




## ● *message to shareholders*

"I am pleased to report a significant increase in revenues as compared with the previous year," stated Stephen Verhoeff, President & CEO of CSI Wireless. "At the same time, we are making strong progress in the development of next-generation wireless products that will form the basis for continued substantial growth for the Company."

Consolidated revenues for the three months ended June 30, 2001 grew 135% to \$11,961,000 as compared with \$5,082,000 in the same period last year. The increase was split almost evenly between wireless products, primarily the Company's AssetVision product, and precision guidance products, such as the ground-based Outback S<sup>®</sup> that is developed under contract for RHS Inc, and air navigation products such as the Satloc LiteStar system.

Gross margins remained constant at 35% for the second quarter 2001 when compared to the second quarter 2000. When comparing the second quarter 2001 gross margin of 35% to the first quarter 2001 gross margin of 41%, the 6% decrease results from a greater percentage of sales arising from lower margin legacy wireless contracts, as well as an increase in reserves in response to the somewhat uncertain high tech environment.

Overall net loss for the second quarter 2001 was \$1,632,000, or \$(0.09) per share. This is compared to the first quarter 2001 loss of \$490,000 and a second quarter 2000 loss of \$721,000. Year to date the Company has incurred a net loss of \$2,123,000. The Company's GPS business unit produced another quarter of strong profit. These profits were reinvested into the wireless business unit, resulting in an overall loss for the Company in the second quarter. In the second quarter alone, \$2,103,000 was invested in research and development costs, substantially all of which is focused on the next generation of wireless and GPS products. The Company expects this investment will generate significant revenues and margins in the coming years. Earnings before interest, taxes, depreciation & amortization ("EBITDA") for the second quarter of 2001 was a loss of \$487,000, compared to income of \$554,000 for the first quarter 2001 and an EBITDA loss of \$310,000 in the second quarter of 2000. Year to date, the Company has EBITDA of \$67,000.

## Q2 - June 30, 2001

### CSI Wireless Reports 135% Growth in Second Quarter

## *message to shareholders continued*

The Company is pleased to highlight the substantial investment made in research and development, with \$3,743,000 invested during the first half of 2001 in next generation wireless and GPS products, as compared with only \$1,026,000 for the same period in the prior year. Investing in research and development remains important for CSI Wireless, as the Company prepares to release leading new products for both the GPS and telematics markets later this year and next year. "We have focused our resources on the successful completion of the wireless and GPS products that will meet our sales backlog and the market demand that we have experienced," said Mr. Verhoeff. "We are encouraged with the progress that we are making and with the positive customer reaction to this progress to date."

Selling expense, general and administration expense, interest expense, and depreciation & amortization expense all increased significantly in the first six months of 2001, when compared to the first six months of 2000. This is in part due to the expenses of the Wireless business unit which was acquired in late June of 2000, but also reflects the growth the company has experienced in order to properly staff ongoing and upcoming projects, as well as the costs associated with operating in multiple countries and currencies.

At June 30, 2001, CSI's working capital ratio was 1.86, compared to 1.06 at December 31, 2000. This increase in working capital is a direct result of the proceeds from the Special Warrants financing that was entered into during the first quarter of 2001, and completed on April 12th 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. Proceeds from the special warrants were used by the Company to pay outstanding trade payables, repay subordinated debt and accrued interest in the amount of \$2,900,000 on March 15, 2001, and provide working capital related to the day-to-day business of the Company.

The Company's inventory levels at June 30, 2001 were \$1,010,000 above those at March 31, 2001, and \$4,157,000 above those at December 31, 2000. The increase is required to support the Company's higher sales volumes, and includes finished goods ready for shipment under contracts in the third and fourth quarters of 2001.

The Company has invested \$788,000 in capital assets - primarily production and testing technology equipment - so far in 2001, after investing \$413,000 in the first six months of 2000.

With regard to the previously disclosed \$90 million conditional letter of intent, CSI Wireless management believes the product is now complete, and is currently negotiating a sales contract and purchase order. "We look forward to bringing closure to this deal prospect," said Stephen Verhoeff. "Although it has taken much longer than originally anticipated, it is an excellent opportunity for CSI Wireless, and we are still very hopeful for success with this opportunity."

### **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.



Stephen Verhoeff  
Chairman, President & CEO  
August 21, 2001

Consolidated Statements of Cash Flows  
Periods Ended June 30, 2001 and 2000

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Cash flows from (used in) operating activities:				
Loss for the period	\$(1,632,132)	\$ (721,086)	\$(2,122,875)	\$ (490,146)
Items not involving cash:				
Depreciation and amortization	310,981	183,544	572,480	335,441
Amortization of goodwill	531,625	89,533	1,063,263	190,684
	(789,526)	(448,009)	(487,132)	35,979
Change in non-cash operating working capital:				
Accounts receivable	1,870,655	768,398	(557,224)	(702,558)
Income taxes recoverable	-	11,317	-	38,967
Inventories	(1,009,551)	(339,488)	(4,156,788)	(986,308)
Prepaid expenses and deposits	(98,510)	(11,310)	(150,042)	148,952
Accounts payable and accrued liabilities	(665,025)	914,192	(568,806)	(206,785)
	(691,957)	895,100	(5,919,992)	(1,671,753)
Cash flows from (used in) financing activities:				
Bank indebtedness	728,198	-	(697,721)	-
Senior long-term debt	(95,418)	(143,127)	(286,254)	905,744
Subordinated debt	-	145,871	(2,790,704)	227,433
Issue of share capital, net of share issue costs	(96,827)	1,314,114	10,483,162	3,957,988
	535,953	1,316,858	6,708,483	5,091,165
Cash flows from (used in) investing activities:				
Purchase of capital assets	(347,713)	(237,016)	(788,491)	(264,272)
Deferred development costs, net of incentives and grants	(1,663)	(77,574)	-	(149,072)
Acquisition, net of cash acquired	-	(132,544)	-	(132,544)
	(349,376)	(447,134)	(788,491)	(545,888)
Increase (decrease) in cash position	(505,380)	1,764,824	-	2,873,524
Cash and cash equivalents, beginning of period	505,380	1,171,476	-	62,776
Cash and cash equivalents, end of period	\$ -	\$2,936,300	\$ -	\$2,936,300
Supplemental disclosure:				
Interest paid	\$ 395,293	\$ 118,777	\$ 511,230	\$ 166,312

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements  
Periods Ended June 30, 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 loss per share for the quarters ended June 30, 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.

## Consolidated Statements of Operations and Deficit

Periods Ended June 30, 2001 and 2000

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Sales	\$ 11,961,496	\$ 5,082,166	\$ 24,172,360	\$ 10,162,547
Cost of Sales	7,736,290	3,299,036	14,959,889	6,045,748
	4,225,206	1,783,130	9,212,471	4,116,799
Expenses				
Selling	1,111,256	746,062	2,223,101	1,563,305
General and administrative	1,498,520	772,603	3,180,086	1,233,811
Interest on long-term debt	302,388	138,246	553,678	257,207
Depreciation and amortization	310,981	183,544	572,480	335,441
Amortization of goodwill	531,625	89,533	1,063,263	190,684
	3,754,770	1,929,988	7,592,608	3,580,448
Earnings (loss) before undernoted item	470,436	(146,858)	1,619,863	536,351
Research and development costs	2,102,568	574,228	3,742,738	1,026,497
Loss for the period	(1,632,132)	(721,086)	(2,122,875)	(490,146)
Deficit, beginning of period	(9,916,139)	(2,320,863)	(9,425,396)	(2,551,803)
Deficit, end of period	\$(11,548,271)	\$(3,041,949)	\$(11,548,271)	\$(3,041,949)
Loss per common share:				
Basic	\$ (0.09)	\$ (0.09)	\$ (0.13)	\$ (0.06)
Diluted	\$ (0.09)	\$ (0.09)	\$ (0.13)	\$ (0.06)

See accompanying notes to consolidated financial statements.

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Toronto Stock Exchange Symbol: CSY

Consolidated Balance Sheets  
June 30, 2001 and December 31, 2000

	<b>2001</b>	<b>2000</b>
<b>Assets:</b>	<i>Unaudited</i>	<i>Audited</i>
<b>Current assets:</b>		
Accounts receivable	\$ 9,782,775	\$ 9,281,451
Inventories	9,572,043	5,415,255
Prepaid expenses and deposits	356,876	206,834
	19,711,694	14,903,540
Capital assets	2,883,926	2,501,424
Deferred development costs	289,684	456,175
Goodwill	18,580,155	19,118,418
	\$ 41,465,459	\$ 36,979,557
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Bank indebtedness	\$ 728,198	\$ 1,425,919
Accounts payable and accrued liabilities	8,341,146	8,909,952
Current portion of senior long-term debt	1,542,784	905,841
Subordinated debt (note 3)	-	2,790,704
	10,612,128	14,032,416
Senior long-term debt	4,153,700	5,076,897
<b>Shareholders' equity:</b>		
Share capital (note 4 (a))	38,247,902	27,295,640
Deficit	(11,548,271)	(9,425,396)
	26,699,631	17,870,244
	\$ 41,465,459	\$ 36,979,557

See accompanying notes to consolidated financial statements.



**CSI Wireless**

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**Satloc (1999) Inc.**

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**Wireless Link Corporation**

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Telephone: 408-719-1100 • Fax: 408-719-9646

## Notes to Consolidated Financial Statements Continued

### 4. Share capital:

#### a) Issued:

	Number of Shares	Amount
Balance, December 31, 2000	14,813,712	\$ 26,788,140
Issued on exercise of special warrants (note 4(b))	3,153,866	10,250,065
Issued on exercise of stock options	21,515	31,169
Exercise of share purchase warrants	400,000	1,160,000
Share issue costs	-	(958,072)
<b>Balance, June 30, 2001</b>	<b>18,389,093</b>	<b>\$ 37,271,302</b>

  

	Number of Shares	Amount
Preferred shares issued:		
Balance, December 31, 2000	350,000	\$ 507,500
Issued per asset purchase agreement	311,000	469,100
<b>Balance, June 30, 2001</b>	<b>661,000</b>	<b>\$ 976,600</b>

#### 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 June 30, 2001 the following stock options and share purchase warrants are outstanding.

Share Option Plan	2,254,625	Wireless Link Plan	747,295	Share Purchase Warrants	2,806,881
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### 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.

#### Six months ended June 30:

	GPS Positioning Devices		Wireless Communication Devices		Corporate		2001	Total	2000
	2001	2000	2001	2000	2001	2000			
Sales	\$17,280,514	\$10,125,575	\$6,891,846	\$36,972	\$ -	\$ -	\$24,172,360	\$10,162,547	
Interest expense	-	-	-	-	553,678	257,207	553,678	257,207	
Depreciation and amortization	619,643	514,507	1,016,100	11,618	-	-	1,635,743	526,125	
Net earnings (loss)	5,038,232	(102,224)	(5,128,513)	(13,842)	(2,032,594)	(374,080)	(2,122,875)	(490,146)	
Capital assets and goodwill	5,274,002	5,165,049	16,479,763	18,045,509	-	-	21,753,765	23,210,558	
Total assets	17,603,908	15,540,676	23,861,551	24,146,520	-	-	41,465,459	39,687,196	
Capital expenditures excluding acquisition	345,230	413,344	443,261	-	-	-	788,491	413,344	

#### b) Sales by geographic segment:

	2001	2000
U.S.A.	\$ 20,418,148	\$ 5,427,044
Europe	521,101	2,304,084
Other	1,074,252	1,301,000
Canada	2,158,859	1,130,419

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

### 6. Commitments:

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

2001*	\$ 447,000
2002	1,034,000
2003	832,000
2004	770,000
2005	768,000
Thereafter	3,318,000
	<b>\$ 7,169,000</b>

\*pro-rated for 6 months

### 7. Related party transactions:

In connection with the acquisition of Wireless Link, the Company has advanced \$1,138,275 to an officer and director of the Company. The loan bears interest at 6.3% per annum, compounded annually. The principal and accrued interest is to be repaid in full on or before May 8, 2006. A total of 700,000 shares of CSI Wireless Inc. are pledged to the Company as security for the loan.