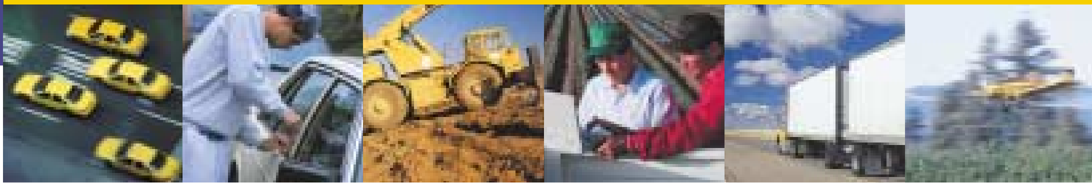
interim report • 2001

csi wireless



message to shareholders

CSI Wireless achieved record revenues for the nine months ended September 30, 2001 of $30,934,000, an increase of 80% over revenues of $17,149,000 for the same period in 2000. This increase resulted in part from the sales of the Company's wireless products which commenced following the acquisition of Wireless Link Corporation in June 2000. In addition, significant revenue growth has been realized from the success of the Outback S®, a ground-based precision guidance product that is developed under contract for RHS Inc.

The Company also realized record gross margins for the nine months ended September 30, 2001. The dollar amount of gross margins was $10,934,000, an increase of 89% over the same period last year. Management congratulates the GPS Unit for contributing this success. As a percentage of revenues, gross margins decreased to 26% for the third quarter of 2001 from 35% in the second quarter 2001. When comparing the third quarter 2001 gross margin of 26% to the third quarter 2000 gross margin of 33%, the 7% decrease results from increasing costs associated with sales of the already low margin Wireless Link legacy products, as well as an increase in the inventory reserve for obsolescence in response to the somewhat uncertain high tech environment.

Total expenses (before investment in R&D) for the third quarter of 2001 were $3,095,000, as compared with $3,164,000 for the third quarter of 2000. When compared with the total expenses of the previous quarters of 2001, the Q3 total expenses represent an 18% reduction from those recorded in Q2 and a 19% reduction from those recorded in Q1 of 2001. A more detailed report on the expense reduction initiatives of the Company has been provided below.

Generally in line with management's expectations, CSI Wireless reported negative EBITDA of $2,589,000 for the nine months ended September 30, 2001, as compared with negative EBITDA of $1,871,000 in 2000. After depreciation and amortization, the Company reported a net loss for the nine months of $5,867,000, or ($0.34) per share, as compared with a net loss of $3,558,000, or ($0.36) per share reported for the same period last year.

For the three months ended September 30, 2001, CSI reported revenues of $6,761,000, as compared with revenues of $6,987,000 for the same period last year. CSI Wireless reported negative EBITDA of $2,656,000 for the three months ended September 30, 2001, as compared with negative EBITDA of $2,164,000 for the same period in 2000. After depreciation and amortization, the Company reported a net loss for the quarter of $3,744,000, or ($0.21) per share as compared with a net loss of $3,067,000, or ($0.30) per share in the third quarter of 2000.

Q3 - September 30, 2001

CSI Wireless Reports Revenues Up 80% for Nine Months

The working capital of CSI Wireless at September 30, 2001 was $5,168,000 (a ratio of 1.34) as compared with $871,000 (a ratio of 1.06) at December 31, 2000.

The Company's inventory levels at September 30, 2001 were $1,445,000 above those at June 30, 2001, and $5,602,000 above those at December 31, 2000. The increase is attributable to the Company's higher sales volumes projected for the fourth quarter of 2001 and the first quarter of 2002, and includes finished goods ready for shipment during the fourth quarter. Management has included in this balance a suitable provision for obsolete inventory.

The Company invested $575,000 in capital assets in the third quarter of 2001. Of this amount, $440,000 was for leasehold improvements and furniture & fixtures purchased for CSI's new Calgary premises. These premises have provided the space required to consolidate the Calgary operations in one building, and move certain activities from the Silicon Valley office to Calgary, where the cost of doing business is far less. The majority of these assets have been leased and the corresponding capital lease obligation is included in the increase in accrued liabilities. The remaining assets purchased were production and testing equipment.

Status Report on LOI

The Company's outstanding conditional letter of intent, previously disclosed in November of 2000, continues to move ahead. The end customer has purchased an initial 50 units of the product during September for final test purposes and is awaiting final approvals from its Quality Assurance group. Concurrently, CSI Wireless has been negotiating a sales contract and purchase order for this opportunity. Sample product units have also now been sent to a number of other customer prospects in both North and South America.

Expenses Reduced by $350,000 per month

As a precautionary measure to continued global economic uncertainty and the need to conserve working capital, CSI Wireless has undertaken several initiatives to reduce expenses and improve operating efficiencies. These initiatives included staff layoffs, salary reductions, and curbs in other general expenses, resulting in savings of more than $1 million per quarter. Improvement in operating efficiencies included the consolidation of manufacturing operations and finance and administration functions into the Calgary office.

"The management and employees at CSI Wireless have made exceptional efforts to ensure the financial health of the Company through this period of substantial R&D investment," said Brian Hamilton, Executive Vice-President and Chief Financial Officer of CSI Wireless. "We applaud our strong and talented team for their commitment to our promising future."

Investing for Future Growth

The Company continues to make substantial investments in research and development, with $2,370,000 invested during the third quarter of 2001 alone, $267,000 more than was invested in the second quarter of 2001. The GPS Unit has 10 products under development. The Wireless Unit has 7 new products under development, for release in 2002. "This heavy investment in our future will begin to pay off in 2002," said Stephen Verhoeff, President and Chief Executive Officer of CSI Wireless Inc. "Each new product addresses a specific target market and a specific initial customer."

Customer Update

As previously reported, CSI Wireless and InterTrak have been working for several months to integrate the CSI AssetVision product into the InterTrak system. Currently the two companies are considering solving this dilemma by switching to Asset-Link, the soon-to-be-released next-generation asset-tracking product of CSI Wireless. Since management cannot be assured this approach will be successful, the Company has taken the precautionary step to reduce its sales backlog for InterTrak sales, until this integration challenge has been resolved.

Stephen Verhoeff
President & CEO
November 20, 2001

Consolidated Statements of Operations and Deficit

Periods Ended September 30, 2001 and 2000

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2001	**2000**	**2001**	**2000**
Sales	$ 6,761,478	$ 6,986,610	$ 30,933,838	$ 17,149,157
Cost of Sales	5,040,001	5,330,590	19,999,890	11,376,338
	1,721,477	1,656,020	10,933,948	5,772,819
Expenses				
Selling	1,046,340	1,150,297	3,269,442	2,713,602
General and administrative	960,709	1,110,168	4,140,795	2,343,979
Interest on long-term debt	228,710	146,735	782,388	403,941
Depreciation and amortization	327,130	240,272	899,610	575,713
Amortization of goodwill	532,063	516,083	1,595,327	706,767
	3,094,952	3,163,555	10,687,562	6,744,002
Earnings (loss) before undernoted item	(1,373,475)	(1,507,535)	246,386	(971,183)
Research and development costs	2,370,225	1,559,839	6,112,961	2,586,337
Loss for the period	(3,743,700)	(3,067,374)	(5,866,575)	(3,557,520)
Deficit, beginning of period	(11,548,271)	(3,041,949)	(9,425,396)	(2,551,803)
Deficit, end of period	$(15,291,971)	$(6,109,323)	$(15,291,971)	$ (6,109,323)
Loss per common share:				
Basic	$ (0.21)	$ (0.30)	$ (0.34)	$ (0.36)
Diluted	$ (0.21)	$ (0.30)	$ (0.34)	$ (0.36)

See accompanying notes to consolidated financial statements.

For more information, please contact:

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Consolidated Balance Sheets

September 30, 2001 and December 31, 2000

	2001	2000
Assets:	*Unaudited*	*Audited*
Current assets:		
Accounts receivable	$ 8,827,716	$ 9,281,451
Inventories	11,017,071	5,415,255
Prepaid expenses and deposits	366,998	206,834
	20,211,785	14,903,540
Capital assets	3,214,011	2,501,424
Deferred development costs	207,090	456,175
Goodwill	18,048,091	19,118,418
	$ 41,680,977	$ 36,979,557
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ 2,749,261	$ 1,425,919
Accounts payable and accrued liabilities	10,418,557	8,909,952
Current portion of senior long-term debt	1,876,117	905,841
Subordinated debt (note 4)	-	2,790,704
	15,043,935	14,032,416
Senior long-term debt	3,677,240	5,076,897
Shareholders' equity:		
Share capital (note 5 (a))	38,251,773	27,295,640
Deficit	(15,291,971)	(9,425,396)
	22,959,802	17,870,244
	$ 41,680,977	$ 36,979,557

See accompanying notes to consolidated financial statements.

csi wireless

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Telephone: 480-348-9919 • Fax: 480-348-6370

Wireless Link Corporation
1909 Milmont Drive • Milpitas, California • 95035
Telephone: 408-719-1100 • Fax: 408-719-9646

Consolidated Statements of Cash Flows

Periods Ended September 30, 2001 and 2000

Unaudited

	Three months ended September 30, 2001	Three months ended September 30, 2000	Nine months ended September 30, 2001	Nine months ended September 30, 2000
Cash flows from (used in) operating activities:				
Loss for the period	$(3,743,700)	$ (3,067,374)	$(5,886,575)	$ (3,557,520)
Items not involving cash:				
Depreciation and amortization	327,130	240,272	899,610	575,713
Amortization of goodwill	532,063	516,083	1,595,327	706,767
Gain on disposal of fixed assets	-	(2,120)	-	(2,120)
	(2,884,507)	(2,313,139)	(3,371,638)	(2,277,160)
Change in non-cash operating working capital:				
Accounts receivable	955,060	(448,538)	397,835	(1,151,096)
Income taxes recoverable	-	-	-	38,967
Inventories	(1,445,028)	(5,601,816)	(5,601,816)	(1,176,253)
Prepaid expenses and deposits	(10,122)	(50,014)	(160,164)	98,938
Accounts payable and accrued liabilities	2,077,411	523,415	1,508,605	316,630
	(1,307,187)	(2,478,221)	(7,227,178)	(4,149,974)
Cash flows from (used in) financing activities:				
Bank indebtedness	2,021,063	-	1,323,342	-
Senior long-term debt	(143,127)	3,904,582	(429,381)	4,810,326
Subordinated debt	-	143,539	(2,790,704)	370,972
Issue of share capital, net of share issue costs	3,871	87,992	10,487,033	4,045,980
	1,881,807	4,136,113	8,590,290	9,227,278
Cash flows from (used in) investing activities:				
Purchase of capital assets	(547,621)	(82,672)	(1,363,112)	(346,944)
Deferred development costs, net of incentives and grants	-	(78,473)	-	(227,545)
Acquistion, net of cash acquired	-	-	-	(132,544)
Proceeds on disposal of fixed assets	-	35,000	-	35,000
	(574,621)	(126,145)	(1,363,112)	(672,033)
Increase in cash position	-	1,531,747	-	4,405,271
Cash and cash equivalents, beginning of period	-	2,936,300	-	62,776
Cash and cash equivalents, end of period	$ -	$4,468,047	$ -	$4,468,047
Supplemental disclosure:				
Interest paid	$ 227,731	$ 161,484	$ 738,961	$ 327,796

See accompanying notes to consolidated financial statements.

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. Future Operations

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which is dependent upon the Company's ability to generate future profitable operations, and receiving continued financing and equity funding to enable the Company to meet its obligations as they become due. Management believes the going concern assumption to be appropriate for these financial statements. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3. 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 September 30, 2000 and 2001, nor for the year ended December 31, 2000.

4. 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.

Notes to Consolidated Financial Statements Continued

5. Share capital:

a) Issued:

	Number of Shares	Amount
Balance, December 31, 2000	14,813,712	$ 26,788,140
Issued on excercise of special warrants (note 5(b))	3,153,866	10,250,065
Issued on excercise of stock options	23,915	35,040
Exercise of share purchase warrants	400,000	1,160,000
Share issue costs	-	(958,072)
Balance, September 30, 2001	18,391,493	$ 37,275,173

	Number of Shares	Amount
Preferred shares issued:		
Balance, December 31, 2000	350,000	$ 507,500
Issued per asset purchase agreement	311,000	469,100
Balance, September 30, 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 September 30, 2001 the following stock options and share purchase warrants are outstanding.

Share Option Plan	2,528,985	Wireless Link Plan	684,097	Share Purchase Warrants	2,806,881

6. 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.

Nine months ended September 30:

	GPS Positioning Devices		Wireless Communication Devices		Corporate		Total	
	2001	2000	2001	2000	2001	2000	2001	2000
Sales	$22,178,213	$14,073,194	$8,775,625	$3,075,963	$ -	$ -	$30,933,838	$17,149,157
Interest expense	-	-	-	-	782,388	403,941	782,388	403,941
Depreciation and amortization	939,465	776,664	1,555,472	505,816	-	-	2,494,937	1,282,480
Net earnings (loss)	5,360,717	(325,074)	(8,908,048)	(1,793,859)	(2,319,244)	(1,438,587)	(5,866,575)	(3,557,520)
Capital assets and goodwill	5,442,260	4,571,614	16,026,932	17,566,138	-	-	21,469,192	22,137,752
Total assets	15,676,300	18,590,090	26,004,677	21,817,623	-	-	41,680,977	40,407,713
Capital expenditures excluding acquisition	838,297	294,199	524,815	52,745	-	-	1,363,112	346,944

b) Sales by geographic segment:

	2001	2000
U.S.A.	$ 25,015,000	$ 8,762,000
Europe	790,000	2,842,000
Other	2,411,000	2,989,000
Canada	2,718,000	2,556,000

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

7. Commitments:

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

2001*	$ 225,000
2002	1,074,000
2003	873,000
2004	784,000
2005	768,000
Thereafter	3,318,000
	$ 7,042,000

**pro-rated for 3 months*

8. Related party transactions:

In connection with the aquisition 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.