interim report • 2001

csi wireless

message to shareholders

The first quarter of 2001 has proven to be a milestone quarter for CSI Wireless. On a year-over-year comparative basis, first quarter revenues jumped 140% to $12,211,000 from $5,080,000 for the same period in 2000. This increase in revenue is due to several factors. Revenues resulting from the merger with Wireless Link in June of 2000 accounted for about one-half of the 140% increase. The remaining increase was primarily due to strong customer demand for precision agriculture products, such as the Outback® S that is developed under contract for RHS Inc. The most significant financial highlight for the first quarter of 2001 was the improvement over the fourth quarter of 2000. Revenues grew by 29% to $12,211,000, margins improved to 41% from 21%, and positive EBITDA of $554,000 was achieved for the first quarter as compared with an EBITDA loss of $2,274,000 for the fourth quarter of 2000. The improved gross margins were primarily a result of an increased amount of higher-margin GPS products in the overall product mix for first quarter. After depreciation and amortization of goodwill on acquisitions, the Company reported a net loss for the first quarter of $491,000, or ($0.03) per share, a substantial improvement from the fourth quarter, 2000 net loss of $3,316,000, or ($0.31) per share. "Revenue growth and significantly improved gross margins allowed us to move from losses to positive operating cash flow in the first quarter," stated Stephen Verhoeff, President and CEO of CSI Wireless Inc. "This was an important focus for us, in view of the temporary losses taken on with the Wireless Link merger."

Gross margins of 41% for the reporting period were lower than the 46% gross margins reported in the first quarter of 2000, however, the dollar amount of gross margins increased 114% to $4,987,000 from $2,334,000 for the same period last year. The percentage decrease in gross margins was due to the lower-margin wireless products in the product mix for the first quarter of 2001. Management expects the wireless product gross margins to show improvement during 2001 and 2002.

The first quarter 2001 net loss, after depreciation and amortization, was $491,000, or ($0.03) per share. This compares with net earnings of $231,000 or $0.03 per share reported in the first quarter last year. The loss largely reflects the cost associated with the Wireless Link merger. Depreciation and amortization for the period tripled on a year-over-year basis, largely as a result of the goodwill amortization required to be booked on acquisitions, in accordance with Canadian Generally Accepted Accounting Principles. Earnings before interest, taxes, depreciation & amortization ("EBITDA") for the first quarter 2001 were $554,000, an 8% decrease from the first quarter of 2000. However, as noted above, the positive EBITDA of $554,000 in Q1, 2001 represented a major improvement over the Q4, 2000 EBITDA loss of $2,274,000.

Q1 - March 31, 2001

CSI Wireless Reports 140% Revenue Growth in First Quarter
41% Gross Margins & Positive EBITDA of $554,000

message to shareholders continued

CSI invested $1,640,000 in research and development in the first quarter of 2001, an increase of 263% from the $452,000 spent in the first quarter of 2000. The research and development increased investment was primarily associated with the next generation wireless product development.

Selling expense, general and administration expense, interest expense, and depreciation & amortization expense all increased significantly in the first quarter of 2001, when compared with the first quarter of 2000, largely a result of the additional costs associated with the Wireless Link merger in June of 2000. When comparing these costs to the fourth quarter of 2000, the only notable increase was in general and administrative expense that increased 23%. This increase was due in part to severance costs, increased legal fees, and the accrual of some additional reserves.

The CSI Wireless working capital ratio increased to 2 times at March 31, 2001 from 1 times at December 31, 2000. This increase in working capital of $9,893,000 was a result of the proceeds from the Special Warrant financing that was closed during the first quarter of 2001, and completed in April of 2001. By issuing 3,153,866 special warrants and raising a net amount of $9,481,310, the company was able to significantly strengthen its balance sheet from its December 31, 2000 position. The net proceeds of the Special Warrant financing were used to pay off the $2.9M subordinated debt taken on at the time of the acquisition of Satloc, which carried a 15% interest rate, as well as to provide the financing for the inventory and receivables required in connection with the new customer contracts. The Company also maintains an unused $7,000,000 line of credit with Canadian Imperial Bank of Commerce.

Inventory levels at March 31, 2001 increased $3,147,000 from December 31, 2000. This increase is required to support the higher sales volumes that the company is now experiencing. Accounts receivable also increased by $2,428,000 over this period corresponding to the increased sales noted above.

The Company has invested $441,000 in capital assets thus far in 2001, versus $27,000 in 2000, largely in production and testing technology equipment During the quarter the Company announced several new contracts. The sales backlog as at April 30, 2001 was approximately $28 million.

$90 Million Conditional Letter of Intent

Progress continues in connection with the $90 million conditional letter of intent signed during the fourth quarter of 2000. Product samples have been undergoing testing and debugging with the end-customer for several months. The Company has previously stated it expected to receive a final customer decision by the end of the first quarter. A decision has not yet been made, as management underestimated the time it would take to conduct final product testing and the amount of testing to be done by the end-customer. Management does not perceive this as a negative signal regarding this opportunity. The rigorous testing and perfecting of the product for this large opportunity continues. "We hesitate to speculate as to a new date to receive the end-customer approval," stated Stephen Verhoeff.

About CSI Wireless

CSI Wireless provides innovative, cost-effective, wireless and GPS vehicle and asset management products for mobile and fixed applications in the automotive, commercial and consumer markets. Through its integration of GPS and wireless, CSI Wireless is pursuing emerging high-growth markets with mobile-location solutions for Fleet Management, Asset Tracking, Automotive Telematics, and Mobile Computing applications. The Company, with offices in Calgary, Silicon Valley, and Phoenix, owns several patents and intellectual property related to a variety of wireless networks and GPS technologies. CSI Wireless has licensed its cellular technology to GPS, cellular handset, and chipset manufacturers. The common shares of CSI Wireless trade on The Toronto Stock Exchange under the trading symbol "CSY," with approximately 18 million shares outstanding.

S A Verhoeff

Stephen Verhoeff
Chairman, President & CEO
May 7, 2001

Consolidated Statements of Operations and Deficit

Three Months Ended March 31, 2001 and 2000

Unaudited

	2001	2000
Sales	$ 12,210,864	$ 5,080,381
Cost of Sales	7,223,599	2,746,712
	4,987,265	2,333,669
Expenses:		
Selling	1,111,845	817,243
General and administrative	1,681,566	461,208
Interest on long term debt	251,290	118,961
Depreciation and amortization	261,499	162,951
Amortization of goodwill	531,638	90,097
	3,837,838	1,650,460
Earnings before undernoted item	1,149,427	683,209
Research and development costs	1,640,170	452,269
Net earnings (loss)	(490,743)	230,940
Deficit, beginning of period	(9,425,396)	(2,551,803)
Deficit, end of period	$ (9,916,139)	$ (2,320,863)
Earnings (loss) per common share:		
Basic	$ (0.03)	0.03
Fully diluted	$ (0.03)	0.03

See accompanying notes to consolidated financial statements.

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Consolidated Balance Sheets
March 31, 2001 and December 31, 2000

	2001	2000
Assets:	*Unaudited*	*Audited*
Current assets:		
Cash and cash equivalents	$ 505,380	$ -
Accounts receivable	11,709.330	9,281,451
Inventories	8,562,492	5,415,255
Prepaid expenses and deposits	258,366	206,834
	21,035,568	14,903,540
Capital assets	2,762,940	2,501,424
Deferred development costs	372,275	456,175
Goodwill	19,111,780	19,118,418
	43,282,563	36,979,557
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ -	$ 1,425,919
Accounts payable and accrued liabilities	9,062,071	8,909,952
Current portion of senior long-term debt	1,209,451	905,841
Subordinated debt (note 3)	-	2,790,704
	10,271,522	14,032,416
Senior long-term debt	4,582,451	5,076,897
Shareholders' equity:		
Share capital (note 4 (a))	28,863,419	27,295,640
Special warrants (note 4 (b))	9,481,310	-
Deficit	(9,916,139)	(9,425,396)
	28,428,590	17,870,244
	$ 43,282,563	$ 36,979,557

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows
Three Months Ended March 31, 2001 and 2000
Unaudited

	2001	2000
Cash flows from (used in) operating activities:		
Net earnings (loss)	$ **(490,743)**	$ 230,940
Items not involving cash:		
Depreciation and amortization	**261,499**	162,951
Amortization of goodwill	**531,638**	90,095
Foreign exchange loss	**-**	11,332
	302,394	495,318
Change in non-cash operating working capital:		
Accounts receivable	**(2,427,879)**	(1,482,288)
Income taxes recoverable	**-**	27,650
Inventories	**(3,147,237)**	(646,820)
Prepaid expenses and deposits	**(51,532)**	160,264
Accounts payable and accrued liabilities	**96,219**	(1,120,977)
	(5,228,035)	(2,566,853)
Cash flows from (used in) financing activities:		
Increase in bank indebtedness	**(1,425,919)**	-
Senior long-term debt	**(190,836)**	1,048,871
Subordinated debt	**(2,790,704)**	81,562
Issue of special warrants, net of issue costs	**9,481,310**	-
Issue of share capital, net of share issue costs	**1,098,679**	2,643,874
	6,172,530	3,774,307
Cash flows from (used in) investing activities:		
Purchase of capital assets	**(440,778)**	(27,256)
Deferred development costs, net of incentives and grants	**1,663**	(71,498)
	(439,115)	(98,754)
Increase in cash position	**505,380**	1,108,700
Cash and cash equivalents, beginning of year	**-**	62,776
Cash and cash equivalents, end of year	$ **505,380**	$ 1,171,476
Supplemental disclosure:		
Interest paid	$ **115,937**	$ 36,540

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements
Three Months Ended March 31, 2001 and 2000
Unaudited

1. Basis of Presentation

The accompanying unaudited consolidated financial statements for CSI Wireless Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. The financial information included herein is unaudited. These interim financial statements follow the same accounting policies and methods of application as the most recent annual audited financial statements dated December 31, 2000, except where noted below. The disclosures herein are incremental to those included within the annual financial statements. These interim financial statements should be read in conjunction with the annual statements.

2. Change in Accounting Policy

In 2000, The Canadian Institute of Chartered Accountants issued a new accounting standard with respect to earnings per share. The new standard requires the use of the treasury stock method for calculating diluted earnings per share. Under this method all options whose average price is less than or equal to the average share price for the period to date are considered outstanding and all convertible securities are converted at the average share price during the period. The Company has adopted this section retroactively with restatement of all previous periods, effective January 1, 2001. There was no impact on earnings per share for the quarters ended March 31, 2000 and 2001, nor for the year ended December 31, 2000.

3. Subordinated debt:

The subordinated debt which arose on the acquisition of certain of the assets of Satloc Inc. was comprised of a U.S. $1,500,000 unsecured promissory note bearing interest at 15% compounded annually and payable to the vendor on April 4, 2001. This debt, along with its accrued interest, was retired in full on March 15, 2001.

4. Share capital:

a) Issued:

	Number of Shares	Amount
Balance, December 31, 2000	14,813,712	$ 26,788,140
Issued on excercise of stock options	3,860	4,967
Exercise of share purchase warrants	400,000	1,160,000
Share issue costs	-	(66,288)
Balance, March 31, 2001	15,217,572	$ 27,886,819

	Number of Shares	Amount
Preferred shares issued:		
Balance, March 31, 2000	350,000	$ 507,500
Issued per asset purchase agreement	311,000	469,100
Balance, March 31, 2001	661,000	$ 976,600

b) Special Warrants Financing

On February 23, 2001 the Company issued 3,153,866 special warrants at a price of $3.25 per special warrant resulting in gross proceeds of $10,250,065 (net of $9,481,310 after issue costs). Each special warrant is exercisable for one common share and half of one common share purchase warrant at no additional cost. Each share purchase warrant entitles the holder to receive one common share at a price of $3.75 per common share until June 19, 2002. On April 12, 2001, the Company received final receipts from the regulators in each of the provinces of Alberta and Ontario relating to the Company's final prospectus dated April 11, 2001. The prospectus qualifies for distribution the common shares and common share purchase warrants issuable upon exercise of the special warrants. Each special warrant was deemed exercised five business days from the date of the final receipts.

c) At March 31, 2001 the following stock options are outstanding.

Share Option Plan	2,029,375
Wireless Link Plan	814,852

5. 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 segments reported are consistent with those reported at December 31, 2000.

Period ended March 31:

	GPS Positioning Devices		Wireless Communication Devices		Corporate		Total	
	2001	2000	2001	2000	2001	2000	2001	2000
Sales	$8,571,373	$5,080,381	$ 3,639,491	$ -	$ -	$ -	$12,210,864	$5,080,381
Interest expense	-	-	-	-	251,290	118,961	251,290	118,961
Depreciation and amortization	291,571	461,208	501,566	-	-	-	793,137	461,208
Net earnings	2,518,017	415,507	(1,928,093)	-	(1,080,667)	(184,567)	(490,743)	230,940
Capital assets and goodwill	5,390,913	5,244,617	16,856,082	-	-	-	22,246,995	5,244,614
Total assets	20,043,160	16,901,313	23,239,403	-	-	-	43,282,563	16,901,313
Capital expenditures excluding acquisition	145,698	98,754	293,418	-	-	-	439,116	98,754

b) Sales by geographic segment:

	2001	2000
U.S.A.	$ 10,892,009	$ 2,098,461
Europe	291,535	1,627,664
Other	557,618	860,131
Canada	469,702	494,125

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