

COMMUNICATION SYSTEMS
INTERNATIONAL INC.

INTERIM REPORT 1999 - Q1



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KVI-INTL

5th Profitable Quarter

Communication Systems International Inc. is a leading supplier of high accuracy differential global positioning systems.

Revenue Growth

For the three months ended March 31, 1999, revenues grew 29% to \$2,246,000, compared with \$1,741,000 for the same period in 1998. Earnings for the quarter were \$105,000, or \$0.02 per share, compared with earnings of \$2,000, or \$0.00 per share, one year ago. This was CSI's fifth consecutive profitable quarter.

This represents another record first quarter for CSI in terms of revenues and profitability. This is especially encouraging as the first quarter is typically weaker than the summer quarters. Continued sales growth for the Company was primarily due to the global demand and broadening customer base for our new SBX-2 based products. Year over year expenses for the period increased 15% to \$633,000 from \$549,000 in 1998. The 1998 expenses were lower as a result of certain members of senior management taking no salary or reduced salary for the first quarter of 1998.

The Company continued to add to its cash position during the quarter, with a balance of \$1,267,000 at March 31, 1999. Working capital also remained strong at \$2,428,000, with no debt outstanding.

Smart Antennas

A highlight with new product development was accomplished in the first quarter, with the Company's new Smart Antenna, the SBA-1, which is now ready for high volume deliveries. The SBA-1 combines the SBX-2, with CSI's lowest cost antenna and is targeted for the marine industry. Initial demand has been very strong.

Expanded Beacon Coverage

In March, a significant positive development occurred for the DGPS market as US Vice President Al Gore officially declared the Maritime portion of the US differential radio beacon system fully operational. At that time, he also announced that the US is going ahead with the expansion of the system to bring free seamless coverage of differential Beacon Reference Stations throughout continental US. The announcement has important ramifications for CSI as this new US Government initiative provides a national network for new applications and also increases general market awareness for the technology. Expansion of Beacon Reference Stations also continues worldwide, now in over 30 countries.

Stephen Verhoeff, President & CEO

April 26, 1999

Consolidated Balance Sheets

	March 31 1999	December 31 1998
<i>Unaudited</i>		
Assets		
Current assets:		
Cash and term deposits	\$ 1,266,721	\$ 1,186,032
Accounts receivable	975,029	1,428,230
Income taxes recoverable	43,679	38,967
Inventories	1,084,868	726,057
Prepaid expenses & deposits	37,715	38,912
	3,408,012	3,418,198
Capital assets	988,335	987,045
Deferred development costs	190,961	223,207
Goodwill	4,994	6,659
	\$ 4,592,302	\$ 4,635,109

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable &

accrued liabilities \$ 980,250 \$ 1,109,674

Shareholders' equity:

Share capital 6,658,650 6,708,429

Deficit (3,014,598) (3,119,994)

3,644,052 3,588,435

Due from shareholders (32,000) (63,000)

3,612,052 3,525,435

\$ 4,592,302 \$ 4,635,109

Consolidated Statements of Operations and Deficit

Unaudited

Three months ended March 31

	1999	1998
Sales	\$ 2,245,773	\$ 1,740,991
Cost of sales	1,353,659	1,024,446
	892,114	716,545
Expenses:		
Selling	289,602	282,612
General & administrative	251,929	200,286
Depreciation & amortization	91,259	66,492
	632,790	549,390
Earnings before		
undernoted item	259,324	167,155
Research & development	153,928	164,816
Net earnings	105,396	2,339
Deficit, beginning		
of period	(3,119,994)	(3,543,668)
Deficit, end of period	\$ (3,014,598)	\$ (3,541,329)
Net earnings per common share:		
Basic	\$ 0.02	\$ -

Consolidated Statements of Cash Flow

Unaudited

Three months ended March 31

	1999	1998
Cash flow from operating activities:		
Net earnings	\$ 105,396	\$ 2,339
Item not involving cash:		
Depreciation & amortization	91,259	66,492
	196,655	68,831
Changes in non-cash		
operating accounts	(38,549)	(162,016)
	158,106	(93,185)
Cash flows from (used in) financing activities:		
Repurchase of shares	(18,190)	-
Share issue costs	(589)	11,000
	(18,779)	11,000
Cash flows used in investing activities:		
Purchase of capital assets	(58,638)	(31,076)
	(58,638)	(31,076)
Increase (decrease) in cash	80,689	(113,261)
Cash, beginning of period	1,186,032	826,418
Cash, end of period	\$ 1,266,721	\$ 713,157
Cash is comprised of:		
Cash	\$ 581,654	\$ 638,157
Term deposits	685,067	450,000
Bank indebtedness	-	(375,000)
	\$ 1,266,721	\$ 713,157



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Trading Symbol:

CSY on the Toronto Stock Exchange



Quality System Registration