

Financial Officer, Brian Hamilton, has been named Executive Vice President and will be handling the on-site management of the Calgary facilities.

Substantial operational efficiencies and cost savings are expected as the individual strengths of each division are leveraged across the consolidated operations. CSI is integrating SATLOC's products into its worldwide sales channels providing distributors and end-users access to the best DGPS solutions from a single source. Immediate product integration has also commenced with the development of combination satellite/beacon differential GPS products. These highly functional products will be available for several markets at competitive prices. "The SATLOC acquisition has given CSI a dominant market share in Aerial Guidance systems, along with several DGPS guidance applications for other markets, including Precision Agriculture and GIS," continued Verhoeff. "The combined operations will provide diversification of products, technology, market segments, and customer base."

#### Year 2000 Issue

None of CSI's designs or products incorporate year and date functionality as part of their operations or features, and further, they are not reliant on this chronological data for their operation and performance. The Company's integrated manufacturing and accounting software has been upgraded to be Year 2000 compliant. All other material internal systems have been assessed, and are being upgraded where necessary. The Company cannot control the Year 2000 readiness of third parties, but as part of its assessment, is contacting major suppliers and customers, to determine their status. CSI is preparing a contingency plan for Year 2000 issues, which will be completed by September 30, 1999.

Based in Calgary, Canada, CSI was established in 1990 and has grown to become a leading global manufacturer of Differential GPS beacon receivers, combined DGPS/GPS receivers, OEM circuit boards and antenna systems. Its products are employed worldwide in many DGPS applications, including marine, precision farming, geographic information systems, automatic vehicle location, hydrographic surveying, commercial fishing and recreational uses. CSI's Arizona based SATLOC division is a dominant global supplier of precision guidance systems using differential GPS technology and has become the worldwide leader in GPS aerial swath guidance systems for agriculture and other applications.

Stephen Verhoeff, President & CEO  
July 20, 1999

## Consolidated Statements of Operations and Deficit

Unaudited

	Six months ended June 30		Three months ended June 30	
	1999	1998	1999	1998
Sales	\$ 7,223,055	\$ 3,970,007	\$ 4,977,282	\$ 2,229,016
Cost of sales	4,353,778	2,443,956	3,000,119	1,419,510
	<u>2,869,277</u>	<u>1,526,051</u>	<u>1,977,163</u>	<u>809,506</u>
Expenses:				
Selling	1,021,368	615,285	731,766	332,673
General & administrative	717,944	423,026	466,015	222,740
Interest on long-term debt	11,981	-	11,981	-
Depreciation & amortization	271,960	136,753	180,701	70,261
	<u>2,023,253</u>	<u>1,175,064</u>	<u>1,390,463</u>	<u>625,674</u>
Earnings before undernoted item	846,024	350,987	586,700	183,832
Research & development	541,201	315,518	387,273	150,702
Net earnings	304,823	35,469	199,427	33,130
Deficit, beginning of period	(3,119,994)	(3,543,668)	(3,014,598)	(3,541,329)
Deficit, end of period	<u>\$ (2,815,171)</u>	<u>\$ (3,508,199)</u>	<u>(2,815,171)</u>	<u>(3,508,199)</u>
Net earnings per common share:				
Basic	\$ 0.05	\$ 0.01	\$ 0.03	\$ 0.01

Trading Symbol: **CSY** on the Toronto Stock Exchange

## Consolidated Statements of Cash Flow

Unaudited

	Six months ended June 30	
	1999	1998
Cash flow from operating activities:		
Net earnings	\$ 304,823	\$ 35,469
Item not involving cash:		
Depreciation & amortization	271,960	136,753
	<u>576,783</u>	<u>172,222</u>
Change in non-cash operating accounts	1,942,424	(360,757)
	<u>2,519,207</u>	<u>(188,535)</u>
Cash flows from financing activities:		
Vendor subordinated debt	2,220,000	-
Senior long-term debt	1,499,190	-
Repurchase of shares	(64,495)	-
Issue of share capital	12,868	-
Share issue costs	(2,546)	11,000
	<u>3,665,017</u>	<u>11,000</u>
Cash flows used in investing activities:		
Acquisition	(6,024,627)	-
Purchase of capital assets	(105,179)	(94,593)
Deferred development costs	(100,000)	-
	<u>(6,229,806)</u>	<u>(94,593)</u>
Decrease in cash	(45,582)	(272,128)
Cash, beginning of period	1,186,032	826,418
Cash, end of period	<u>\$ 1,140,450</u>	<u>\$ 554,290</u>
Cash is comprised of:		
Cash	\$ 1,140,450	\$ 1,004,290
Bank indebtedness	-	(450,000)
	<u>\$ 1,140,450</u>	<u>\$ 554,290</u>

## Consolidated Balance Sheets

	June 30 1999	December 31 1998
<i>Unaudited</i>		
<b>Assets</b>		
Current assets:		
Cash and term deposits	\$ 1,140,450	\$ 1,186,032
Accounts receivable	2,333,975	1,428,230
Income taxes recoverable	38,967	38,967
Inventories	3,408,774	726,057
Prepaid expenses & deposits	288,898	38,912
	<u>\$ 7,211,064</u>	<u>3,418,198</u>
Capital assets	1,533,853	987,045
Deferred development costs	258,716	223,207
Goodwill	2,557,393	6,659
	<u>\$ 11,561,026</u>	<u>\$ 4,635,109</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable & accrued liabilities	\$ 4,065,751	\$ 1,109,674
Current portion of long-term debt	296,000	-
	<u>4,361,751</u>	<u>1,109,674</u>
Vendor subordinated debt	2,220,000	-
Senior long-term debt	1,203,190	-
Shareholders' equity:		
Share capital	6,623,256	6,708,429
Deficit	(2,815,171)	(3,119,994)
	<u>3,808,085</u>	<u>3,588,435</u>
Due from shareholders	(32,000)	(63,000)
	<u>3,776,085</u>	<u>3,525,435</u>
	<u>\$11,561,026</u>	<u>\$ 4,635,109</u>



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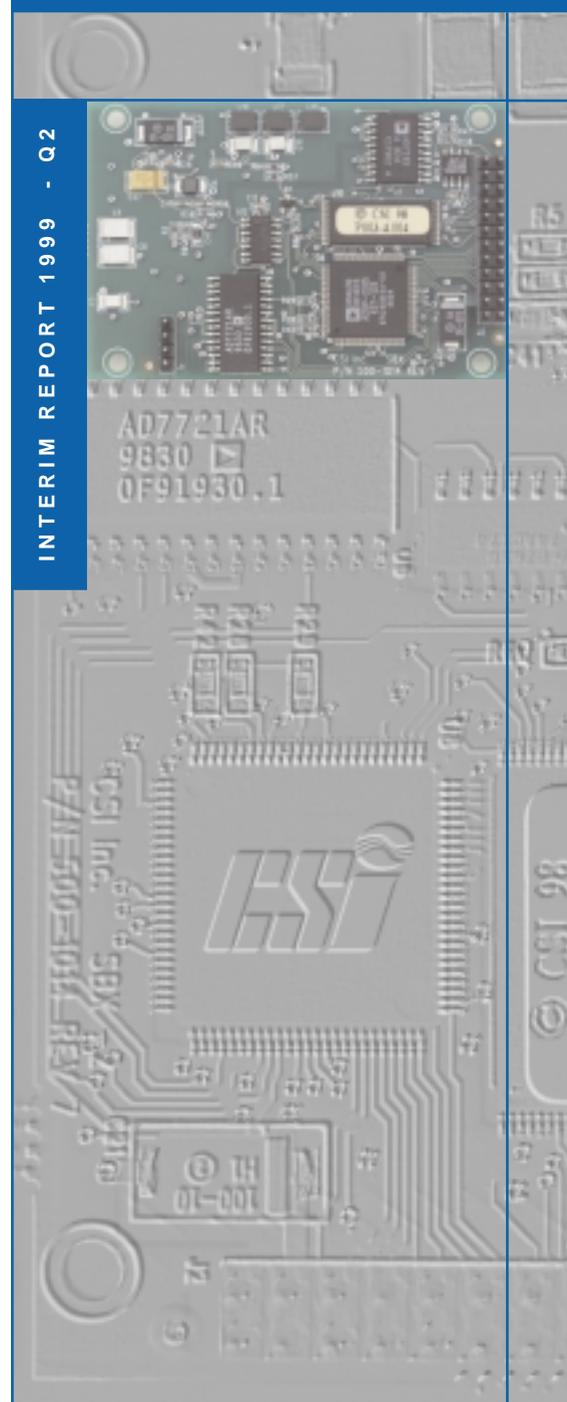
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Quality System Registration

## COMMUNICATION SYSTEMS INTERNATIONAL INC.

INTERIM REPORT 1999 - Q 2



## Report to Shareholders

### Revenues up 123%

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

### Revenue Growth

For the three month period ended June 30, 1999, CSI reported consolidated revenues of \$4,977,000, representing a 123% increase over revenues of \$2,229,000 for the same period last year. Net income for the quarter was \$199,000, or \$0.03 per share, a marked increase over the net income of \$33,000, or \$0.01 per share, in the second quarter of 1998.

The significant increase in revenues is primarily a result of CSI's acquisition of the business and assets of Satloc, Inc., of Phoenix, Arizona, completed during the second quarter. The acquisition, retroactive to April 4, 1999, contributed to CSI's consolidated financial results for the full quarter.

"The strength of our second quarter results reflect the addition of the SATLOC business along with the continued growth in CSI", said Stephen Verhoeff, President and CEO of CSI. "We have effectively doubled our size and positioned CSI as a dominant supplier of leading DGPS solutions for both beacon and satellite based differential GPS applications worldwide."

Consolidated revenues for the six months ended June 30, 1999 were \$7,223,000, an increase of 82% over revenues of \$3,970,000 for the same period in 1998. Net income for the six months was \$305,000, or \$0.05 per share, a substantial improvement over the \$36,000, or \$0.01 per share reported for the same period last year. The SATLOC operations only contributed to the last three months of the period in 1999.

Gross margins for the consolidated second quarter results were 40%, an improvement over the 36% reported for the comparable period in 1998. Improvements in gross margins resulted from the contribution of the SATLOC operations, while year over year gross margins and expenses for CSI's operations remained essentially unchanged.

SATLOC is operating in Arizona as a US subsidiary of CSI. CSI's President and Chief Executive Officer, Stephen Verhoeff, is relocating to Phoenix during the third quarter to manage the SATLOC business and its integration with CSI. Stephen will continue in his role as CEO of the overall operations. CSI's former Chief