



Annual Report 2002 

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## Annual & Special Meeting

The Annual & Special Meeting of our shareholders will be held on Tuesday, May 13, 2003 at 3:00 p.m. in the Bonavista Room of the Westin Hotel, Calgary, Alberta.



## CSI Wireless

CSI Wireless, from offices in Calgary, Alberta, California’s Silicon Valley, and Scottsdale, Arizona, designs and manufactures innovative, cost-effective wireless and Global Positioning System (GPS) products for mobile and fixed applications in commercial and consumer markets. By integrating wireless and GPS technology, CSI Wireless has become an industry leader, serving

several emerging high-growth markets including telematics, fleet management, asset tracking, stolen vehicle recovery and fixed wireless telephones. The Company owns several patents and intellectual property relating to wireless and GPS technologies, and has licensed its technology to GPS, cellular handset, and chipset manufacturers.

### Financial Highlights

	2002	2001	2000	1999	1998
Revenues	\$54,136	\$40,961	\$26,591	\$16,360	\$8,350
Gross Margins	15,898	13,114	7,706	6,919	3,607
Gross Margin %	29%	32%	28%	42%	43%
Net Income (Loss)	(3,857)	(9,002)	(6,874)	568	424
Research & Development	8,049	8,142	4,116	1,261	510
Total Assets	40,737	39,525	36,980	11,409	4,635
Shareholders’ Equity	21,382	19,824	17,870	4,037	3,525

(In thousands except for gross margin %)

# Message to Shareholders

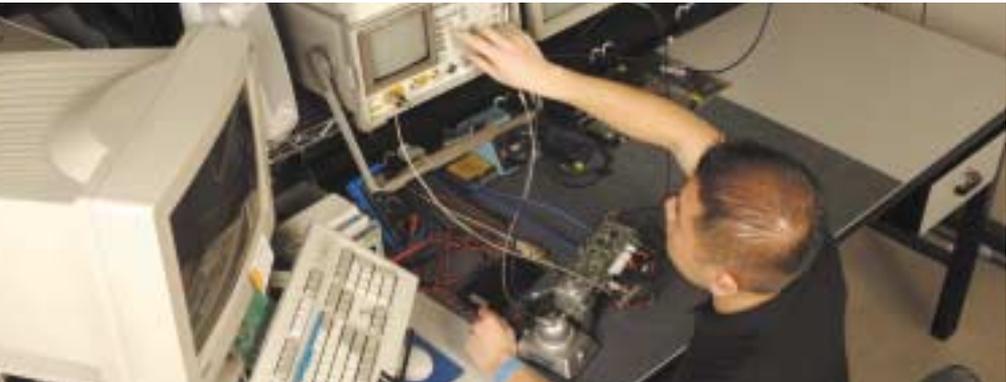
2002 was another year of significant growth and advancement for CSI Wireless. It was our fifth straight year of record revenues and included several important technology and product achievements, positioning the Company for further growth in 2003 and beyond.

In spite of a challenging economic environment in 2002, our leadership in both the GPS and wireless markets led us to respectable annual revenue growth of 32% to \$54 million from \$41 million in 2001. Significant sales contributions were made by our Wireless Business Unit as our new wireless products released during the year began to gain traction. By the close of the year, we had ramped up our wireless business to show consolidated growth of 106% for the fourth quarter when comparing 2002 to 2001, on revenues of more than \$20 million.

During the year, Deloitte & Touche, a high-profile international consulting company, ranked CSI Wireless as the 38<sup>th</sup> fastest-growing technology company in Canada and the 395<sup>th</sup> fastest-growing technology company in

North America. The rankings were based on revenue growth during the past five years. CSI Wireless grew 830% during that time, from \$4.4 million in 1997 to \$40.1 million in 2001. With our subsequent strong performance in 2002 and the outlook for 2003, we expect continued revenue growth – and are striving for even better "Fast 50" and "Fast 500" rankings.

2002 was also notable for CSI Wireless from a research and development perspective, as our talented engineering teams delivered on a very aggressive product development plan. In a single year, we introduced more than a dozen new GPS and wireless products, and more are due in 2003. R&D is a critical part of our success because it ensures that we remain at the forefront of our competitive markets.



During 2002, the Wireless Business Unit product releases included the exciting new Motorola-branded FX800t fixed wireless telephone, and the Asset-Link™ 100 and Asset-Link™ 200 telematics products. The GPS Business Unit released leading edge products including the Vector heading sensors and the Seres smart antenna.

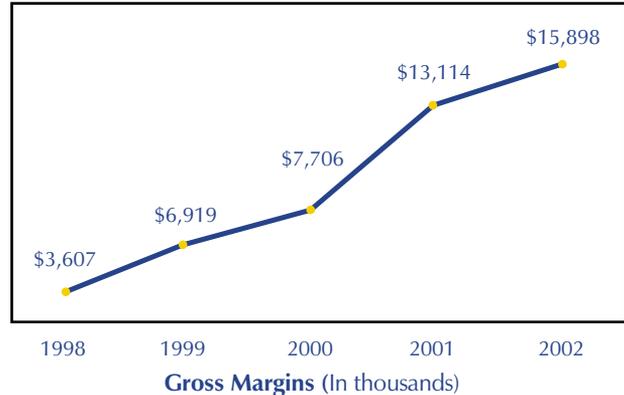
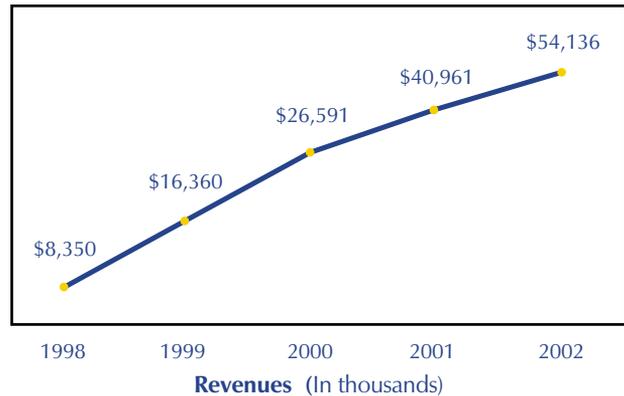
These new products expand our market opportunities and bode well for our growth and competitive position both now and in the future. 2003 will be a year of focused commercialization of the products that were released last year, and combined, we expect these products to generate significant new revenues.

Our new GPS products, including the Vector PRO for high-end marine navigation and our Seres smart antenna, experienced industry recognition and strong demand following their introductions. Substantial purchase orders were received for our leading Outback® guidance products during the year from our partner, RHS Inc. We also impressed the GPS industry with new technologies, including our e-Dif™ patent, and we continue to maintain a strong GPS technology road map.

The RHS business outlook remains positive. We began expanding our market reach with RHS during the year into the southern hemisphere, including South America and Australia, and expect a positive impact in 2003. We have also added Europe as a new market for CSI's precision guidance in agriculture products including the new Outback® Hitch, which we introduced in early 2003. We are pursuing a number of OEM opportunities in this area and see significant potential.

The most exciting development for CSI in 2002 was the conclusion of an agreement for our fixed wireless telephone to be distributed by Brightstar Corporation. Brightstar is a Motorola licensee and has branded the phones as the "Motorola FX800t". The FX800t is a digital, 3-watt desktop style wireless phone that is "fixed" in one location – rather than portable – but communicates over cellular networks instead of traditional copper-wire phone networks.

The conclusion of this large contract was conditional on meeting very strict product quality, performance, and manufacturing requirements, as set forth by both Brightstar and Motorola. Motorola has some of the highest standards in the industry, and our Company's ability to satisfy these standards successfully is a testament to the calibre of the CSI Wireless team and the quality of our products.



Sales of the Motorola FX800t were significant in the fourth quarter and continued to sell strongly into the first quarter of 2003. The primary customer for the FX800t is Telcel, Mexico's largest wireless carrier and an affiliate of Mexico's Telmex telecommunications giant. The Telcel orders are part of a joint initiative sponsored by the Mexican government to expand Mexico's telecommunications infrastructure. Government plans call for several million fixed wireless telephones to be installed throughout Mexico over the next several years. User response to our FX800t in Mexico has been consistently positive. We have been told we are beating competitive offerings on quality, performance, features and price.

With regards to our leading telematics technologies from the Wireless Business Unit, overall, the telematics industry remains strong, and the major players in the market have become quite clear to us.

We are working closely with telematics service providers and have good relationships with most of the top 20 players in this industry. It is now a matter of technical refinements, timing and integration solutions to turn more of these relationships into customers. In the very complex and challenging telematics space, we have a great advantage in our experience – which creates a barrier to entry for potential new competitors.

We have announced several new telematics contracts, including agreements with AirIQ Inc., Directed Electronics Corp. and Datacom Wireless Corp., since launching our Asset-Link™ line. Shortly after announcing our Datacom agreement in December, we were able to see the technology in action as one of the first Datacom MOBILUS-equipped vehicles was stolen during a Rolling Stones concert. The incident made headlines as police officers found the vehicle only 20 minutes after the

launch of the recovery efforts. Many insurance companies now offer car owners discounts for the installation of the MOBILUS system. Datacom is an important customer for us, and it currently has our telematics technology deployed in trials for new commercial applications.

CSI began 2003 with an exciting announcement of a supply contract with Directed Electronics – the world's largest after-market vehicle security and remote-start manufacturer, with sales in more than 46 countries. CSI Wireless is providing a unique telematics product to Directed Electronics that serves as the enabling technology for its new Directrack™ stolen vehicle tracking system. Directrack™ will be sold under four of Directed's biggest-selling brands – Viper, Python, Clifford and Automate – through the company's network of more than 5,000 dealers. Directed's largest retail dealers include chains such as Best Buy and Circuit City in the U.S., and Future Shop and Best Buy in Canada.

Market reaction has been very encouraging and Directed anticipates significant consumer interest in Directrack™ in 2003. The product was chosen as one of the 10 best new products at its official launch at the Consumer Electronics Show in Las Vegas, where large retail customers expressed strong interest. We are working towards a full commercial launch by mid-year, with the goal of getting sample product on retail store shelves in the second half of the year.

We also expect our security and asset tracking products to benefit from the U.S. government's Homeland Security Initiatives because they are expanding the tracking requirements for trucks, trailers, hazardous materials, etc. This market segment is gaining a high profile due to increased demand for asset tracking and wireless communications for security and defense purposes.





A handwritten signature in black ink that reads "S. Verhoeff".

**Stephen Verhoeff**  
President &  
Chief Executive Officer

In reviewing the successes of 2002, I'd like to acknowledge our dedicated employees. We are fortunate to have a very talented and committed team. I am sincerely thankful for each employee's contribution. Our remarkable accomplishments to date have provided a strong base for 2003 and beyond. We closed 2002 with revenue growth of 32%, and are targeting for a welcome return to profitability in 2003, and enhanced value for our shareholders.

On behalf of all of CSI Wireless, I wish to express our gratitude to our shareholders for their confidence and patience in the CSI Wireless investment opportunity. We have built a powerful foundation of technology, products, and customers to take CSI Wireless to new levels of corporate performance, with our top priority in 2003 being a return to profitability.



## Product Profiles

CSI Wireless significantly broadened its portfolio of world-class wireless and GPS products in 2002 by introducing 13 new ones. Each new product was designed to meet very specific customer needs, to appeal to very specific markets, and to quickly begin adding to CSI Wireless' revenue stream.

### Fixed-Base Wireless Telephones

CSI Wireless formally introduced two models of fixed-base wireless telephones in 2002, beginning with the Motorola-branded FX800t in September.

The Motorola FX800t is "fixed-base" in that it must be attached to a standard AC electrical power cord (and resembles a typical wall-mounted or desktop phone), but wireless in that it does not connect to a standard landline telephone system. It is ideal for the many areas of the developing world — including parts of Central and South America — where standard landline infrastructure does not exist, is unreliable, or is unaffordable for most residents.

The Motorola FX800t, which accesses the digital TDMA network, features 3-watt power output that enables users to achieve far greater range and voice quality than what is possible using either a standard mobile wireless phone, or a competing fixed-based wireless phone, that outputs only 0.6 watts of power. The Motorola FX800t also features call monitoring to enable several people to participate in a conversation, and a very user-friendly menu and keypad.

The BaseOne fixed-base wireless phone, under CSI Wireless' own brand, is very similar to the Motorola FX800t, but designed to serve areas of the United States, Canada, Israel, Africa, Russia and the Caribbean that — like their counterparts in the developing world — have limited traditional telecommunications infrastructure. These areas include communities in the Far North, plus others such as cottages, fishing camps and resorts, that are less isolated but still lack landline phone service. Several carriers are using the BaseOne, introduced in October 2002, to compete with inconsistent wireless carriers in innovative marketing programs.

The BaseOne is also designed to serve the growing number of North Americans wanting to rely solely on wireless service — with fixed-base

phones when they are in their homes and offices, and mobile phones when they are everywhere else — while paying for them with one convenient service package, through a single wireless carrier.

### Asset-Tracking, Telematics and Stolen Vehicle Recovery Products

Our Asset-Link™ product line, comprised of the Asset-Link™ 100 and Asset-Link™ 200, is aimed at the rapidly growing asset-tracking, telematics, and stolen vehicle recovery markets. They combine CSI's GPS tracking technology with CSI's wireless communications technology to enable businesses and individual consumers to remotely monitor and manage their vehicles, cargo, personnel and infrastructure.

The Asset-Link™ line features very rugged and compact telematics technology with an industry-leading application layer that CSI Wireless developed for use with multiple air protocols. The Asset-Link™ 100 utilizes the Microburst™ cellular network; Microburst™ employs Control Channel capacity to maintain an extremely low-cost, coast-to-coast network for transmitting small data messages throughout Canada, the United States and Mexico, plus parts of South America.

Its Microburst™ capability makes the Asset-Link™ product line an ideal solution for regional, national and even continental trucking, car rental and mobile construction equipment companies, with an easy migration path to new digital networks. Companies can remotely manage the movements and performance of their assets, and employ many safety and security features, for only a fraction of the cost of competing systems.

Customers equipped with our Asset-Link™ 100, which we introduced in January 2002, can perform a variety of telematics functions including:

- accurately tracking vehicles' locations;
- alerting operators that their loads are outside of specifications — such as refrigeration temperature;
- executing important security functions such as door-locking and unlocking, geo-fencing (containing vehicles inside pre-established geographical areas), and ignition disabling and enabling; and
- employing potentially life-saving automatic safety features such as crash notification, airbag deployment, and emergency dispatch to crash sites.

The Asset-Link™ is designed around the concept of “exceptions,” meaning it generally transmits data only when there are exceptions to the norm – for example, when the engine temperature is too high or the oil pressure is too low, or when the vehicle is speeding or venturing outside its prescribed geo-fence.

Transmitting data only when there are exceptions requires far fewer transmissions than what is required with many competing systems that transmit data on a regular, pre-scheduled basis. Fewer transmissions means fewer wireless calling charges – making the Asset-Link™ family of products very cost-effective to operate. Many of our customers have experienced up to 60% lower lifecycle costs than competing systems.

Our Asset-Link™ 200, introduced in March 2002, is very similar to the Asset-Link™ 100, but adds Circuit Switched data capability. This means the Asset-Link™ 200 can regularly transfer large data files to and from vehicles, and can remotely reconfigure the product’s monitoring capabilities and parameters, with no reason for the vehicle to ever come back to the shop, or have a service technician go out to the field. The Asset-Link™ 200’s “remote configurability” can generate enormous savings for large car rental companies or trucking fleets that have hundreds and even thousands of vehicles dispersed across the continent.

The Asset-Link™ product line’s combination of accurate tracking and low-cost wireless communication also makes it an ideal solution for stolen vehicle recovery. It is becoming the core hardware for a growing number of stolen vehicle tracking and recovery services, with a 40% to 50% power savings over competing products.

In October 2002, CSI Wireless introduced MobileOne™. It features the same GPS and wireless technology and service attributes as the Asset-Link™ line – plus voice capability. While Asset-Link™ products are primarily intended for two-way communication with the vehicle, MobileOne™ also enables two-way communication with the driver, for both safety and convenience.

By simply pushing a button on MobileOne’s front panel, users can activate its hands-free microphone/speaker combination to enable safe, hands-free two-way voice communication with call centres and other services.

With MobileOne™, call centres can provide valuable traveler assistance, such as turn-by-turn driving directions, hotel and restaurant reservations, and service station locations, for faster and more efficient travel. Drivers can call for roadside assistance to request gas, towing or mobile repair service, unlocked doors or other needs. Call centres can provide additional security services such as theft alarm notification, remote door-unlocking and remote location tracking.

Also with MobileOne™, car rental companies can generate incremental revenue from their customers for telematics services including basic roadside assistance, emergency dispatch, hotel/restaurant reservations and other concierge services.

CSI Wireless plans to introduce versions of Asset-Link™ and MobileOne™ for use with protocols such as the Global System for Mobile Communications (GSM), which is the wireless standard in Europe and in many other parts of the world.



### Precision Guidance for Agriculture

CSI Wireless' precision guidance products for agricultural use include the AirStar M3, SwathStar M3, and new CornerPost. The AirStar M3 is a high-performance aerial guidance system, while the SwathStar M3 is a high-performance land-based guidance system. Both are very accurate for spraying, swathing, mapping, yield monitoring and soil sampling.



The CornerPost, introduced in June 2002, is for use with CSI's SwathStar M3 and LiteStar ground-based agricultural guidance systems. Because the CornerPost can achieve one-inch accuracy, it is ideal for precisely spaced row-crops while planting, cultivating, bedding and installing irrigation. The CornerPost eliminates crop damage that occurs if planting, cultivating or other equipment deviates only a few inches to the left or right from prescribed rows.

The CornerPost's very high accuracy is primarily due to its two GPS receivers. One is a "base station" and the other is a "rover", mounted to the tractor. The base receiver is fully automatic, and can be quickly moved from field to field. A single base receiver can broadcast GPS corrections to an unlimited number of roving receivers, so farmers within a six-mile radius can share the CornerPost's costs.

CSI Wireless' precision guidance products for the agriculture industry's Original Equipment Manufacturers (OEMs) include the extremely popular Outback® S and Outback® 360, both of which were developed and built under contract for RHS Inc. RHS has a well-established distribution network in North America, and recently established similar networks in Central and South America, Australia and Europe.

The Outback® S features a highly accurate Differential GPS and Wide Area Augmentation System (WAAS) receiver. It enables farmers to navigate their fields with minimal overlap, whether in straight lines or contours, and in any visibility – including darkness. Eliminating overlap saves enough time, fuel, fertilizer and insecticide that Outback® S purchasers say they typically recoup the cost of their new, easy-to-install-and-operate guidance systems in only 12 to 18 months.

The Outback® 360 is an accessory product to the Outback® S. It is a computerized visual aid system that features a high-resolution colour display that effectively enables farmers to look down from the sky – monitoring the progress of their tractors and farming implements as they move across their fields, while collecting and utilizing data.

In January 2003, CSI Wireless and RHS introduced a third member of the Outback® product line. The Outback® Hitch is the first GPS product designed and built especially for guiding agricultural implements such as planters, sprayers and cultivators.

It ensures that tractor-pulled implements follow precise paths – which reduces crop damage and operator fatigue, while achieving new efficiencies in cost-sensitive farming operations. The Outback® Hitch enables the hitch, or link between the agricultural implement and tractor, to automatically adjust left or right to remain precisely on track.

### OEM Precision Guidance

CSI Wireless' other OEM precision guidance products, most of which are designed to serve markets other than agriculture, include the SBX-3A, the SLX-2, the Evolution and the SX-1.

The SBX-3A is a Differential GPS engine that augments a separate GPS receiver with free accuracy-enhancing correction data from networks of stations located throughout the world. The resulting positioning accuracy of the GPS receiver is between one and five metres, a significant improvement compared to the GPS-only accuracy.

The SLX-2 is a Differential GPS engine equipped to receive additional accuracy-enhancing data from two global sources – the fee-charging OmniSTAR system, and/or freely available Space Based Augmentation Systems (SBAS) such as the United States' Wide Area Augmentation System (WAAS), the European Geostationary Navigation Overlay System (EGNOS), and Japan's MTSAT Satellite Augmentation System (MSAS).

The Evolution and SX-1 are printed circuit board modules that CSI Wireless introduced in April 2002. They are the industry's first truly affordable methods of receiving Differential GPS and SBAS signals all on one circuit board. The Evolution can achieve accuracies of between two and three metres, and is ideal for various applications including marine. The higher-performance SX-1 features CSI Wireless' unique COAST™ and e-Dif™ technologies that enable it – like the SLX-2 – to continue to effectively use out-dated differentially corrected data for up to 40 minutes without any significant accuracy degradation. The SX-1 is accurate to less than one metre, and ideal for applications such as precision guidance in agriculture, and geographic information systems (GIS) & mapping.



### GPS Heading Sensors

CSI Wireless introduced its Vector line of GPS heading sensors in October 2002. Representing an entirely new core technology for the Company, the sensors enable users to maintain very accurate headings at substantially less cost than traditional gyrocompasses, or competing GPS systems. The Vector line incorporates CSI Wireless' exclusive COAST™ technology as described below.

The Vector PRO is designed for marine use, and the Vector Sensor for the rapidly emerging "machine control" market – including agricultural and heavy construction equipment – that depends on very accurate headings.

The Vector PRO is a "smart antenna" system that combines two GPS receivers and two antennas into a single enclosure about a half-metre long. Using a sophisticated moving-base-station Real-Time Kinematic (RTK) technique, the Vector PRO provides heading information to within half-degree (0.5) accuracy – enough to replace gyrocompasses for many applications at a fraction of the cost. It is capable of receiving accuracy-enhancing data from land-based Differential GPS beacon stations and from space-based WAAS, EGNOS and MSAS.

The Vector Sensor is similar to the Vector PRO in that its two receivers are housed in a single enclosure. However, each of the Sensor's two antennas is housed in a separate enclosure. Users can increase the distance between the antennas, which then increases heading accuracy. With the antennas two metres apart, the Vector Sensor computes heading information with better than 0.15 – degree accuracy – matching or exceeding the accuracy of competitors' products while being significantly more affordable.

### Integrated GPS Receivers

CSI Wireless' newest integrated receiver is the ultra-compact Seres. Introduced in February 2002, it is a combined Differential GPS/SBAS receiver and antenna system that is designed to serve several markets including precision guidance in agriculture, GIS & mapping. The Seres features CSI Wireless' exclusive COAST™ technology, and is also compatible with CSI's unique e-Dif™ software.

CSI Wireless' other integrated receivers include the DGPS MAX, GBX Series, MBX-3, SLXg3 and SLXg3 Combo. They are intended for a wide variety of applications including marine and land navigation, precision guidance in agriculture, asset-tracking, GIS & mapping. The DGPS MAX, which is CSI's flagship integrated receiver, features Differential GPS, SBAS, and OmniSTAR capability, plus COAST™ technology.

### GPS Software

CSI Wireless has a growing variety of innovative GPS software products, including several that significantly enhance the location-sensing capabilities of other CSI products.

This software includes COAST™, which enables Differential GPS receivers to use original differential or accuracy-enhancing data for up to 40 minutes without seriously degrading accuracy. COAST™ makes various CSI Wireless receivers less likely than competing products to be affected by trees, buildings and other obstacles that temporarily block differential



signals. COAST™ enables the receivers to "coast" through temporary signal outages with minimal impacts on accuracy. CSI Wireless products that incorporate COAST™ include the Seres, SX-1, SLX-2, Vector PRO, Vector Sensor and DGPS MAX.

In June 2002, CSI Wireless received a U.S. patent for its new e-Dif™ or "extended differential" software that enables standard GPS receivers to achieve the much higher accuracy available from Differential GPS, without any help from accuracy-enhancing differential signals.

e-Dif™ enables a standard GPS receiver, capable of only 10-metre to 15-metre accuracy, to internally generate differential corrections that improve its accuracy to one metre – without the expense or potential uncertainties of differential signals. e-Dif™ computes corrections that last for as long as 40 minutes, after which the receiver re-computes a fresh set of corrections for another 40 minutes.

e-Dif™ can save customers the cost of subscription fees for Differential GPS signals in regions such as South America, Africa and Australia where the signals are not free. Even in North America, where the signals are free, e-Dif™ is a valuable back-up against signal outages. And in northern latitudes, including many parts of Canada, e-Dif™ can achieve better accuracy than what is possible using free differential signals from public satellite networks such as WAAS, or when a receiver is on the fringe of land-based radiobeacon networks.

CSI Wireless has integrated e-Dif™ software into many of our GPS products including the DGPS MAX, SLX-2, SLXg3, SLXg3 Combo, Seres, AgIQ and Outback® S.

## Products in Action

### CSI Wireless' Space-Age GPS Products Aiding in Eradication of Centuries-Old African Scourge - the Deadly "Sleeping Sickness"

"Sleeping sickness" sounds like ancient African folklore. But it's real – and deadly.

More than four million people died after a sleeping sickness outbreak in Uganda in 1906. At least 25,000 Africans continue to die from it each year, and the rapidly growing number of cases of the disease – an estimated 500,000 now compared to 300,000 only four years ago – has experts fearing another major sleeping sickness epidemic.

"Sleeping sickness has a major impact on the development of rural areas by decimating the labour force and hampering production and work capacity," reports the World Health Organization. "It remains a major obstacle to development of entire (African) regions."



Sleeping sickness has spread across 35 sub-Saharan countries by hitching a ride with Africa's tsetse fly. The infected fly feeds on the blood of humans and livestock. Sleeping sickness invades the central nervous system. Victims slip into deep comas. Without treatment, death is virtually certain.

Although there are effective medical treatments for sleeping sickness, they are expensive (about \$1,500 per patient) and beyond the budgets of most African victims, who live in some of the poorest countries in the world.

Since the early 20th century, African governments have been trying to eradicate the dreaded tsetse fly. Unfortunately, their initiatives have fallen well short of eradication.

One method that has achieved limited success has been aerial spraying. However, to achieve the necessary blanket coverage, the planes must fly very long (as much as 100 kilometres), straight rows. They must also do so at night – meaning little or no pilot visibility while flying only a few metres above the trees – when temperature inversions enable the insecticide aerosols to thoroughly descend into tsetse fly habitat.

Until recently, pilots could never fly straight enough to spray the entire landscape. They always missed a few patches, which enabled the tsetse flies to quickly repopulate. And so, for example, even after consistent annual spraying in Botswana's vast Okavango Delta area from 1972 to 1991, tsetse flies always managed to stage a comeback.

But GPS – and more specifically, the Satloc AirStar product line developed by CSI Wireless – has become the breakthrough aerial navigation technology in Botswana.

When the government of Botswana launched a spraying program in 2001, it hired South Africa-based Orsmond Aviation, whose planes were outfitted with Satloc AirStars. The AirStars enabled Orsmond pilots in Botswana to spray with unprecedented precision. Despite flying back and forth on nighttime runs as long as 88 kilometres, pilots experienced variances of only about 15 metres – or 100 times less than what their predecessors experienced during earlier spraying programs in Botswana.

"The introduction of Satloc (technology) was a quantum leap in accuracy," says Mike Saunders, a consultant hired by Orsmond to manage its spraying work in Botswana.

The Satloc system is without a doubt the most significant development in aerial spraying for tsetse control," agrees Reg Allsopp, an entomologist recruited by the government of Botswana to help manage the spraying program.

The program, covering 15,780 square kilometres, was to continue for three years. After only two, the government could no longer find any tsetse flies in the Okavango Delta.

The insecticide used is so potent that an aspirin-tablet-sized amount is enough to blanket four football fields. The CSI Wireless equipment worked so effectively that there was never any over-dosing or under-dosing, independent experts reported.

Saunders says "the precision achieved using Satloc (AirStar products) was a constant source of amazement to visitors." The visitors included government representatives from several other African countries – including Ethiopia, Uganda, Zimbabwe, Namibia and Angola – that are interested in launching similar anti-tsetse spraying programs.

"I personally have been involved in aerial spraying for tsetse control for over 30 years," says Saunders. "It was a nightmare until the arrival of GPS. CSI and Satloc took the problem away, and allowed us to plan total accuracy and reliability."

For more details, go to [www.csi-wireless.com/success](http://www.csi-wireless.com/success).

## CSI Wireless' Motorola-branded Fixed-Base Wireless Telephones are Improving Lives in Mexico

For years, whenever Mexico's Pedro Sergio Reyes left on one of his regular business trips, he lost all contact with his wife Susana and their four children until he returned.

Whereas most business travelers can call home whenever they want – simply to say a quick hello or to wish their loved ones a good night's sleep at the end of a long day – a frustrated Reyes could not. Why? Because his family had no residential phone service.

A home without a phone is a strange concept to most Canadian and U.S. consumers. But it's a daily reality for a large portion of the world's population, including the Reyes family and millions more in Mexico and other parts of Central and South America. There, traditional copper-wire networks are either very costly, unreliable, or simply non-existent.

Portable wireless phones offer an alternative. But not a particularly attractive one for home use, thanks to their limited battery power, signal range and voice quality, coupled with the relatively high cost of long-distance calls.

CSI Wireless responded in 2002 by launching its line of fixed-base wireless telephones – the BaseOne for Canadian, U.S., Caribbean, Russian, African and Israeli markets, and the FX800t for the rest of the world.

Both models are "fixed-base" in that they attach to a standard AC electric outlet rather than a mobile battery power source. But they are "wireless" in that they communicate using cellular networks rather than linking to standard copper-wire phone networks.

The 3-watt power output of the BaseOne and FX800t equates to far better range and voice quality than what is possible with a mobile wireless phone or with competing fixed-base wireless phones that put out only 0.6 watts of power. The BaseOne and FX800t, which access the digital TDMA network, also feature call monitoring to enable several people to participate in a conversation, and a very user-friendly menu and keypad.

CSI announced in September 2002 that it had received a \$20-million purchase order for its FX800t from Brightstar Corporation, a Motorola licensee that began branding the phone as the Motorola FX800t and selling it to Telcel, Mexico's national cellular carrier. A grateful Reyes bought his Motorola FX800t from Telcel in early 2003. "It's very practical," he says from his home in Chilpancingo, in southern Mexico. "I travel so much, but now I can keep in touch with my family."

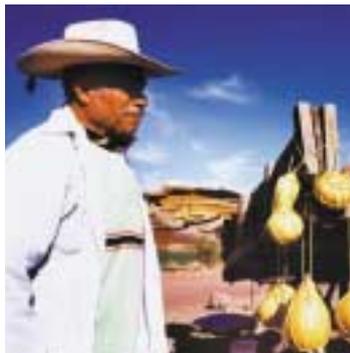
Maintaining close ties with family has also been a lot easier for Alejandro Fuentes, since he bought an FX800t last year. A taxi driver in the central Mexican city of San Juan de Rio, Fuentes says his new phone is making it much more convenient and cost-effective for him, his wife Adele and their

three children "to communicate with our relatives that don't live in the same city. It is a very good option to a landline phone."

Martin Espinoza owned a portable cell phone before buying an FX800t. But the carpenter from the Mexico City suburb of Izcalli says his handset's calling costs were so high that he and his wife Juanita often resorted to walking a few blocks to use a pay phone. Their new Motorola FX800t phone from CSI Wireless is an inexpensive alternative for home use, with lots of sensible features, Espinoza says.

Like most Mexicans, textile worker Jose Mendoza had no hope of getting traditional landline phone service in his home in Pachuca, near Mexico City. He welcomed the chance to buy an FX800t. It's the first phone that Mendoza, his wife Guadalupe and their two daughters have ever had – and "it works really well," he says.

The FX800t is working so well, and making its way into so many Mexican homes and workplaces, that Brightstar has followed up on its original \$20-million purchase order with another order for \$12.5 million – followed by others for several more million dollars.



Brightstar is also negotiating FX800t sales agreements with cell carriers in several other Latin American countries. In each of these countries, and in others around the world, governments and telephone companies have concluded that the cost of installing wireless infrastructure is far less than installing traditional copper-line infrastructure – helping to ensure that fixed wireless phones will be a major revenue generator for CSI Wireless in 2003 and beyond.

"As wireless communication technology evolves, it brings to us new and significant business opportunities," says Brightstar Vice President Jaime Narea. "The need for fixed wireless solutions as a substitute to landline phone service has created such an opportunity for us, specifically in the Latin America region. In order to address this opportunity with a superb product and brand, we are delighted to be part of a strategic synergy with CSI Wireless and Motorola."



## CSI Wireless' Aerial Swathing Technology Helps Restore Vegetation after Massive Forest Fires in Arizona and Colorado

GPS guidance products from CSI Wireless Inc. have played a key role in one of the largest vegetation restoration projects in U.S. history.

Forest fires that raged through northern Arizona and parts of Colorado in mid 2002 destroyed more than 400,000 acres of timber – leaving mountains and hillsides with no trees, grass or other ground-cover vegetation.

Fearing that rain and snow on the barren slopes would spark massive mudslides and clog rivers, lakes and municipal reservoirs, government officials quickly began preparing to re-seed the scarred land with a variety of soil-stabilizing grasses and wildflowers.

The territory requiring soil rehabilitation totaled a mind-boggling 175,000 acres, making it the largest re-seeding project ever conducted in North America.

Doing the job from the ground was impossible, due to the huge area that had to be re-seeded, and to the rugged terrain where the seed had to be applied. The obvious alternative was airplanes – essentially the same types of aircraft used for crop-dusting.

Knowing that Global Positioning System (GPS) technology has made crop-dusting a far more efficient process, government officials employed the same technology for re-seeding.

The officials hired three firms to do the job: Aero-Tech Inc. of Clovis, New Mexico, and sub-contractors Sarita Aerial Contractors of Coolidge, Arizona, and M&M Air Service of Beaumont, Texas. For their GPS guidance, all three relied on Satloc AirStar M3's – the popular aerial system designed and built by CSI Wireless.

Sarita owner John Pew says one of the most challenging aspects of the project was the fact that although 400,000 acres of forest had been destroyed by fire, less than half was earmarked for re-seeding. The areas to be re-seeded, on the steepest and most landslide-prone slopes, were scattered among terrain not earmarked for re-seeding.

"Looking down from the air, we didn't know where to stop re-seeding and where to start again," says Pew, who has been using CSI Wireless' GPS products since 1996. "But the AirStar M3's were great. There would have been no way to re-seed without that technology."

The M3's software used government-supplied coordinates to create pictorial outlines of the areas to be re-seeded. "After that, it was like sending out a kid to paint with a colouring book," recalls Pew. "All we had to do was stay inside the lines."

Although the six pilots involved in the project had to distribute 4.8 million pounds of seed (equal to 18 transport trucks), they finished the task well ahead of time – taking only 16 days rather than the allotted 21.

"The fact the planes were equipped with Satloc GPS tracking/mapping systems permitted them to apply seed with precision accuracy at the desired rate," reports Jim Youtz, a vegetation specialist with the U.S. Department of the Interior who helped coordinate the re-seeding project. "I was extremely impressed with the end result: less than one-percent deviation from the desired application rate throughout the entire project area."

How important was the re-seeding project? "Most of the water in the states around here comes from the mountains," Youtz says. "If there is no grass, there is no soil stabilization. Rain would have carried sand and silt down the slopes – plugging estuaries and springs, and contaminating reservoirs from which we get our drinking water. Re-seeding it quickly and efficiently was essential."

For more details, go to [www.csi-wireless.com/success](http://www.csi-wireless.com/success).



## CSI Wireless-Equipped MOBILUS System Tracks Down Car Stolen at Rolling Stones Concert

The asset-tracking success of CSI Wireless' Asset-Link™ product line helped a Rolling Stones fan get some satisfaction – by enabling him to retrieve his \$45,000 vehicle only 20 minutes after it was stolen.

Charles Rabbat was enjoying a Rolling Stones concert at Montreal's Bell Centre on January 8, 2003 when he received an alert, telling him someone was stealing his 2002 Jeep Grand Cherokee.

Fortunately, the vehicle was equipped with Datacom Wireless Corporation's MOBILUS stolen vehicle recovery service that, for its essential GPS and wireless telematics hardware, relies on the Asset-Link™ 100 from CSI Wireless.

The MOBILUS system dispatched police, and began tracking the stolen Jeep's movements. Police found and recovered it in just 20 minutes.

"Fast and effective, the MOBILUS system did an excellent job," Charles Rabbat said later. "It allowed for my vehicle to be recovered without any damages."

More than one million cars and trucks are stolen every year in North America, at a rate of one every 23 seconds in the U.S. and one every four minutes in Canada. In most cases, owners don't learn of the thefts for hours or even days afterward. By then, the vehicles have been damaged, dismantled, and/or transported so far away that they are virtually untraceable. But not vehicles equipped with CSI Wireless' Asset-Link™, which has become essential hardware in several successful asset-tracking and stolen vehicle recovery systems.



"Thanks to CSI's advanced telematics technology, our MOBILUS system quickly detects vehicle thefts and enables the stolen vehicle to be recovered quickly too," said Paul-André Savoie, President and CEO of Datacom.

MOBILUS, because it features Asset-Link™ hardware that CSI Wireless developed for use with the Microburst® cellular network throughout North America, is able to cost-effectively track and recover stolen vehicles anywhere on the continent – even in enclosed areas or underground parking lots.

MOBILUS incorporates several key features to provide both theft prevention and immediate notification if a vehicle is moved without permission. In case of theft, the vehicle's horn, lights and even an immobilizer can be activated at police request. As added features, customers can also determine their locations, unlock their doors, or start their vehicles through personalized Internet access.

Datacom is marketing the MOBILUS system via car dealerships throughout Quebec. In response to the system's effectiveness, insurance companies are offering Quebec vehicle owners substantial discounts if they install MOBILUS.



# Corporate Governance

## Board Membership and Independence

Three of the seven members of CSI Wireless' Board of Directors are considered by the Company to be unrelated, in that they are not CSI employees nor receive any financial compensation from the Company other than their standard director fees. The Board recognizes the value of increased autonomy from management. Thus, in March of 2003, CSI Wireless President and CEO Stephen Verhoeff voluntarily relinquished his additional title of Board Chairman. The new chairman is Michael Lang, who has been an unrelated director for several years, and chairs the Board's Audit and Compensation committees.

Several factors help to ensure the Board's autonomy from management. They include:

- the Audit Committee and Compensation Committee are chaired by unrelated directors;
- the Audit Committee is composed of two unrelated directors and one related director;
- the Compensation Committee is composed of two unrelated directors;
- a significant portion of committee agenda items are mandatory and recurring;
- any director can call a meeting of the Board or a committee of which he is a member; and
- any director can engage outside advisors at any time, subject to the chairman's approval.

## Board Mandate

The Board is responsible for supervising CSI Wireless' business operations. Directors fulfill their roles by preparing and attending regularly scheduled meetings of the Board and its committees. At the meetings, directors receive and review management-prepared reports concerning CSI Wireless' business dealings and financial performance.

The Board oversees major corporate plans, including strategic plans, business development plans, and management development and succession plans. To identify the primary risks to CSI Wireless' business plans, the Board assesses the integrity of internal controls and of management information systems. In addition, the Board, through the Compensation Committee, periodically evaluates management's performance.

## Board Expectations of Management

The Board expects management to:

- propose and, in response to Board approval, execute CSI Wireless' corporate strategies, long-term plans, goals and targets;
- be accountable for CSI Wireless' financial and competitive performance;
- provide timely, complete and accurate information about CSI Wireless' business operations;
- ensure the development of senior executives, and plans for their succession; and
- manage CSI Wireless' resources in a manner consistent with enhancing the Company's value, while remaining within the law and maintaining appropriate ethical, environmental, corporate and social standards.

## Audit Committee

The Audit Committee, which met four times in 2002, is chaired by unrelated director Michael Lang. It ensures the integrity of internal control and management information systems. The committee reviews CSI Wireless' annual and quarterly financial statements, accounting practices, and business and financial controls. It also recommends to the Board the external auditors to be appointed by shareholders at each annual meeting, reviews their audit work plan, and approves their fees. The shareholders' auditors attend and participate in all Audit Committee meetings.

## Compensation Committee

The Compensation Committee, which met two times in 2002, is chaired by unrelated director Michael Lang. The committee reviews employee compensation and makes appropriate recommendations to the Board.

#### Board Members - Related

Stephen A. Verhoeff, Calgary, Alberta

CSI Wireless founder, President and Chief Executive Officer Stephen Verhoeff has been involved with the Company since its incorporation in 1990. He oversees all aspects of CSI's corporate operations including marketing, financial reporting, manufacturing and administration. Before founding CSI, Mr. Verhoeff was President of Network Innovations Inc., a private corporation engaged in selling data communications equipment in Western Canada. He has a Bachelor of Commerce degree from the University of Calgary and a certificate in telecommunication management from Mount Royal College.

Brian J. Hamilton, CFA, CA, Calgary, Alberta

CSI Wireless Executive Vice President and Chief Financial Officer Brian Hamilton has been with CSI since 1995, and its CFO since 1996. His responsibilities include providing financial and general management leadership. Mr. Hamilton was the founder, President and CEO of Easy Street Adventures Inc., a public company that operated family entertainment parks. From 1987 to 1992, he was exclusively devoted to identifying emerging companies on behalf of two venture capital companies, Merbanco Inc. and Harvest Fund Inc. Mr. Hamilton was also a senior financial officer at various financial institutions including Paramount Life Insurance Co., ParaCorp Inc. and Canadian Commercial Bank, from 1979 to 1986. He has a Bachelor of Commerce (Honours) from the University of Manitoba, is a Chartered Accountant (CA) and a Chartered Financial Analyst (CFA).

Hamid Najafi, Ph.D., Los Altos Hills, California

Hamid Najafi is a consultant to CSI Wireless, and President of Broadlink Research Inc. He has served as CSI Wireless' Chief Technology Officer since 2000. He also founded Wireless Link in 1987 and served as President and CEO until its acquisition by CSI in 2000. Earlier, Mr. Najafi was co-founder and Vice President of Engineering at TransTech International Corp., which developed a wide range of communications products including cellular phones, pagers, long-range spread spectrum cordless phones, high-speed modems, cellular data products, satellite modems and voice response systems. Mr. Najafi has a Doctorate in Electrical Engineering from Stanford University.

Michael W. Brower, Felton, California

Mr. Brower is the founder and owner of Fall Creek Consultants, which provides business strategy consulting services to many large companies in the wireless location industry. Fall Creek also publishes the Wireless Location News e-newsletter. Mr. Brower was Vice President of Marketing and Business Development at Wireless Link until its acquisition by CSI in 2000, after which he was a CSI Wireless Vice President until 2001. Mr. Brower currently receives consulting fees from CSI Wireless in relation to information and guidance he provides with respect to wireless markets. He has held positions involving wireless telemetry and location-centric applications with Globalstar Mobil Satellite System, Differential Corrections Inc. and Magellan Systems Corp.

#### Board Members - Unrelated

Michael J. Lang, Calgary, Alberta

In addition to being CSI Wireless' Chairman, Mr. Lang is Chairman of Stonebridge Merchant Capital Corp. He is also a Director of Garneau Inc., an integrated energy service company focused on the application of high-performance protective coatings and linings for oil and gas pipelines; and of Dynetek Inc., which manufactures and markets high-pressure fuel storage tanks. He holds a Bachelor of Science and an MBA degree from the University of Alberta.

Paul L. Camwell, Calgary, Alberta

Mr. Camwell is Vice President, Chief Technology Officer, and Director of Extreme Engineering Limited, a company that specializes in tool design, development and manufacture for the oil and gas exploration market. The Calgary-based firm has many years of expertise in electronic, mechanical and software design. Mr. Camwell, an electronic engineer who also trained as a physicist, has held senior management positions at NovAtel Communications, Ryan Energy Technologies Inc., and the National Research Council's (NRC) Industrial Research Assistant Program. He is a former Industrial Technical Advisor to NRC/TRLabs, and has a Bachelor of Science and Doctorate in Engineering from the University of Warwick in England.

Howard Yenke, Onset, Massachusetts

Mr. Howard Yenke is a retired IBM Corporation executive who amassed an impressive range of corporate leadership experience during his more than 40-year business career. He was CEO and a Director of Casino Data Systems; and President, CEO and Director of Silent Systems Inc.; LANart Corporation; Enterprise Development Corporation; Technology Deployment Holdings Company Inc.; ARCO Computer Products Company; and Boca Research Inc. Mr. Yenke held various senior management and executive positions during his 25 years with IBM. His only current directorship is with CSI Wireless.

# Management's Discussion & Analysis

## of Financial Condition and Results of Operations

Certain statements in Management's Discussion and Analysis, other than statements of historical fact, are forward-looking in nature and involve various risks and uncertainties. These can include, without limitations, statements concerning possible or assumed future results of operations of the Company preceded by, followed by, or that include words and phrases such as "believes," "plans," "intends," "expects," "anticipates," "estimates" or similar expressions. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions which may or may not result in the Company's actual results differing materially from those anticipated in the forward-looking statements. Factors which may cause such differences include, but are not limited to, those set forth under "Business Risks." The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change.

### Overview

During 2002, CSI's Wireless Business Unit experienced dramatic growth, thanks to the launch of several new products including the Motorola-branded FX800t, and the Asset-Link™ line – utilizing AMPS, Microburst® and Circuit Switched data technologies. CSI is also planning to develop a version of the Asset-Link™ that will utilize both AMPS and the GSM

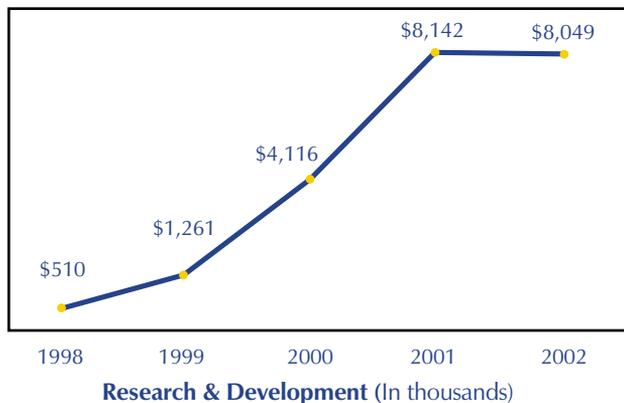
standard that is popular in Europe and many other regions of the world. Developing wireless products that combine TDMA, AMPS and GSM capabilities will position CSI for growth, as the world continues to embrace more telematics applications. These products would provide service to more wireless users in more geographic areas in the western hemisphere, than all other technologies combined.

The GPS Business Unit continued to perform well in 2002 in the agricultural market, despite a North American drought that had an industry-wide negative impact on sales of farming equipment and technology. In this challenging environment, CSI Wireless expanded its Outback® product line by adding the Outback® 360 in late 2001 and the Outback® Hitch in early 2003.

The GPS Business Unit also introduced the Seres integrated GPS/SBAS receiver and antenna that satisfies the market's need for a more compact, affordable, performance-oriented solution. This resulted in significant sales to customers in both our agriculture and GIS & mapping markets. Other new products include the Vector family that computes accurate GPS-derived headings for use in the marine and machine control markets, and the CornerPost GPS system for high-accuracy navigation and positioning.

### For the Quarter Ended

	March 31 2001	June 30 2001	Sept 30 2001	Dec 31 2001	March 31 2002	June 30 2002	Sept 30 2002	Dec 31 2002
Revenue	\$12,211	\$11,961	\$ 6,761	\$10,027	\$13,958	\$ 10,761	\$ 8,784	\$20,633
Cost of sales	7,224	7,736	5,040	7,847	8,464	6,028	6,515	17,230
Expenses:	4,987	4,225	1,721	2,180	5,494	4,733	2,269	3,403
Research and development	1,640	2,103	2,370	2,029	1,912	2,187	2,207	1,743
Selling	1,112	1,111	1,046	967	1,007	1,049	1,150	1,138
General and administrative	1,682	1,499	961	978	928	1,574	1,171	1,200
Interest on long-term debt	251	302	229	453	313	229	163	312
Depreciation and amortization	261	310	327	299	284	272	294	301
Amortization of goodwill	532	532	532	590	-	-	-	-
Redemption premium on preferred shares	-	-	-	-	-	-	-	322
	5,478	5,857	5,465	5,316	4,444	5,311	4,985	5,016
Net earnings (loss)	\$ (491)	\$ (1,632)	\$ (3,744)	\$ (3,136)	\$ 1,050	\$ (578)	\$ (2,716)	\$ (1,613)
Earnings (loss) per share before goodwill amortization	\$ (0.00)	\$ (0.07)	\$ (0.18)	\$ (0.15)	\$ 0.06	\$ (0.03)	\$ (0.14)	\$ (0.08)



## Results of Operations

### Revenues

In 2002 the Company realized revenues of \$54.1 million compared to \$41.0 million in 2001, an increase of 32%. For the fourth quarter of 2002, revenues increased 106% to \$20.6 million from \$10.0 million in 2001. This increase is due to sales of the new Motorola FX800t fixed wireless phone which began shipping in the third quarter of 2002 for sale in Mexico. These sales more than offset the decrease in sales of precision ground and air guidance products for the agriculture market, which was hit hard by droughts in North America in 2002.

Revenue for the Wireless Business Unit in 2002 was \$29.2 million, compared with revenue of \$11.9 million in 2001. Included in the 2002 revenue is \$2.4 million of licensing and royalty revenue from its proprietary technology. In the fourth quarter, the Wireless Business Unit had revenues of \$17.1 million compared to \$3.2 million in 2001. The GPS Business Unit's revenue decreased to \$25.0 million in 2002, from \$29.0 million in 2001. In the fourth quarter of 2002, the GPS Business Unit had revenues of \$3.5 million, compared to \$6.8 million in 2001. This decrease is largely attributable to the agricultural market conditions.

### Gross Margins

Gross margins for 2002 of \$15.9 million was an increase of 21% from \$13.1 million in 2001. As a percentage of revenues, gross margins decreased in 2002 to 29% as compared with 32% in 2001. Gross margins in the fourth quarter of 2002 were 17%, as compared to 2001 margins of 22%. This decrease was a result of Motorola FX800t sales in the third and fourth quarters of 2002, which earn far lower margins than the Company's GPS and telematics products. At the end of the fourth quarter, margins on the Motorola FX800t did improve as production of the phone was successfully transferred from Thailand to Mexico, eliminating Mexican import tariffs on the product. Management is working to further improve fixed wireless phone margins through design changes and improved efficiencies in the production process.

### Research and Development

The Company has maintained a concentrated focus on new product development, investing \$8.0 million in research and development in 2002, compared with \$8.1 million in 2001. In the fourth quarter, the Company invested \$1.7 million in research and development, a decrease of \$287,000 from the \$2.0 million spent in the fourth quarter of 2001.

These significant investments resulted in the introduction of 13 leading edge technologies and products during 2002, including the Asset-Link™ family of products, the Motorola-branded FX800t fixed wireless phone, the CornerPost precision guidance product and the Vector line of heading systems to name but a few. All research and development spending is continuously oriented toward specific products and markets for which customers have been identified.

Many of the research and development costs incurred in Canada continue to qualify for scientific research and experimental development income tax treatment. This includes both investment tax credits and the elective deferral of expenses. Research and development costs incurred in the United States also qualify in certain circumstances for tax credits.

### Selling & General and Administrative

Selling expenses of \$4.3 million for 2002 remained virtually unchanged from \$4.2 million in 2001. Management is pleased that the Company was able to introduce so many new products in 2002, increasing revenues by 32%, while not incurring significant additional selling costs. Selling costs did increase in the fourth quarter of 2002 to \$1.1 million from \$967,000 in 2001. The increase in fourth-quarter costs resulted in part from additional staff hired to promote and sell the new products released during the second half of the year.

General and Administrative expenses for 2002 decreased \$200,000 to \$4.9 million from \$5.1 million in 2001. This decrease was partly due to cost-cutting measures that resulted in more efficient operating systems and teams. The benefits of the cost-cutting measures were, however, offset by increased legal costs associated with both the successful defense of legal actions brought against the Company, and an internal corporate reorganization.

### Goodwill, Depreciation and Amortization

Effective January 1, 2002 the Company adopted the new CICA accounting standard for goodwill and other intangible assets, which requires that goodwill not be amortized but rather be assessed for impairment annually. At December 31, 2002 the goodwill carrying value was assessed and it was determined that there is no impairment. This change in policy improved the bottom line in 2002 by almost \$2 million. Depreciation of fixed assets and amortization of deferred development costs decreased in 2002 to \$1.2 million from \$1.3 million in 2001.

### Redemption Premium on Preferred Shares

In 2002 the Company accrued \$322,144 as a redemption premium on preferred shares. The premium is in conjunction with the preferred shares that were issued as part of the acquisition of the business assets of Satloc Inc. in 1999. The preferred shares accrue dividends at 10% per annum, however, the dividends will not be paid until the shares are converted or redeemed.

### Interest

Interest expense in 2002 of \$1.0 million was down slightly from the previous year's \$1.2 million. This decrease resulted from lower prime lending rates, which are used to determine the monthly interest charges on senior long-term debt, the operating line of credit, and the other long-term debt facility. The benefit of the lower rates for the Company was partially offset by its increased debt load in 2002.

### Income taxes

For the year ended December 31, 2002, the Company had tax losses and/or future tax deductions in each legal entity. CSI Wireless Inc. has tax deductions of \$1.9 million that can be used to reduce taxable income in future years, as well as investment tax credits in the amount of \$1.1 million that can be used to reduce federal taxes otherwise payable in future years. CSI Wireless LLC and Satloc LLC, as a combined entity for U.S. federal tax filing, has cumulative net operating losses of US \$18.8 million, additional tax deductions of US \$3.7 million that can be used to reduce taxable income in future years, and US \$980,000 of general business credits that can be used to reduce federal taxes otherwise payable in future years.

### EBITDA and Net Loss

In 2002 the Company had an EBITDA loss of \$1.4 million or (\$0.17) per share, compared with an EBITDA loss of \$4.4 million or (\$0.32) per share, in 2001. After depreciation and amortization, and interest expense, the net loss for 2002 was \$3.9 million or (\$0.20) per share, compared with a net loss of \$6.9 million or (\$0.40) per share in 2001, calculated before goodwill amortization. The 2002 losses were down sharply from 2001 even after adjusting for the 2001 amortization of goodwill, this despite the Company's continued investment in research and development which remained constant year-over-year.

For the three months ended December 31, 2002 the Company reported an EBITDA loss of \$678,000 as compared with an EBITDA loss of \$1.8 million for the same period in 2001. After depreciation and amortization, the Company reported a net loss for the quarter of \$1.6 million, or (\$0.08) per share, as compared with a net loss of \$2.5 million or (\$0.15) per share in the fourth quarter of 2001 calculated before goodwill amortization.

### Liquidity and Capital Resources

The Company had negative net cash flows of \$959,000 in 2002 compared to negative net cash flows in 2001 of \$1.6 million. In the fourth quarter of 2002 the Company had negative cash flows of \$876,000 versus negative cash flows of \$323,000 in 2001. The overall cash position of the Company decreased from an overdraft position of \$3.0 million at December 31, 2001 to an overdraft position of \$4.0 million at December 31, 2002. During 2002 the Company raised \$6.1 million through a private placement of shares and purchase warrants, and the exercise of previously outstanding purchase warrants. These proceeds were used to fund the negative cash flow during the year and repay, in part, amounts owing to debtors. The Company's working capital ratio at December 31, 2002 was 1.14, down from 1.22 at December 31, 2001.

CSI has an established line of credit to a maximum of \$6.0 million with its bank, with borrowing limits determined by trade receivables and inventory levels. Loans under this arrangement incur interest at prime plus 0.75% to 1.25%. The Corporation has entered into a general security agreement with its bank to secure such indebtedness. At December 31, 2002 the Company had drawn just over \$4.0 million on this line.

Inventory levels have decreased slightly from \$9.4 million at December 31, 2001 to \$9.3 million at December 31, 2002. The Company has been successful in maintaining inventory at a consistent level from 2001 to 2002 despite a 32% increase in sales. This was possible because the Company has implemented specific inventory control measures to ensure inventory remains at moderate levels.

Equity in common shares at December 31, 2002 increased \$4.5 million to \$41.8 million from \$37.3 million at December 31, 2001. This increase resulted from both the 705,000 share purchase warrants that were exercised in June 2002, which raised \$1.9 million, and the private placement of shares and purchase warrants in November 2002 which raised a net \$3.7 million. The remaining change in share capital resulted from the exercise of stock options and recording the anticipated cancellation of shares held for security for a shareholder loan.

In 2002 the Company invested \$1.4 million in various capital assets, \$308,000 of which occurred in the fourth quarter. The majority of the additions were for production and computer equipment used in the development and manufacturing of the Company's products. \$514,000 was also invested in licenses, including a TDMA protocol license used in various CSI products.

### Market Risk

For the year ended December 31, 2002, the Company derived 81% (78% in 2001) of its revenue from customers located in the United States. Sales in other countries are also predominantly transacted in U.S. dollars. As revenues are recorded by the Company in Canadian dollars, the Company is exposed to risk associated with U.S. and Canadian dollar currency fluctuations. These risks are somewhat mitigated by purchasing most inventories, other costs of sales and many services in U.S. dollars. However, a strengthening in the Canadian dollar relative to the U.S. dollar does result in lower revenues for the Company.

To date the Company has not entered into any futures contracts. Consideration may be given to entering into such contracts should it be considered necessary to manage exposure to currency fluctuations. As the Company expands with increased sales into Europe and other countries, it is expected that it will be necessary to transact sales in foreign currencies other than U.S. dollars, thus exposing the Company to additional currency risk.

### Business Risk

The nature of the Company's business gives rise to certain risks that may impact future financial results. The Company identifies the most significant risks to be:

1. In 2002 CSI incurred a financial loss. Although the Company currently expects to have positive earnings in 2003, it is possible that losses will occur in any of the four quarters. If the Company fails to execute on its current

contracts, or if current customers significantly reduce their purchases, the 2003 projected earnings could in fact be a loss which in turn could be substantial. In light of this risk, the Company is prepared to complete an equity financing if required to provide adequate working capital and fund such a potential loss.

2. The economic and financial markets in 2002 continued to experienced minimal growth. The Company was affected by continued drought conditions in North America that in turn hurt the agriculture market, resulting in lower sales of precision agriculture products. Should the drought conditions continue in 2003, the Company will be faced with lower-than-expected revenues. Overall, the prospects for 2003 initially appear to be improved from 2002. However, an uncertain business environment and unresolved geopolitical issues may have a negative impact on the Company's future growth.

3. Many of CSI's competitors currently have greater financial, technical, production, and marketing resources. This may enable them to respond more quickly to market demands, and to better implement their technological developments.

4. Future revenues are subject to many factors beyond the Company's control. Examples include the liquidity and business plan execution of customers, general industry conditions, and the rate of acceptance of new technologies in the marketplace.

5. CSI is reliant upon certain key suppliers for raw materials, components, and external manufacturing. No assurances can be given that the Company will not experience delays or other difficulties in obtaining materials critical in the completion of our products.



## Management's Responsibility for Financial Reporting

The management of CSI Wireless Inc. 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, 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, conducts 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.

Calgary, Canada



Brian Hamilton  
Executive Vice President  
& Chief Financial Officer



Stephen Verhoeff  
President  
& Chief Executive Officer

## Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of CSI Wireless Inc. as at December 31, 2002 and 2001 and the consolidated statements of operations and deficit and cash flows 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 Canadian 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, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Calgary, Canada  
March 4, 2003

# Consolidated Balance Sheets

December 31, 2002 and 2001

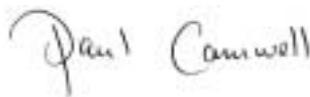
	2002	2001
<b>Assets</b>		
<b>Current assets:</b>		
Accounts receivable (note 15)	\$ 9,568,102	\$ 8,986,632
Inventories	9,251,148	9,400,184
Prepaid expenses and deposits	335,942	346,927
	19,155,192	18,733,743
Capital assets (note 4)	3,510,208	3,153,387
Deferred development costs (note 5)	-	122,747
Goodwill	18,071,676	17,515,176
	\$ 40,737,076	\$ 39,525,053
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Bank indebtedness (note 6)	\$ 4,031,400	\$ 3,072,204
Accounts payable and accrued liabilities	10,107,646	11,393,179
Current portion of senior long-term debt (note 8)	1,905,852	952,921
Current portion of other long-term debt (note 7)	701,260	-
	16,746,158	15,418,304
Senior long-term debt (note 8)	2,170,408	4,282,796
Other long-term debt (note 7)	438,208	-
Preferred shares (note 9)	1,855,244	976,600
Common shares (note 10)	41,812,078	37,275,173
Deficit	(22,285,020)	(18,427,820)
Future operations (note 1)		
Commitments (note 14)		
Subsequent event (note 16)		
	\$ 40,737,076	\$ 39,525,053

See accompanying notes to consolidated financial statements.

Approved by the Board:



Michael Lang  
Chairman



Paul Camwell  
Director

## Consolidated Statements of Operations & Deficit

Years ended December 31, 2002 and 2001

	2002	2001
Sales	\$ 54,136,246	\$ 40,961,172
Cost of sales	38,238,297	27,847,063
	15,897,949	13,114,109
Expenses:		
Selling	4,344,215	4,236,186
General and administrative	4,874,004	5,119,177
Interest on long-term debt	1,015,918	1,234,992
Depreciation and amortization	1,149,744	1,255,540
Amortization of goodwill	-	2,128,242
	11,383,881	13,974,137
Income (loss) before undemoted item	4,514,068	(860,028)
Research and development costs	8,049,124	8,142,396
Redemption premium on preferred shares (note 9)	322,144	-
Net loss	(3,857,200)	(9,002,424)
Deficit, beginning of year	(18,427,820)	(9,425,396)
Deficit, end of year	\$ (22,285,020)	\$ (18,427,820)
Loss per common share before goodwill amortization	\$ (0.20)	\$ (0.39)
Loss per common share, basic	\$ (0.20)	\$ (0.52)

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Years ended December 31, 2002 and 2001

	2002	2001
Cash flows from (used in) operating activities:		
Net loss	\$ (3,857,200)	\$ (9,002,424)
Items not involving cash:		
Depreciation and amortization	1,149,744	1,255,540
Amortization of goodwill	-	2,128,242
Redemption premium on preferred shares	322,144	-
Options granted to non-employees	54,781	-
	(2,330,531)	(5,618,642)
Change in non-cash operating working capital:		
Accounts receivable	(1,766,170)	236,319
Inventories	149,036	(3,984,929)
Prepaid expenses and deposits	10,985	(140,093)
Accounts payable and accrued liabilities	2,207,477	2,483,227
	(1,729,203)	(7,024,118)
Cash flows from (used in) financing activities:		
Increase in bank indebtedness	959,196	1,646,285
Senior long-term debt	(1,159,457)	(747,021)
Other long-term debt	(2,353,542)	-
Subordinated debt	-	(2,790,704)
Issue of share capital, net of share issue costs	5,666,824	10,487,033
	3,113,021	8,595,593
Cash flows used in investing activities:		
Purchase of capital assets	(1,383,818)	(1,571,475)
Decrease in cash position	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	\$ -	\$ -
Supplemental disclosure:		
Interest paid	\$ 900,027	\$ 1,026,521

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

CSI Wireless Inc. (the "Company") is incorporated under the laws of the Province of Alberta. The Company is actively involved in the design, manufacture and marketing of advanced wireless and precision Global Positioning System products and technologies.

## 1. Future operations:

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which is dependent upon the Company's ability to generate future profitable operations, and receiving continued financing to enable the Company to meet its obligations as they become due. Management believes the going concern assumption to be appropriate for these financial statements. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## 2. Significant accounting policies:

### (a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

### (b) Revenue recognition:

The Company generates revenue primarily from the sale of equipment, as well as from royalty and licensing agreements.

Revenues from the sale of equipment are recognized upon shipment and when all significant contractual obligations have been satisfied and collection is reasonably assured. Accruals for warranty costs, sales returns and other allowances at the time of shipment are based upon contract terms and anticipated claims.

Revenue from licensing and royalties derived from the Company's technology is recognized when all material services and conditions relating to the licenses and royalties have been satisfied and collection is reasonably assured.

### (c) Inventories:

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

### (d) 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% - 30%
Leasehold improvements	straight-line	5 years
Licenses and other assets	straight-line	3 to 10 years

Depreciation is charged from the date of acquisition of an asset.

### (e) Deferred development costs:

The Company is actively engaged in developing new technology and products. 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 period. No amounts have been capitalized in 2002.

### (f) Research costs:

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

## 2. Significant accounting policies (continued):

(g) Goodwill:

Goodwill represents the portion of the excess purchase price paid on the acquisition of businesses in excess of the value assigned to identifiable net assets acquired. The value of goodwill is periodically evaluated and where there is considered to be an impairment in the estimated net recoverable amount of the goodwill, based upon expected future discounted cash flows, the goodwill is written down to its estimated value. There was no write-down after assessment of 2002 balances.

(h) Use of estimates:

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(i) Per share amounts:

Loss per common share has been calculated using the weighted average number of common shares outstanding during the year. The weighted average shares outstanding for the year ended December 31, 2002 was 19,143,057 (December 31, 2001 – 17,454,181). Diluted loss per share is calculated using the treasury stock method. Diluted loss per share has not been shown separately as it is anti-dilutive for the years ended December 31, 2002 and 2001.

(j) Foreign currency translation:

Foreign currency balances of the Company's foreign subsidiaries, which are considered to be integrated, are translated on the following basis:

- monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates;
- non-monetary assets, liabilities and related depreciation expense are translated at historical rates; and
- sales and expenses are translated at the average rate of exchange during the month in which they are recognized.

Any resulting foreign exchange gains and losses are included in earnings.

(k) Stock-based compensation plans:

The Company has a stock-based compensation plan, which is described in Note 10(d). Compensation expense is recognized for this plan only when stock options are issued to non-employees (see note 3). Any consideration paid on exercise of stock options is credited to share capital.

(l) Income taxes:

The Company follows the liability method of accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences – the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis.

(m) Comparative figures:

Certain comparative information for 2001 has been restated to conform with the current year's presentation.

## 3. Change in accounting policy:

Effective January 1, 2002, the Company adopted the new accounting standards for stock-based compensation. Under this standard, the Company follows the settlement date method of accounting for stock options granted to employees and the fair value method for stock options granted to non-employees. The Company discloses the effect of accounting for the stock options awarded to employees under the fair value method (See note 10(e)).

Effective January 1, 2002, the Company adopted the new accounting standards for goodwill and other intangible assets. This new standard requires that goodwill not be amortized, but only written down if impaired. In accordance with the new standard, the carrying value of goodwill will be assessed for impairment annually. Prior to the adoption of this new recommendation, goodwill was amortized on a straight-line basis over its estimated useful life.

#### 4. Capital assets:

December 31, 2002	Cost	Accumulated Depreciation	Net Book Value
Computer equipment and software	\$ 1,636,994	\$ 918,844	\$ 718,150
Office and production equipment	3,459,534	1,615,311	1,844,223
Leasehold improvements	306,586	120,459	186,127
Licenses and other assets	1,236,267	474,559	761,708
	\$ 6,639,381	\$ 3,129,173	\$ 3,510,208

December 31, 2001	Cost	Accumulated Depreciation	Net Book Value
Computer equipment and software	\$ 1,266,971	\$ 675,280	\$ 591,691
Office and production equipment	3,035,253	1,123,348	1,911,905
Leasehold improvements	380,784	164,226	216,558
Licenses and other assets	721,982	288,749	433,233
	\$ 5,404,990	\$ 2,251,603	\$ 3,153,387

#### 5. Deferred development costs:

	2002	2001
Deferred development costs, net of incentives and grants	\$ 1,464,213	\$ 1,464,213
Accumulated amortization	1,464,213	1,341,466
	\$ -	\$ 122,747

#### 6. Bank indebtedness:

The Company has an operating line of credit to a maximum amount of \$6,000,000 that bears interest at the bank prime rate plus 0.75% to 1.25%. This line of credit is secured by a general security agreement covering all assets of the Company. The amount drawn under the facility was \$4,031,400 at December 31, 2002 (December 31, 2001 - \$3,072,204). The Company also has a Letter of Credit/Guarantee Line available in the amount of \$10,000,000 (\$2,800,000 issued at December 31, 2002) in connection with fixed wireless product sales. The Company in turn receives letters of credit from customers under similar terms (\$2,800,000 received at December 31, 2002).

#### 7. Long-term debt:

On May 15, 2002 the Company entered into an agreement with a third party, which manufactures products for the Company, to convert \$3,493,010 of current accounts payable into a 2-year long-term note. This debt is secured behind the Company's senior debt, accrues interest at a rate of U.S. prime rate plus 4%, and requires monthly interest and principal payments of US \$40,500.

## 8. Senior long-term debt:

	2002	2001
Loan payable, requiring monthly payments of \$111,111 plus interest at the bank's prime rate plus 2.5% per annum increasing to 3.5% November 2002, secured by a general security agreement covering all assets of the Company	\$ 2,999,993	\$ 3,777,778
Loan payable, requiring monthly payments of \$47,709 plus interest at the bank's prime rate plus 1.75% per annum, secured by a general security agreement covering all assets of the Company	1,079,267	1,457,939
	4,076,260	5,235,717
Less current portion	1,905,852	952,921
	\$ 2,170,408	\$ 4,282,796
Principal payments due over the next three years are as follows:		
Fiscal year:		
2003		\$ 1,905,852
2004		1,905,852
2005		264,556

As part of an agreement between the Company and its bank, no principle payments on the senior long-term debt were payable in 2002 for the months of January to June, after which payments resumed as noted above.

## 9. Preferred shares:

(a) Authorized:

Unlimited number of first preferred shares  
Unlimited number of second preferred shares

(b) Issued:

	Number of Shares	Amount
Balance, December 31, 2000	350,000	\$ 507,500
Issued per asset purchase agreement	311,000	469,100
Balance, December 31, 2001	661,000	976,600
Issued per asset purchase agreement	350,000	556,500
Redemption premium on preferred shares	-	322,144
Balance, December 31, 2002	1,011,000	\$ 1,855,244

As part of a business acquisition in 1999, contingent consideration in the form of a maximum 1,550,000 convertible preferred shares, at US \$1.00 per share, is payable to the holder over a five-year period ending January 1, 2004 upon the attainment of annual sales targets. The preferred shares have a redemption premium of 10% per annum, however, no redemption premium will be paid until the preferred shares are converted or redeemed. The preferred shares are convertible into common shares at the greater of \$1.00 per preferred share or the 30-day average trading price prior to April 1, 2004. The preferred shares are retractable at the request of the holder on or after April 1, 2004 and redeemable by the Company after April 1, 2007.

**10. Common shares:**

(a) Authorized:

Unlimited number of common shares

(b) Issued:

	Number of Shares		Amount
Balance, December 31, 2000	14,813,712	\$	26,788,140
Issued on exercise of stock options	23,915		35,039
Issued on exercise of special warrants (note 10(c))	3,153,866		10,250,065
Exercise of share purchase warrants (note 10(f)(i))	400,000		1,160,000
Share issue costs	-		(958,071)
Balance, December 31, 2001	18,391,493		37,275,173
Issued on private placement	3,287,309		4,273,502
Issued on exercise of stock options	64,275		52,124
Exercise of share purchase warrants (note 10(f)(ii))	705,000		1,868,250
Share issue costs	-		(527,052)
Options granted to non-employees	-		54,781
Loan receivable from director (note 15)	-		(1,184,700)
Balance, December 31, 2002	22,448,077	\$	41,812,078

(c) Special warrants:

On February 23, 2001 the Company issued 3,153,866 special warrants at a price of \$3.25 per special warrant. Each special warrant entitled the holder to acquire, at no additional cost, one common share and half of one common share purchase warrant. Each share purchase warrant entitled the holder to receive one common share at a price of \$3.75 per common share until June 19, 2002.

(d) Stock options:

(i) Share Option Plan:

The Company has a stock option plan, whereby options to purchase common shares may be issued to directors, officers, employees, key consultants and agents of the Company subject to certain terms and conditions. Stock options granted vest over a period of two to four years and expire at various dates through 2007.

(ii) Wireless Link Acquisition Share Option Plan:

In connection with the Company's acquisition of Wireless Link, the Company adopted the Wireless Link Acquisition Share Option Plan and reserved options to purchase common shares of the Company for certain directors, officers, and employees of Wireless Link. The terms of the plan are substantially similar to those set forth in the Share Option Plan noted above.

At December 31, 2002, the following stock options are outstanding out of a total of 4,114,999 reserved for issuance:

	2002	2001
Share option plan	2,630,399	2,418,685
Wireless Link plan	435,593	554,591
	3,065,992	2,973,276

## 10. Common shares (continued):

Changes in the number of options, with their weighted average exercise prices for both plans combined, are summarized below:

	December 31, 2002		December 31, 2001	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Total options outstanding, beginning of year	2,973,276	\$ 2.89	2,806,943	\$ 2.97
Granted	408,750	1.85	682,750	2.14
Exercised	(64,275)	0.80	(23,915)	1.47
Cancelled/Expired	(251,759)	2.12	(492,502)	2.27
Stock options outstanding, end of year	3,065,992	\$ 2.80	2,973,276	\$ 2.89
Exercisable at year end	2,289,638	\$ 3.07	1,604,474	\$ 2.62

Range of exercise prices outstanding	Options Outstanding			Options Exercisable	
	Number outstanding at December 31, 2002	Weighted average remaining contractual life (months)	Weighted average exercise price	Number exercisable at December 31, 2002	Weighted average exercise price
\$0.00 - 1.00	14,150	14	\$ 0.95	14,150	\$ 0.95
1.01 - 2.00	705,300	44	1.47	284,148	1.59
2.01 - 3.00	1,287,542	32	2.45	1,017,133	2.42
3.01 - 6.95	1,059,000	31	4.14	974,207	4.20

- (e) The fair value of each option granted to non-employees is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2002: zero dividend yield; expected volatility of 50%; risk-free rates of 5%; and expected lives of 5 years. At December 31, 2002, the Company recorded \$54,781 as compensation expense for non-employees who have been granted stock options.

As the Company follows the settlement date method of accounting for stock options granted to employees, no compensation cost has been recognized for the year ended December 31, 2002. Had compensation cost for stock options granted to employees been determined based on the fair value method, the Company's pro-forma net loss would have increased by \$64,659 to \$3,921,859 and the pro-forma loss per share would have been \$0.20 for the year ended December 31, 2002.

- (f) Share purchase warrants:

(i) There were 845,946 common share purchase warrants outstanding at December 31, 2000 that entitled the holder to acquire 845,946 common shares at a price of \$2.90 per share. During 2001, 400,000 of these share purchase options were exercised with the balance of 445,946 expiring on December 12, 2001.

(ii) There were 1,576,933 common share purchase warrants outstanding at December 31, 2001 that entitled the holder to acquire 1,576,933 common shares at a price of \$3.75 per share. On June 26, 2002, subsequent to amending the terms of the outstanding share purchase warrants, 705,000 warrants were exercised at a price of \$2.65 per share for proceeds of \$1,868,250. All remaining unexercised share purchase warrants expired on June 27, 2002.

(iii) Pursuant to the private placement completed during the year, the Company issued 1,643,655 common share purchase warrants that entitle the holder to acquire 1,643,655 common shares at a price of \$1.80 per share expiring February 21, 2004.

## 10. Common shares (continued):

### (g) Agents options:

(i) There were 354,812 Agents options outstanding at December 31, 2001 that entitled the holder to purchase one common share and one share purchase warrant at a price of \$3.26 per option. These options expired June 19, 2002.

(ii) There are 115,056 regular warrants issued and outstanding at December 31, 2002 to Agents that are exercisable at \$1.80 per share until February 21, 2004. There are also 230,112 Agents warrants outstanding at December 31, 2002 that are exercisable at \$1.42 per share until November 21, 2003.

### (h) Bankers warrants:

There are 250,000 Bankers warrants outstanding as at December 31, 2002 that entitle the holder to purchase 250,000 common shares of the Company at an exercise price of \$3.10 per common share. These Bankers warrants expire on September 30, 2005. On January 29, 2003 these warrants were repriced at \$2.50.

## 11. Income taxes:

Income tax expense varies from the amount that would be computed by applying the combined Federal and Provincial income tax rate of 39.24% (2001 – 42.12%) before income tax as follows:

	2002	2001
Basic rate of 39.24% (2001 – 42.12%) applied to loss before income tax	\$ (1,514,000)	\$ (3,792,000)
Increase (decrease) resulting from:		
Amortization of non-tax based assets	-	733,000
Loss for which tax benefit is not recognized	1,511,000	3,225,000
Other	3,000	(166,000)
Income tax expense	\$ -	\$ -

The components of the Company's net future income tax asset at December 31, 2002, no portion of which has been recorded in these financial statements, are as follows:

	Asset (Liability)		Total
	Canada	United States	
Net operating losses	\$ -	\$ 11,820,000	\$ 11,820,000
Research and development tax pools	237,000	-	237,000
Capital assets	(173,000)	165,000	(8,000)
Share issue costs	384,000	-	384,000
Inventory	-	(65,000)	(65,000)
Goodwill	-	(144,000)	(144,000)
	\$ 448,000	\$ 11,776,000	\$ 12,224,000

## 11. Income taxes (continued):

The net operating loss carry-forwards reflected above expire as follows:

United States	Net operating losses
2018	\$ 1,340,000
2019	5,361,000
2020	6,578,000
2021	10,552,000
2022	5,718,000

The Company has tax credits totaling \$1,087,000 in Canada, and \$1,539,000 in the United States.

## 12. Segmented information:

### (a) Operating segments:

The Company's method for determining what information to report about operating segments is based on the way that management organizes the operating segments within the Company for making operating decisions and assessing financial performance.

The Company's chief operating decision-maker is considered to be the Company's President and CEO. The President and CEO reviews financial information presented on a technology basis, treating the GPS Business Unit and the Wireless Business Unit separately.

Year ended December 31:

	GPS Business Unit		Wireless Business Unit		Corporate		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
Sales	\$24,975,000	\$29,019,000	\$ 29,161,000	\$ 11,942,000	\$ -	\$ -	\$54,136,000	\$40,961,000
Interest expense	-	-	-	-	1,016,000	1,235,000	1,016,000	1,235,000
Depreciation and amortization	731,000	1,334,000	419,000	2,050,000	-	-	1,150,000	3,384,000
Net earnings (loss)	4,977,000	6,132,000	(5,668,000)	(12,045,000)	(3,166,000)	(3,089,000)	(3,857,000)	(9,002,000)
Capital assets and goodwill	5,890,000	5,231,000	15,692,000	15,560,000	-	-	21,582,000	20,791,000
Total assets	14,820,000	16,523,000	25,917,000	23,002,000	-	-	40,737,000	39,525,000
Capital expenditures	822,000	1,007,000	562,000	564,000	-	-	1,384,000	1,571,000

### (b) Sales by geographic segment:

	2002	2001
United States	\$ 43,858,000	\$ 32,184,000
Canada	5,411,000	4,456,000
Europe	1,020,000	957,000
Other	3,847,000	3,364,000

Sales are attributed to geographic segments based on the location of the customer.

### (c) Major customers:

Of the Company's sales for the year ended December 31, 2002, 61% (December 31, 2001 - 49%) were to 5 customers. The Company had sales to two customers that exceed 10% of total revenues. The Wireless Business Unit had sales to one customer totaling \$17,159,000, and the GPS Business Unit had sales to one customer totaling \$8,743,000. Both of these customers are located in the U.S.

### 13. Financial instruments:

The carrying values of accounts receivable, inventories, bank indebtedness and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these instruments. All long-term debt with variable interest rates is assumed to already be at fair value and therefore is not revalued. The fair value of other long-term debt could not be determined because no market exists for this instrument.

The nature of these instruments and the Company's operations expose the Company to the following risks:

(a) Credit risk:

Credit risk reflects the risk the Company may be unable to recover accounts receivable. The Company has a number of individual contracts and therefore there exists no significant concentration of credit risk. The Company employs established credit approval practices to further mitigate this risk.

(b) Interest risk:

The Company is exposed to interest rate risk to the extent that it has significantly drawn on its operating line of credit and carries long-term debt, both of which calculate interest as a function of the current prime lending rate.

(c) Foreign exchange risk:

The Company is exposed to foreign exchange risk in that the majority of its revenues and a significant portion of its expenses are denominated in U.S. dollars.

### 14. Commitments:

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

2003	\$	1,500,000
2004		1,133,000
2005		1,103,000
2006		1,062,000
2007		1,084,000
Thereafter		2,056,000
	\$	7,938,000

### 15. Related party transactions:

In connection with the acquisition of Wireless Link, the Company advanced \$1,184,700 to an officer and director of the Company. A total of 700,000 shares of CSI Wireless Inc. were pledged to the Company as security for the loan. Subsequent to December 31, 2002, the Company settled the loan in exchange for the shares pledged as security which were then cancelled (see note 16). As such, at December 31, 2002, the loan was removed from current accounts receivable and netted against share capital in anticipation of the cancellation of the security shares.

The Company has made loans to various employees. The total amount of such loans was \$188,672 at December 31, 2002 (December 31, 2001 - \$246,321) and is included in accounts receivable. These loans include loans made in connection with the acquisition of Wireless Link, for which the Company agreed that Wireless Link would advance loans to certain of its employees to facilitate the exercise of stock options that such employees held in Wireless Link. Loans have also been made to certain employees to assist them in paying the withholding tax on shares issued to them under the Incentive Share Plan. It is expected that collection of these amounts will occur in 2003.

### 16. Subsequent event:

On March 4, 2003, the Company cancelled 700,000 common shares that were previously held as security for a \$1,184,700 loan made to an officer and director (note 15). The cancellation of the shares was accounted for at the 20-day average trading price preceding the cancellation date, resulting in no loss to be recognized at December 31, 2002.

# Corporate Information

## • Directors

### Related

Stephen Verhoeff  
President & CEO

Brian Hamilton<sup>(1)</sup>  
Executive Vice President & CFO

Hamid Najafi  
Chief Technology Officer

Michael Brower  
President  
Fall Creek Consultants Inc.

### Unrelated

Michael Lang<sup>(1)(2)(3)</sup>  
Chairman  
StoneBridge Merchant Capital Corp.

Paul Camwell<sup>(1)</sup>  
Vice President & CTO  
Extreme Engineering Ltd.

Howard Yenke<sup>(2)</sup>  
Retired Executive

## • Senior Officers

Colin Maclellan  
Sr. Vice President & General Manager, Wireless

Cameron Olson  
Vice President Finance, Wireless

Chris Carver  
Vice President, Product Marketing, Wireless

Phil Gabriel  
Vice President Sales, Wireless

Theresa Lea  
Vice President Finance & Administration, GPS

Jim Burge  
Vice President Sales & Marketing, GPS

Walter Feller  
Vice President  
Engineering and Research & Development, GPS

(1) Audit Committee Member

(2) Compensation Committee Member

(3) CSI Wireless Board Chairman

## • Legal Counsel:

Burnet, Duckworth & Palmer LLP  
Calgary, Alberta

## • Bankers:

CIBC, Main Branch  
Calgary, Alberta

## • Auditors:

KPMG LLP  
Calgary, Alberta

## • Registrar and Transfer Agent:

Computershare Trust Company of Canada  
Calgary, Alberta

## • Stock Listing:

Toronto Stock Exchange  
Ticker Symbol: CSY

## • Shareholder Inquiries:

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## • News Media Inquiries:

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## • Wholly Owned Subsidiaries

### Satloc LLC

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Telephone: 480-348-9919 • Fax: 480-348-6370

### CSI Wireless LLC

1909 Milmont Drive • Milpitas • California • 95035  
Telephone: 408-719-1100 • Fax: 408-719-9646



Our growing list of customers and shareholders are essential to our success. We thank you for your continued loyalty, support and patience.

We look forward to reporting continued progress and success throughout the year.



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