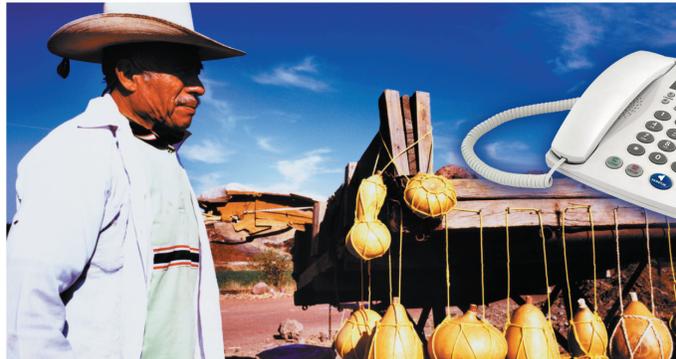




csi wireless™



Interim Report • Q1 • March 31, 2003

# MESSAGE TO SHAREHOLDERS

## Q1 – March 31, 2003

### First Quarter Highlights

For the quarter ended March 31, 2003, CSI Wireless reported a return to profitability with earnings of \$104,000, and revenues reaching a record level of \$24 million. The return to profitability was driven by increased sales and improved margins on the Motorola FX800t, along with improved gross margins on the Company's Telematics products. Research and development activities resulted in several new product launches during the first quarter, with additional products planned for later in the year.

### Fixed Wireless Products

The Motorola FX800t, developed and supplied by CSI Wireless, is currently being distributed in Latin America by Brightstar Corporation. Brightstar, a distributor and licensee of Motorola products, has been meeting the minimum purchase order amounts of \$12.5M per quarter that are required in its agreement with CSI Wireless to maintain exclusive rights to the Motorola FX800t.

The phone is a high-volume product that has percentage gross margins currently below other CSI Wireless products. However, from a dollar perspective, the gross margins are significant to the Company. Margins on the phone continue to improve as a result of both re-engineering, and the transfer of manufacturing of the phone from Thailand to Mexico - eliminating import tariffs on the product.

Currently all FX800t's produced are being sold into Mexico by Brightstar. The product has however received carrier approval in three other countries, and is currently in the approval process with seven additional carriers. CSI and Brightstar expect to capitalize on a few of these opportunities by the end of the year, thus expanding the fixed wireless telephone customer base.

### Telematics Products

Momentum continued to build in the telematics business during the first quarter of 2003.

In January, CSI Wireless announced a supply contract with Directed Electronics, the world's largest after-market vehicle security and remote-start manufacturer, with sales in more than 46 countries. Directed Electronics is progressing well towards a full commercial launch, with product expected to appear on retail store shelves by June 30. CSI is providing a unique telematics product to Directed Electronics that serves as the enabling technology for its new GPS vehicle tracking and convenience system. The new system will be sold under four of Directed Electronic's biggest-selling brands – Viper, Python, Clifford and Automate – through the company's network of more than 5,000 dealers. Directed Electronic's largest retail dealers include the Best Buy and Circuit City chains in the U.S., and Future Shop and Best Buy in Canada.

One of CSI Wireless's key telematics customers, Datacom Wireless Corporation, announced an agreement with Canadian Tire Limited to use their auto repair centers for the installation of Datacom's Mobilus stolen vehicle recovery systems which feature CSI's Asset-Link™ 100 telematics hardware. Mobilus systems are purchased by a major Quebec-based insurance company and distributed to targeted customers and installed by Datacom's specialized technicians in the Canadian Tire centers in the Greater Montreal area. Canadian Tire plays a major role in the Canadian automotive industry, with more than 450 retail stores nationwide. Datacom anticipates installing thousands of units using this retail channel in 2003. According to Datacom, car theft is a major problem – with one vehicle stolen in Quebec every 12 minutes. In the year 2000, 33,000 cars were stolen in Quebec alone, totaling a loss of some \$263 million. Speedy recovery of a stolen vehicle is key to the insurance industry as it reduces the size of the claim due to less vehicle damage when it is recovered within the first hour.

The Mobilus / Asset Link 100 actually detects theft, so the recovery process can commence within minutes as opposed to when the owner discovers his or her vehicle is missing. Many insurance companies offer car owners

discounts for the installation of such systems. Mobilus is also now available at select new car dealers in the greater Montreal area.

### **Precision GPS Agriculture Products**

During the first quarter, CSI's GPS Business Unit released the Outback Hitch™, another leading edge GPS product for RHS Inc. The patent-pending Outback Hitch is an accessory to the Outback S™ – CSI Wireless' popular, low-cost guidance system that features a highly accurate Differential GPS and Wide Area Augmentation System (WAAS) receiver, guidance system and Steering Guide™. CSI Wireless manufactures the Outback Hitch, Outback S and Outback 360™ exclusively for RHS, which has global distribution rights for the entire Outback™ product line. After initially marketing only in North America, RHS has begun marketing Outback product in South America, Australia and Europe.

RHS is the largest source of revenue for CSI's GPS Business Unit. At a recent annual agricultural equipment trade show in Kansas, customers praised RHS and the Outback product line for their long-term reliability, which is critical in this market. Trade show attendees were optimistic about the upcoming agriculture season due to the improved soil moisture conditions in the High Plains when compared to a year ago. The attendees' primary technology interest was in GPS guidance systems.

### **GPS Marine Products**

The Company's GPS Business Unit has also received significant interest in its new high-performance Vector line of GPS heading sensors during the quarter. The Vector enables users in marine, heavy equipment and machine control markets to maintain very accurate headings at substantially less than the cost of traditional gyrocompasses or of competing GPS systems. A number of Vector units are currently being evaluated by various customers in anticipation of future orders. To date the evaluations have generated positive feedback from the customers.



Stephen Verhoeff  
President  
May 6, 2003

## Interim Management Discussion and Analysis

The following discussion and analysis should be read in conjunction with the March 31, 2003 financial statements and notes as contained herein. Further, the disclosures made, both within the interim management discussion and analysis, and the attached financial statements, are incremental to those included within the audited annual financial statements.

	For the Quarter Ended							
	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31
	2001	2001	2001	2002	2002	2002	2002	2003
Revenue	\$ 11,961	\$ 6,761	\$ 10,027	\$ 13,958	\$ 10,761	\$ 8,784	\$ 20,633	\$ 24,070
Cost of Sales	7,736	5,040	7,847	8,464	6,028	6,515	17,230	18,930
	4,225	1,721	2,180	5,494	4,733	2,269	3,403	5,140
Expenses:								
Research & Development	2,103	2,370	2,029	1,912	2,187	2,207	1,743	1,898
Selling	1,111	1,046	967	1,007	1,049	1,150	1,138	1,001
General & Administrative	1,315	1,335	994	1,044	1,364	1,255	1,213	1,348
Interest on long-term debt	302	229	453	313	229	163	312	198
Depreciation & Amortization	310	327	299	284	272	294	301	334
Amortization of Goodwill	532	532	590	-	-	-	-	-
Foreign Exchange (gain) loss	184	(374)	(16)	(116)	210	(84)	(13)	211
Premium on Pref. Shares	-	-	-	-	-	-	322	46
	5,857	5,465	5,316	4,444	5,311	4,985	5,016	5,036
Net income (loss) for the period	\$ (1,632)	\$ (3,744)	\$ (3,136)	\$ 1,050	\$ (578)	\$ (2,716)	\$ (1,613)	\$ 104
Net income (loss) per share	\$ (0.07)	\$ (0.18)	\$ (0.15)	\$ 0.06	\$ (0.03)	\$ (0.14)	\$ (0.08)	\$ 0.01

## Results of Operations

### Revenue

The 72% increase in revenues to a record \$24,070,000, compared with \$13,958,000 for the first quarter of 2002, was fueled by strong sales of the Company's Motorola-branded FX800t fixed wireless telephone. First quarter revenues increased 17% from the fourth quarter of 2002, which saw revenues of \$20,633,000. This increase from the prior quarter is largely attributed to increased GPS Business Unit revenues, which resulted from both new RHS shipments, and the previously announced purchase order for MBX-3S's for the United States Department of Agriculture.

Revenue contributions from the Company's GPS Business Unit were \$7,091,000 in the first quarter, a decrease from \$10,122,000 in the first quarter of 2002. The decrease is primarily due to CSI Wireless' new joint supply initiative with RHS Inc., whereby sales to RHS are being spread evenly over the year as compared with prior years when sales occurred primarily in the first quarter. This arrangement will enable CSI Wireless to more efficiently manage operations and capital resources.

## **Gross Margins**

The contribution from the Motorola FX800t to the overall revenue mix resulted in blended gross margins of 21% for the Company in the first quarter of 2003, compared with gross margins of 39% in the first quarter of 2002. As noted above, the FX800t is a lower margin product compared to other CSI product offerings. However the volume of product sold provides significant dollar impact to gross margins. At the end of Q4 2002, CSI completed the transfer of the manufacturing of the Motorola FX800t from a Thailand manufacturer to a Mexican manufacturer. This change resulted in an improvement in FX800t margins and an increased blended margin of 21% in the first quarter of 2003, versus 17% in the fourth quarter of 2002.

In the first quarter, the GPS Business Unit was able to maintain margins consistent with those experienced in the prior quarter. New products introduced in the last few quarters are experiencing success while maintaining the historical margins experienced by the GPS Business Unit.

## **Research and Development**

Investment in research & development remained consistent in the first quarter at \$1,898,000, as compared with \$1,912,000 in the first quarter of 2002. The Company's investment in research and development is carefully managed, and is focused on next-generation products that will generate revenue and cash flow for CSI Wireless in future periods, and enable the Company to maintain a leadership position in its markets. The Company's R&D investments also include several cost-reduction activities related to the Motorola FX800t phone.

## **Selling, General and Administrative**

Total operating expenses, before foreign exchange loss and finance charges, for the first quarter of 2003 were \$4,581,000, as compared with \$4,247,000 for the same period of 2002, as a result of increased general and administrative (G&A) expenses and depreciation. The increase results in part from increased legal fees associated with the Company's pursuit of a breach of contract claim.

## **Foreign Exchange**

The Company recorded a first quarter 2003 foreign exchange loss of \$211,000 resulting from the consolidation of Canadian and US balance sheets. The first quarter of 2002 saw a foreign exchange gain of \$116,000 on consolidation. Each month the Company experiences book gains and losses from fluctuations in both the Canadian dollar relative the US dollar, and from changes in the Company's US dollar working capital.

The Company has also experienced the real dollar effect of the strengthening Canadian dollar in the first quarter of 2003, as virtually all sales made by the Company are in US dollars. The Company does however benefit from a natural hedge, in that over 90% of the Company's cost of sales are also denominated in US dollars, as are just over half of the Company's fixed costs. Management monitors the Company's exposure to currency fluctuations and evaluates what strategies, if any, should be employed to mitigate foreign currency risk.

## **EBITDA and Net Earnings**

CSI Wireless reported a return to profitability in the first quarter with net earnings of \$103,950, or \$0.01 per share, as compared with net earnings of \$1,050,000, or \$0.06 per share for the first quarter of 2002. This is a significant improvement compared to the loss of \$1,613,000 in the fourth quarter of 2002. As outlined above, this improvement relative to the fourth quarter stems from improved margins, both gross and as a percentage of sales.

After investment in research and development, EBITDA for the quarter was \$683,000, as compared to \$1,646,000 for the first quarter of 2002. EBITDA improved from the prior quarter's EBITDA loss of \$678,000.

## **Liquidity and Capital Resources**

The Company experienced negative cash flows of \$1,479,000 in the first quarter of 2003, as compared to positive cash flows of \$1,809,000 in the first quarter of 2002. The Company had negative cash flow from operations of \$261,000, and cash outflows for debt repayment, capital leases and the purchase of capital assets totaling

\$1,219,000. For the first quarter of 2002, the Company did not have any debt repayments, as part of a debt repayment holiday granted by its primary bank.

At March 31, 2003, the Company had drawn \$5,511,000 against its \$6,000,000 line of credit. This balance continually fluctuates with large receipts and payments. At May 6, 2003 – the date of the first quarter press release – the Company had utilized approximately \$3,800,000 of the line of credit.

Receivables and payables both have increased over \$6,000,000 in the first quarter of 2003 compared to the first quarter of 2002. These increases result in large part from the fixed wireless telephone business. Although these increases are significant in absolute amounts, the Company has structured the payment terms relating to this product such that payments to suppliers are not required until payment has been received from its customer.

In January of 2003 the Company acquired a new surface mount technology (“SMT”) production line by way of a capital lease. By having the SMT line in house, the Company is now better able to coordinate production runs, maintain tighter inventory controls, and support engineering pro-typing on a timelier manner. The Company is also experiencing real cash savings, and overall quality improvements, by bringing this function in house.

The above disclosure contains certain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond CSI Wireless' control, including: the impact of general economic conditions, industry conditions, increased competition, the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to the announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities. CSI Wireless' actual results, performance or achievement could differ materially from those expressed in, or implied by these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds, CSI Wireless will derive therefrom.

# CSI WIRELESS INC.

## Consolidated Balance Sheets

March 31, 2003 and December 31, 2002

	2003	2002
	<i>Unaudited</i>	<i>Audited</i>
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 15,673,431	\$ 9,568,102
Inventories	10,721,989	9,251,148
Prepaid expenses and deposits	347,654	335,942
	<hr/>	<hr/>
	26,743,074	19,155,192
Capital assets	4,395,739	3,510,208
Goodwill	18,624,676	18,071,676
	<hr/>	<hr/>
	\$ 49,763,489	\$ 40,737,076
	<hr/>	<hr/>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness	\$ 5,510,797	\$ 4,031,400
Accounts payable and accrued liabilities	16,928,662	10,107,646
Current portion of capital leases	157,512	-
Current portion of senior long-term debt	1,905,852	1,905,852
Current portion of other long-term debt	666,667	701,260
	<hr/>	<hr/>
	25,169,490	16,746,158
Capital lease obligations	557,331	-
Senior long-term debt	1,693,945	2,170,408
Other long-term debt	235,454	438,208
Preferred shares (note 3)	2,454,625	1,855,244
Common shares (note 3)	41,677,665	41,812,078
Contributed surplus (note 5)	156,049	-
Deficit	(22,181,070)	(22,285,020)
	<hr/>	<hr/>
	\$ 49,763,489	\$ 40,737,076
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

# CSI WIRELESS INC.

## Consolidated Statements of Operations and Deficit

Periods Ended March 31, 2003 and 2002

Unaudited

	2003	2002
Sales	\$ 24,069,785	\$ 13,958,234
Cost of sales	18,929,473	8,464,507
	5,140,312	5,493,727
Expenses:		
Research and development costs	1,898,304	1,912,008
Selling	1,001,157	1,007,292
General and administrative	1,347,425	1,043,943
Depreciation and amortization	334,301	283,862
	4,581,187	4,247,105
Earnings before undernoted items	559,125	1,246,622
Redemption premium on preferred shares	46,381	-
Foreign exchange loss (gain)	210,764	(115,855)
Interest expense	198,030	312,502
Net earnings	103,950	1,049,975
Deficit, beginning of period	(22,285,020)	(18,427,820)
Deficit, end of period	\$ (22,181,070)	\$ (17,377,845)
Earnings per common share:		
Basic	\$ 0.01	\$ 0.06
Diluted	\$ 0.01	\$ 0.05
Weighted average shares outstanding		
Basic	21,748,452	18,393,397
Diluted	21,804,803	20,381,143

See accompanying notes to consolidated financial statements.

# CSI WIRELESS INC.

## Consolidated Statements of Cash Flows

Periods Ended March 31, 2003 and 2002

Unaudited

	2003	2002
Cash flows from (used in) operating activities:		
Net earnings	\$ 103,950	\$ 1,049,975
Items not involving cash:		
Depreciation and amortization	334,301	283,862
Redemption premium on preferred shares	46,381	-
Options granted to non-employees	21,355	39,311
	505,987	1,373,148
Change in non-cash operating working capital:		
Accounts receivable	(6,105,329)	(1,703,266)
Inventories	(1,470,841)	1,589,997
Prepaid expenses and deposits	(11,712)	38,201
Accounts payable and accrued liabilities	6,821,016	602,757
	(260,879)	1,900,837
Cash flows from (used in) financing activities:		
Increase (decrease) in bank indebtedness	1,479,397	(1,808,745)
Senior long-term debt	(476,463)	-
Other long-term debt	(237,347)	-
Capital leases	(265,416)	-
Issue of share capital, net of share issue costs	281	3,174
	500,452	(1,805,571)
Cash flows used in investing activities:		
Purchase of capital assets	(239,573)	(95,266)
Increase in cash position	-	-
Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	\$ -	\$ -
Supplemental disclosure:		
Interest paid	\$ 177,930	\$ 165,849

See accompanying notes to consolidated financial statements.

# CSI WIRELESS INC.

Notes to Consolidated Financial Statements

Periods Ended March 31, 2003 and 2002

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, 2002, 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 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. Share capital:

(a) Issued:

	Number of Shares	Amount
Balance, December 31, 2002	22,448,077	\$41,812,078
Loan receivable from director (note 5)	-	1,184,700
Cancelled shares from director (note 5)	(700,000)	(1,340,749)
Issued on exercise of stock options	375	281
Options granted to non-employees (note 3(c))	-	21,355
Balance, March 31, 2003	21,748,452	\$ 41,677,665

	Number of Shares	Amount
Preferred shares issued:		
Balance December 31, 2002	1,011,000	\$ 1,855,244
Issued per asset purchase agreement	350,000	553,000
Redemption premium	-	46,381
Balance, March 31, 2003	1,361,000	\$ 2,454,625

# CSI WIRELESS INC.

Notes to Consolidated Financial Statements, Page 2

Periods ended March 31, 2003 and 2002

(b) At March 31, 2003 the following stock options and share purchase warrants are outstanding.

Share Option Plan	1,867,257
Wireless Link Plan	235,593
Share Purchase Warrants	1,643,655
Agents Warrants	345,168
Bankers Warrants	250,000

(c) The fair value of each option granted to non-employees is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2003: zero dividend yield; expected volatility of 70%; risk-free rates of 5%; and expected lives of 5 years. At March 31, 2003, the Company recorded \$21,355 as compensation expense for non-employees who have been granted stock options.

As the Company follows the intrinsic value method of accounting for stock options granted to employees, no compensation cost has been recognized for the three-month period ended March 31, 2003. Had compensation cost for stock options granted to employees been determined based on the fair value method, the Company's pro-forma net earnings would have been reduced by \$53,899 to \$50,051 and the pro-forma earnings per share would have been \$0.00 for the three-month period ended March 31, 2003.

## 4. 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, 2002.

Periods ended March 31:

	GPS Business		Wireless Business		Corporate		Total	
	Unit		Unit					
	2003	2002	2003	2002	2003	2002	2003	2002
Sales	\$ 7,090,767	\$ 10,121,531	\$ 16,979,018	\$ 3,836,703	\$ -	\$ -	\$ 24,069,785	\$ 13,958,234
Interest expense	-	-	-	-	198,030	312,502	198,030	312,502
Depreciation and amortization	220,692	214,714	113,609	69,148	-	-	334,301	283,862
Net earnings (loss)	1,164,323	3,720,396	174,576	(1,864,186)	(1,234,949)	(806,235)	103,950	1,049,975
Capital assets and goodwill	7,375,165	5,757,279	15,645,250	15,527,212	-	-	23,020,415	21,284,491
Total assets	18,998,558	17,197,809	30,764,931	22,770,216	-	-	49,763,489	39,968,025
Capital expenditures	174,002	66,433	65,571	28,833	-	-	239,573	95,266

# CSI WIRELESS INC.

Notes to Consolidated Financial Statements, Page 3

Periods ended March 31, 2003 and 2002

(b) Sales by geographic segment:

	2003	2002
United States	\$ 21,880,714	\$ 10,425,797
Canada	1,136,257	2,705,912
Europe	391,156	289,573
Other	661,658	536,952

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

(c) Major customers:

Of the Company's sales for the period ended March 31, 2003, 80% (March 31, 2002 – 58%) were to 5 customers. The Wireless Business Unit had sales to one customer totaling \$14,286,000, or 59% of revenue. The GPS Business Unit had no customers whose sales exceeded 10% of total sales.

## 5. Related party transactions:

On March 4, 2003, the Company cancelled 700,000 common shares that were previously held as security for a US\$750,000 loan made to an officer and director of the Company. At December 31, 2002 share capital and accounts receivable were reduced by \$1,184,700 in anticipation of the cancellation. On March 4, 2003 the shares were cancelled using the average paid up capital value per share, which resulted in contributed surplus of \$156,049.

For more information, please contact 

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