

cal 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.

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
October 19, 1999

Consolidated Statements of Operations and Deficit

Unaudited

| | Nine months ended Sept. 30 | | Three months ended Sept. 30 | |
|---------------------------------|----------------------------|-----------------------|-----------------------------|-----------------------|
| | 1999 | 1998 | 1999 | 1998 |
| Sales | \$11,992,328 | \$ 5,983,066 | \$ 4,769,271 | \$2,013,059 |
| Cost of sales | 7,118,386 | 3,374,877 | 2,764,612 | 930,921 |
| | <u>4,873,942</u> | <u>2,608,189</u> | <u>2,004,659</u> | <u>1,082,138</u> |
| Expenses: | | | | |
| Selling | 1,726,648 | 908,521 | 704,358 | 293,236 |
| General & administrative | 1,114,084 | 698,524 | 402,079 | 275,498 |
| Interest on long-term debt | 131,869 | - | 116,794 | - |
| Depreciation & amortization | 478,047 | 214,211 | 205,390 | 77,458 |
| | <u>3,450,648</u> | <u>1,821,256</u> | <u>1,428,621</u> | <u>646,192</u> |
| Earnings before undernoted item | 1,423,294 | 786,933 | 576,038 | 435,946 |
| Research & development | 970,680 | 478,411 | 428,247 | 162,893 |
| Net earnings | 452,614 | 308,522 | 147,791 | 273,053 |
| Deficit, beginning of period | (3,119,994) | (3,543,668) | (2,815,171) | (3,508,199) |
| Deficit, end of period | <u>\$ (2,667,380)</u> | <u>\$ (3,235,146)</u> | <u>\$ (2,667,380)</u> | <u>\$ (3,235,146)</u> |
| Net earnings per common share: | | | | |
| Basic | \$ 0.07 | \$ 0.05 | \$ 0.02 | \$ 0.04 |

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

Consolidated Statements of Cash Flow

Unaudited

| | Nine months ended Sept. 30 | |
|--|----------------------------|---------------------|
| | 1999 | 1998 |
| Cash flow from operating activities: | | |
| Net earnings | \$ 452,614 | \$ 308,522 |
| Item not involving cash: | | |
| Depreciation & amortization | 478,047 | 214,211 |
| Foreign exchange | (24,208) | - |
| | <u>906,453</u> | <u>522,733</u> |
| Change in non-cash operating accounts | 1,330,770 | 129,858 |
| | <u>2,237,223</u> | <u>652,591</u> |
| Cash flows from financing activities: | | |
| Vendor subordinated debt | 2,220,000 | - |
| Senior long-term debt | 1,423,893 | - |
| Proceeds from capital lease | - | 10,306 |
| Repurchase of shares | (69,428) | - |
| Issue of share capital net of share issue cost | 10,111 | 11,000 |
| | <u>3,584,576</u> | <u>21,306</u> |
| Cash flows used in investing activities: | | |
| Change in note receivable | - | 61,547 |
| Acquisition | (6,024,627) | - |
| Purchase of capital assets | (145,420) | (169,458) |
| Deferred development costs | (150,000) | - |
| | <u>(6,320,047)</u> | <u>(108,001)</u> |
| Increase (decrease) in cash | (498,248) | 565,896 |
| Cash, beginning of period | 1,186,032 | 826,418 |
| Cash, end of period | <u>\$ 687,784</u> | <u>\$ 1,392,314</u> |
| Cash is comprised of: | | |
| Cash | \$ 1,045,670 | \$ 1,086,314 |
| Term deposit | - | 306,000 |
| Bank indebtedness | (357,886) | - |
| | <u>\$ 687,784</u> | <u>\$ 1,392,314</u> |

Consolidated Balance Sheets

| | Sept. 30 1999 | Dec. 31 1998 |
|---|------------------|-----------------|
| <i>Unaudited</i> | | |
| Assets | | |
| Current assets: | | |
| Cash and term deposits | \$ 1,045,670 | \$ 1,186,032 |
| Accounts receivable | 2,453,770 | 1,428,230 |
| Income taxes recoverable | 38,967 | 38,967 |
| Inventories | 3,397,005 | 726,057 |
| Prepaid expenses & deposits | 244,747 | 38,912 |
| | \$ 7,180,159 | 3,418,198 |
| Capital assets | 1,476,858 | 987,045 |
| Deferred development costs | 271,840 | 223,207 |
| Goodwill | 2,485,340 | 6,659 |
| | \$ 11,414,197 | \$ 4,635,109 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Bank indebtedness | \$ 357,886 | - |
| Accounts payable & accrued liabilities | 3,416,284 | \$ 1,109,674 |
| Current portion of long-term debt | 294,000 | - |
| | 4,068,170 | 1,109,674 |
| Obligations under capital lease | 101,688 | - |
| Vendor subordinated debt | 2,205,000 | - |
| Senior long-term debt | 1,120,607 | - |
| Shareholders' equity: | | |
| Share capital | 6,618,112 | 6,708,429 |
| Deficit | (2,667,380) | (3,119,994) |
| | 3,950,732 | 3,588,435 |
| Due from shareholders | (32,000) | (63,000) |
| | 3,918,732 | 3,525,435 |
| | \$11,414,197 | \$ 4,635,109 |



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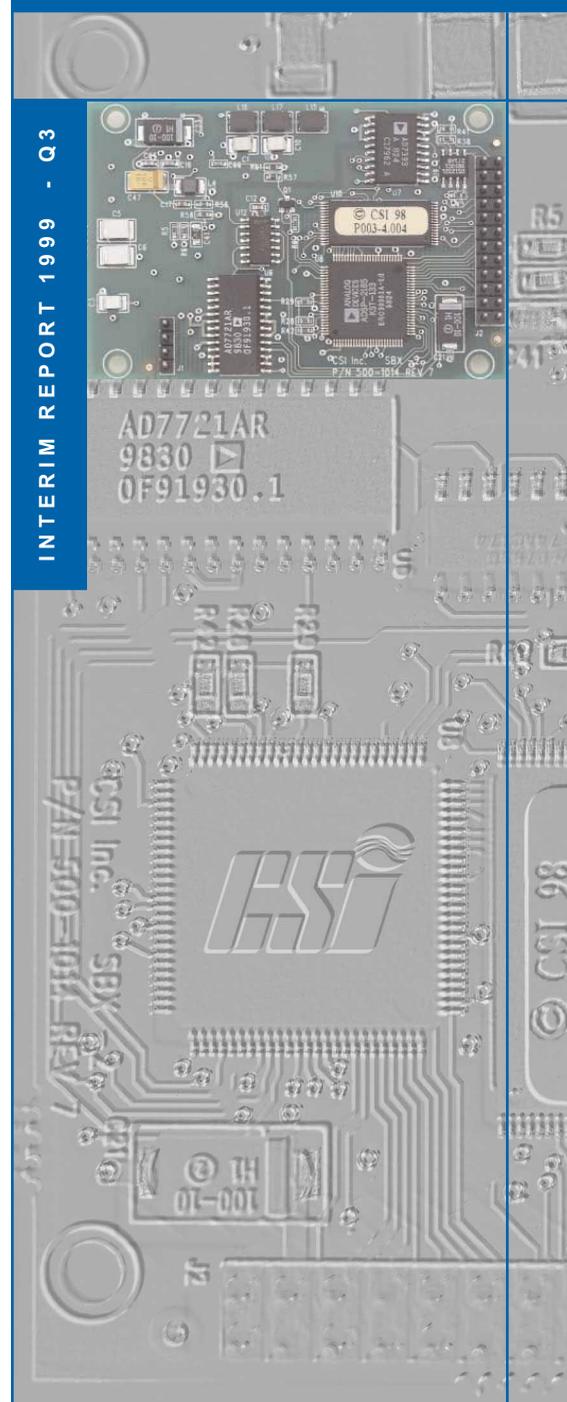
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Quality System Registration

COMMUNICATION SYSTEMS INTERNATIONAL INC.

INTERIM REPORT 1999 - Q3



Report to Shareholders

Revenues up 137%

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

Revenue Growth

For the nine months ended September 30, 1999, CSI reported revenues of \$11,992,000, representing a 100% increase over revenues of \$5,983,000 for the corresponding period last year. Net income for the nine months was \$453,000, or \$0.07 per share, versus \$309,000, or \$0.05 per share, reported during the same period last year.

Revenues for the three-month period ended September 30, 1999 were \$4,769,000, representing a 137% increase over revenues of \$2,013,000, for the corresponding period in the previous year. The Company's net income during the quarter was \$148,000, or \$0.02 per share, as compared with earnings of \$273,000, or \$0.04 per share, for the quarter ended September 30, 1998. The third quarter encompasses the full impact of the acquisition of the Satloc business, which was closed on June 24, 1999.

"The initial integration of the operations of Satloc has been successful," stated Stephen Verhoeff, CSI's President and CEO. "Our revenue growth remains strong and we expect to see this improve as we further leverage the sales and marketing synergies of CSI and Satloc along with new product offerings."

The gross margin for the third quarter was 42%, compared with an unusually high gross margin of 53% recorded in the third quarter of last year. Gross margin has typically fluctuated between 40% and 45% on a quarter to quarter basis. "Gross margin and profitability are in line with our budget for the year," said Verhoeff. Consolidated operating expenses for the third quarter were 130% higher, on a year over year basis. The increased expenses are primarily a reflection of the included expenses from the acquired Satloc business. Overall resources have been increased within sales and marketing, however the Company does not expect any significant increases in these areas over the next year. CSI maintains a strong working capital position, with \$3,112,000 as at September 30, 1999.

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 chronologi-