997.

CSI's improved financial performance in 1998 was due to several factors, including: (1) the new generation SBX-2 core technology with its enhanced features and lower price; (2) other new products released during 1998; (3) increased demand from new markets, such as the Geographical Information Systems (GIS) market which grew over 300% during 1998; and (4) continued expansion in the worldwide network of beacon reference stations.

As part of CSI's OEM customer strategy, the Company received ISO 9002 certification in December. This certification will assist the Company in negotiating with larger customers who require high levels of consistency and quality.

Revenues up 90%

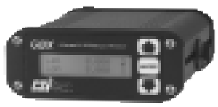
Revenues for the year ended December 31, 1998, were $8,350,000 as compared with $4,405,000 for the prior year. Fourth quarter revenues were up sharply to $2,367,000 - four times the 1997 fourth quarter revenues of $579,000. Export sales accounted for 91% of total sales during 1998 as compared with 92% in the prior year.

Throughout 1998, CSI's engineering team produced several new products providing an entirely new suite of SBX-2 based GPS/DGPS receivers. 1998 also saw the introduction of CSI's L-Band receiver, which provides dual-mode capability for both beacon differential and satellite differential. The Company is optimistic about the L-Band receiver's prospects in 1999.

Gross Margins increase 12 times

The dollar amount of gross margins increased 12 times to $3,607,000 for 1998, as compared with $303,000 for 1997. The percentage rate for the 1998 gross margins improved substantially to 43% from 7% in 1997. Margins in 1997 were particularly low due to extensive product development delays and related low sales volume. With the successful introduction of CSI's new SBX-2 technology in January 1998, sales volumes reached record levels

GBX-3



- *2-in-1 receiver*
- *GPS + SBX-2*
- *Uses various GPS engines*

and margins returned to anticipated levels. The Company expects to maintain similar gross margins in 1999.

Expenses Down 25%

Total expenses for the year decreased 25% as part of an expense reduction program initiated during the second half of 1997. Management will continue to closely monitor expenses through 1999.

Selling expenses for the year ended December 31, 1998 were $1,214,000 as compared with $1,460,000 in the year ended 1997. General and administrative expenses were $1,165,000 as compared with $1,269,000 in the prior year. Depreciation and amortization charges for 1998 were $294,000 as compared with $491,000 for 1997.

The 1998 research and development expense was $510,000, which compares with $1,042,000 for 1997. The higher expenditures in the prior year were required for the research and development involved with the new generation development of the SBX-2.

Net Earnings of $0.07 Per Share

The Company recorded a profit of $424,000, representing $0.07 per share for the year ended December 31, 1998, as compared to a loss of $3,920,000, ($0.65) per share, for the prior year. As discussed in the Chairman's Message, the return to profitability was due to a number of factors, including the 90% growth in revenues arising from the SBX-2 based products, much improved margins and reduced operating costs.

Liquidity and Capital Resources

CSI remains debt free and has been adding to its cash position with positive earnings and cash flow. As of December 31, 1998, CSI held approximately $1.2 million in cash with working capital of $2.3 million.

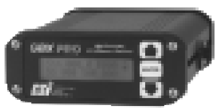
The Company has funded its operations to date primarily through an initial public offering of equity securities, private sales of equity securities and an operating line of credit from the Company's banker.

The Company has an established line of credit from its bank with borrowing limits determined by trade receivables and inventory levels. Loans under this arrangement incur interest at prime plus 1% and are payable upon demand. The Company has entered into a general security agreement with its bank to secure such indebtedness.

Inventory turnover improved to 4.6 times for 1998, as compared with 3.1 times for 1997. The inventory at the end of 1998 was down to $726,000 from $1,333,000 at the end of 1997. The average accounts receivable

Michael McCullagh
Vice-President,
Manufacturing Operations

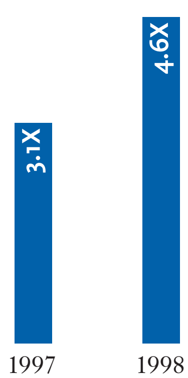
GBX-PRO



- *2-in-1 receiver*
- *GPS + SBX-2*
- *Sub-meter accuracy*

Accounts Receivable Turnover

Inventory Turnover



turnover improved to 9.4 times for 1998 as compared with 5.6 times for 1997. The higher volume of business and much improved management processes accounted for the bulk of these improvements.

Shareholders' equity at December 31, 1998 was $3,525,000 ($0.55 per share) as compared with $3,125,000 ($0.48 per share) at December 31, 1997.

As at December 31, 1998, CSI had loss carryforwards of $2,030,000 and additional tax deductions of $2,140,000 for a total amount of $4,170,000 which may be used to reduce taxable incomes in future years.

During 1998, the Company invested $221,000 in capital assets, as compared with an investment of $704,000 during 1997. The higher investment in capital assets during 1997 was due to the additional plant capacity and other infrastructure changes made to accommodate CSI's future growth expectations.

The Company anticipates that the current level of working capital and available lines of credit, together with funds generated from operations, will be sufficient to finance its current level of operations and financial commitments.

Risk Factors

While CSI is confident in its new SBX-2 technology and related suite of products, if the anticipated future demand for CSI products does not materialize, then losses may be incurred. The Company does not have a large reserve of excess cash resources. There are other competitors that supply similar products to those provided by CSI and the Company continues to compete with larger, better-capitalized companies. CSI is also reliant upon certain key suppliers and customers. Approximately 95% of CSI's revenues are in U.S. dollars, while the majority of CSI's expenses are in Canadian dollars. The Company must also continue to make significant investments in research and development in order to continue to develop and enhance new products. However, there can be no assurance that development stage products will be successfully completed, or that they will achieve significant customer acceptance. Many of the markets for CSI products are new and emerging. The U.S. Federal Aviation Administration continues with its intention to implement a satellite based Wide Area Augmentation System (WAAS) which also provides differential corrections. CSI's products rely on signals from satellites that it does not own or operate.

MGW-1

- *New - 2-in-1 antenna*
- *GPS + beacon whip antennas*
- *Lightweight, compact, low cost*

Year 2000 Issue

CSI designs and manufactures GPS products that contain enabling software. There are two main calendar events that have been identified as potential threats to the continued operation of GPS receivers and associated product technologies. These are GPS end-of-week and Year 2000.

The GPS end-of-week issue is the change in parameters broadcast by GPS satellites on August 21, 1999, from week 1023, back to 0000.

The Company has taken steps to evaluate all of its products and systems to determine Year 2000 and GPS end-of-week readiness.

None of CSI's designs or products incorporate year and date functionality as part of their operations or features, and further they are not reliant on this chronological data for their operation and performance. Selected products have integrated GPS receiver engines supplied by other companies. Most suppliers of these OEM GPS engines have provided the Company with official statements defining the compliance of these goods, and those who have not are expected to do so before May 1999.

The Company's integrated manufacturing and accounting software has been upgraded to be Year 2000 compliant. All other internal systems are being assessed and upgraded as necessary to ensure compliance. CSI has determined that its financial accounting and reporting systems will meet Year 2000 requirements. The Company has also determined that any Year 2000 readiness issues will not have a material impact on its business activities, and that the costs of complying with Year 2000 readiness, which is expensed as incurred, is not material to the Company's results of operations and financial position in any given year.

Management's Responsibility for Financial Reporting

The management of CSI is responsible for the preparation and the presentation of the consolidated financial statements and related information published in this annual report. These statements were prepared in accordance with generally accepted accounting principles in Canada.

The preparation of the financial information necessarily requires the use of some estimates and judgements, such as selection and application of accounting principles appropriate to the circumstances and with due consideration to materiality. Where appropriate, management seeks and receives guidance in these matters from external legal, accounting and other advisors.

To ensure the reliability of the financial statements, management relies on the Company's system of internal controls. The accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable.

KPMG LLP, an independent firm of chartered accountants, reviewed the Company's internal controls and provided management and the audit committee with their recommendations for any improvements they deemed advisable. Management and the audit committee have reviewed these recommendations and are taking action to implement them. Management continuously monitors and adjusts the Company's internal controls and management information systems to accommodate a changing environment while ensuring financial integrity.

Management also recognizes its responsibility for ensuring that the Company at all times should conduct its affairs in an ethical manner, conforming to all applicable laws and regulations, and in accordance with the highest standards of personal and corporate conduct.

January 29, 1999

Brian Hamilton
Chief Financial Officer

Stephen Verhoeff
Chairman, President & CEO

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Communication Systems International Inc. as at December 31, 1998 and 1997 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG LLP

Chartered Accountants (KPMG LLP)
Calgary, Canada
January 29, 1999

December 31, 1998 and 1997

	1998	1997
Assets		
Current assets:		
Cash and term deposits	**$1,186,032**	$1,201,418
Accounts receivable	**1,428,230**	512,721
Income and other taxes recoverable	**38,967**	179,355
Inventories	**726,057**	1,332,682
Prepaid expenses and deposits	**38,912**	42,316
	3,418,198	3,268,492
Note receivable (note 2)	**-**	125,000
Capital assets (note 3)	**987,045**	998,841
Deferred development costs (note 4)	**223,207**	127,190
Goodwill (note 5)	**6,659**	13,319
	$4,635,109	$4,532,842
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 6)	**$ -**	$ 375,000
Accounts payable and accrued liabilities	**1,109,674**	1,032,648
	1,109,674	1,407,648
Shareholders' equity:		
Share capital (note 7)	**6,708,429**	6,767,862
Deficit	**(3,119,994)**	(3,543,668)
	3,588,435	3,224,194
Due from shareholders (note 8)	**(63,000)**	(99,000)
	3,525,435	3,125,194
Commitments (note 12)		
	$4,635,109	$4,532,842

See accompanying notes to consolidated financial statements.

Approved by the Board:

Director (Brian Hamilton)

Director (Michael McCullagh)

Years ended December 31, 1998 and 1997

	1998	1997
Sales	**$ 8,349,778**	$ 4,405,123
Cost of sales	**4,742,816**	4,101,629
	3,606,962	303,494
Expenses:		
Selling	**1,214,442**	1,459,575
General and administrative	**1,165,235**	1,269,101
Depreciation and amortization	**293,784**	490,913
	2,673,461	3,219,589
Earnings (loss) before undernoted items	**933,501**	(2,916,095)
Research and development costs	**509,827**	879,938
Write-down of deferred development costs	**-**	162,519
Earnings (loss) before income taxes	**423,674**	(3,958,552)
Income taxes (note 9):		
Current (recovery)	**-**	(38,967)
Net earnings (loss)	**423,674**	(3,919,585)
Retained earnings (deficit), beginning of year	**(3,543,668)**	375,917
Deficit, end of year	**$(3,119,994)**	$(3,543,668)
Earnings (loss) per common share:		
Basic	**$ 0.07**	$ (0.65)

See accompanying notes to consolidated financial statements.

Years ended December 31, 1998 and 1997

	1998	1997
Cash provided by (used in):		
Operations:		
Net earnings (loss)	**$ 423,674**	$(3,919,585)
Items not involving cash:		
Depreciation and amortization	**293,784**	490,913
Write-down of deferred development costs	**-**	162,519
	717,458	(3,266,153)
Change in non-cash operating working capital	**(88,066)**	837,093
	629,392	(2,429,060)
Financing:		
Repurchase of common shares	**(34,433)**	-
Share issue costs recovered	**11,000**	-
Shareholder loans forgiven (note 8)	**(36,000)**	(16,000)
Due from shareholders	**36,000**	16,000
Issue of share capital, net of share issue costs	**-**	5,413,090
Change in long-term debt	**-**	(394,487)
	(23,433)	5,018,603
Investments:		
Purchase of capital assets	**(221,345)**	(704,017)
Deferred development costs, net of incentives and grants	**(150,000)**	(161,950)
Increase (decrease) in note receivable	**125,000**	(125,000)
Acquisition (note 5)	**-**	(130,000)
	(246,345)	(1,120,967)
Increase in cash position	**359,614**	1,468,576
Cash position, beginning of year	**826,418**	(642,158)
Cash position, end of year	**$1,186,032**	$ 826,418

Cash position is defined as cash and term deposits and bank indebtedness.

See accompanying notes to consolidated financial statements.

Years ended December 31, 1998 and 1997

Communication Systems International Inc. (the "Company") was incorporated under the laws of the Province of Alberta. The Company designs and manufactures products that use differential global positioning technology in various applications.

1. Significant accounting policies:

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Leading Edge Technologies Ltd. All significant inter-company accounts and transactions have been eliminated.

(b) Inventories:

Inventories are valued at the lower of cost and market with cost determined on an average-cost basis and market determined at net realizable value for finished goods and work in progress and replacement cost for component parts.

(c) Capital assets:

Capital assets are recorded at cost. Depreciation is provided at the following annual rates:

Computer equipment and software	declining balance	30%
Office and production equipment	declining balance	20%
Leasehold improvements	straight-line	5 years
Licenses and other assets	straight-line	3 to 10 years

Depreciation is charged at one half of the annual rate in the year of acquisition of an asset.

(d) Deferred development costs:

The Company is actively engaged in developing new technology and products in the differential global positioning system industry. Development costs related to a specific product or process that is proven to be technically and economically feasible are capitalized. Deferred development costs are amortized on a straight-line basis against future revenues over the period of expected benefit. If, at any time, the benefits of any costs capitalized are determined to no longer be of any value, such costs are written off in full. Any incentives or grants, received or receivable, which relate to the development activities of the Company are deducted from the capitalized amount in the year.

(e) Research costs:

Ongoing research costs, net of related incentives and grants, are charged to earnings in the current year.

Years ended December 31, 1998 and 1997

1. Significant accounting policies (continued):

(f) Goodwill:

Goodwill is amortized on the straight-line method over three years. The value of the unamortized balance is assessed at least annually with reference to various factors, principally the projected future cash flow of the business to which the goodwill relates.

(g) Measurement uncertainty:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Earnings (loss) per share:

Basic earnings (loss) per share has been calculated using the weighted average number of common shares outstanding during the year. Fully diluted earnings (loss) per share is not disclosed as the result is not different from basic earnings (loss) per share.

(i) Comparative figures:

Certain prior period balances have been reclassified to conform with the current presentation.

(j) Deferred income taxes:

The Company follows the deferral method of tax allocation accounting under which the provision for corporate income taxes is based on the earnings reported in the accounts and takes into account the tax effects of timing differences between financial statement and taxable income.

2. Note receivable:

During 1997, the Company advanced funds by way of a promissory note to a private corporation engaged in the construction of reference station towers for the transmission of signals permitting differential global positioning technology to be used in certain areas of Western Canada.

During 1998 the private corporation defaulted on this note. An agreement was reached under which the Company will receive approximately $42,000 net of payments to the private corporation.

Years ended December 31, 1998 and 1997

3. Capital assets:

1998	Cost	Accumulated depreciation	Net book value
Computer equipment and software	$ 453,628	$224,955	$228,673
Office and production equipment	635,221	259,506	375,715
Leasehold improvements	67,809	22,387	45,422
Licenses and other assets	420,600	83,365	337,235
	$1,577,258	$590,213	$987,045

1997	Cost	Accumulated depreciation	Net book value
Computer equipment and software	$ 395,591	$139,389	$256,202
Office and production equipment	481,513	167,073	314,440
Leasehold improvements	67,809	8,825	58,984
Licenses and other assets	411,000	41,785	369,215
	$1,355,913	$357,072	$998,841

4. Deferred development costs:

	1998	1997
Deferred development costs, net of incentives and grants	**$ 851,808**	$ 701,808
Accumulated amortization	**(628,601)**	(574,618)
	$ 223,207	$ 127,190

5. Acquisition:

On June 1, 1997, the Company purchased all the outstanding shares of Leading Edge Technologies Ltd. (“Leading Edge”), a manufacturer of a variety of cables, including those which are used by the Company. The Company purchased the shares for cash consideration of $130,000. The acquisition was accounted for using the purchase method with the results of operations being included in these financial statements from the date of acquisition. The cost of the net assets acquired at assigned values consisted of:

Years ended December 31, 1998 and 1997

5. Acquisition (continued):

Capital assets	$106,936
Goodwill	19,979
Working capital	3,085
	$130,000

Pursuant to the share purchase agreement, certain contingent consideration, in the form of shares of the Company or cash, is payable to the vendor in the three year period following June 1, 1997. Any additional consideration paid under the terms of the agreement will be accounted for as additional goodwill. No additional consideration was paid during the year ended December 31, 1998.

6. Bank indebtedness:

The Company has an operating line of credit to a maximum amount of $750,000 which bears interest at the bank prime rate plus 1%. This line of credit is secured by a general security agreement covering all assets of the Company. This facility was undrawn at December 31, 1998 (1997 - $375,000).

7. Share capital:

(a) Authorized:

Unlimited number of common shares

Unlimited number of first preferred shares

Unlimited number of second preferred shares

(b) Issued:

	Number of Shares	Amount
Common shares:		
Balance, December 31, 1996	4,048,100	$1,370,772
Issued on initial public offering	2,400,000	6,000,000
Issued on exercise of stock options	27,500	22,000
Share issue costs	-	(608,910)
Forgiveness of shareholder loan (note 8)	-	(16,000)
Balance, December 31, 1997	6,475,600	6,767,862
Forgiveness of shareholder loan (note 8)	-	(36,000)
Repurchase under normal course issuer bid	(50,000)	(34,433)
Share issue costs recovered	-	11,000
Balance, December 31, 1998	6,425,600	$6,708,429

Years ended December 31, 1998 and 1997

7. Share capital (continued):

(c) Normal course issuer bid:

During the year, the Company received approval to repurchase up to 300,000 common shares on the open market of the Toronto Stock Exchange. These repurchases may be made between October 30, 1998 and October 29, 1999.

(d) Stock options:

At December 31, 1998, there were 846,750 (1997 - 846,500) stock options outstanding in respect of common shares. The options are held by officers, directors, employees, key consultants and agents of the Company and are exercisable at prices which range from $0.73 to $2.50, expiring at various dates to 2003.

(e) Share purchase warrants:

At December 31, 1998, there was a common share purchase warrant outstanding entitling the holder to acquire 130,000 (1997 - 130,000) common shares. The warrant is exercisable at $1.00 per common share, expiring on October 27, 1999.

At December 31, 1998, there were nil (1997 - 100,000) options outstanding to acquire common share purchase warrants. The warrants were exercisable at $1.00 per share and expired on May 10, 1998.

8. Due from shareholders:

The amounts due from shareholders are limited recourse loans which were advanced, prior to the Company's initial public offering, as an incentive for the exercise of options to purchase 216,500 common shares. These loans are repayable in annual installments which commenced on January 5, 1998 with final payments due on January 5, 2000. The Company agreed to pay each of these shareholders a bonus on the dates the loan amounts are due which will be used to satisfy the indebtedness. The Company's only recourse in respect of such loans is to realize upon the security interests granted by the borrowers; (i) on the common shares issued upon exercise of the options; and (ii) on the bonus payments to be made to the borrowers. The loans have been presented as a deduction from shareholders' equity. During 1998, $36,000 (1997 - $16,000) of the loans were forgiven.

Years ended December 31, 1998 and 1997

9. Income taxes:

Income tax expense (recovery) varies from the amount that would be computed by applying the combined Federal and Provincial income tax rate of 44.6% before income tax as follows:

	1998	1997
Basic rate of 44.6% applied to earnings before income tax	**$ 188,959**	$(1,765,500)
Increase (decrease) resulting from:		
Utilization of prior year losses	**(198,141)**	-
Loss for which the tax benefit is not recognized	-	1,719,133
Other	**9,182**	7,400
Income tax expense (recovery)	**$ -**	$ (38,967)

As at December 31, 1998, the Company and its subsidiary have reported losses for income tax purposes of approximately $2,030,000 (1997 - $2,780,000), expiring from time-to-time up to the year 2004, which may be used to reduce future years' taxable income. In addition, the Company has assets for which income tax deductions available in future years exceed the recorded net book values by $2,140,000 (1997 - $1,470,000). These financial statements do not reflect the potential benefit of these items.

10. Export sales and major customers:

A significant portion of the Company's sales are to customers outside Canada. Export sales by geographic area are approximately as follows:

	1998	1997
U.S.A.	**$3,542,000**	$ 2,965,000
Europe	**3,420,000**	763,000
Other	**662,000**	320,000

Of the Company's sales for the year ended December 31, 1998, 43% (1997 - 28%) was to three customers.

11. Financial instruments:

The carrying amounts of cash and term deposits, accounts receivable and other receivables, bank indebtedness, accounts payable and accrued liabilities, in the consolidated balance sheets approximate the fair value due to the short maturity of these instruments.

Years ended December 31, 1998 and 1997

12. Commitments:

The Company is committed to annual minimum lease payments, excluding tenant operating costs of:

1999	$144,900
2000	138,000
2001	124,000
2002	-
2003	-

13. Uncertainty due to Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant system failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Directors and Officers

Stephen Verhoeff
President, Chairman and CEO
Director

Michael McCullagh
Vice-President,
Manufacturing Operations
Director

Jim Burge
Vice-President, Sales and Marketing

Eric Godberson
Vice-President, Engineering and R&D

Brian Hamilton
Chief Financial Officer
Director

Paul Camwell
Vice-President R&D,
Ryan Energy Technologies Inc.
Director

Sharon August Jones
President & CEO
The Idea Mill, LLC
Director

Howard Yenke
CEO,
Casino Data Systems
Director

Ken Hardesty
Businessman
Director

Michael Lang
Co-founder & Vice Chairman
Beau Canada Exploration Ltd.
Director

Legal Counsel:
Burnet, Duckworth and Palmer
Calgary, Alberta

Auditors:
KPMG LLP
Calgary, Alberta

Registrar and Transfer Agent:
Montreal Trust
Calgary, Alberta

Trading Symbol:
CSY on the Toronto Stock Exchange

Shareholder Inquiries:
For further information please contact:
Cory Pala, Investor Relations
The Equicom Group Inc.
Tel: 1-800-385-5451 ext. 223
Fax: 416-815-0080
e-mail: cpala@equicomgroup.com

Annual Meeting:
The Annual Meeting of CSI
will be held at:
3:30 pm, Monday, May 17, 1999
The Bonavista Room, Westin Hotel,
4th Avenue & 3rd Street SW
Calgary, Alberta

1200 - 58 Avenue S.E.
Calgary, Alberta
Canada, T2H 2C9
Telephone: (403) 259-3311
Facsimile: (403) 259-8866
e-mail: info@csi-dgps.com
Internet: www.csi-dgps.com

Quality System Registration

Designed and produced by: Eldridge Design Partnership Inc.