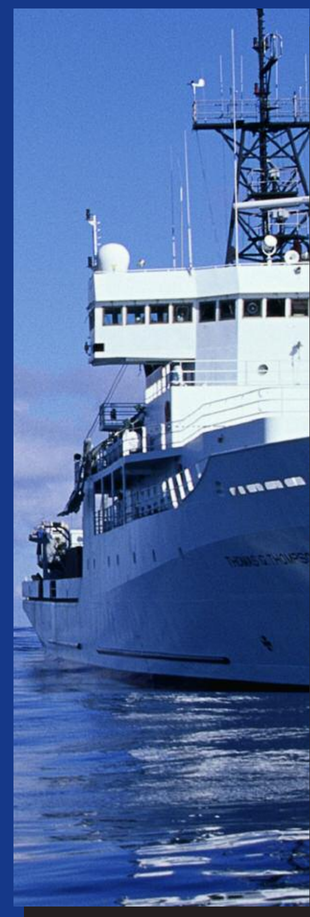
csi wireless™



INTERIM REPORT • Q1 • MARCH 31, 2006

Message to Shareholders

CSI Wireless has gone through some dramatic changes since the start of 2006 as we commenced the process of unlocking the value that we see in our Hemisphere GPS business. Following the announcements that we were selling our Wireless businesses, we have more recently announced significant management changes. In connection with those changes, I have stepped in as interim CEO for the Company following the Board's acceptance of Stephen Verhoeff's resignation from the Board and from the position of President and CEO, as well as the move of Rick Heiniger from the position of President of Hemisphere GPS to a Board position in a strategic advisory position. I will continue to hold the interim CEO position during the recruitment period for a replacement for this position.

We are thankful to Stephen for the incredible job he has done growing CSI from less than $5 million to more than $70 million in revenues in less than a decade. We respect what Stephen has accomplished; however, the performance of the Company in 2005 and early 2006 was below expectations and the Board agreed with Stephen that CSI had evolved to a level that requires new leadership, and subsequently accepted his resignation.

We are also thankful for the contribution that Rick Heiniger has made as President of Hemisphere GPS. We look forward to benefiting from his strengths as a continuing member of the CSI Board of Directors.

The divestment of our wireless businesses will enable the Company to focus solely on our GPS strengths. In the first quarter, our GPS sales increased significantly year-over-year. We remain very confident that the acquisition of the Outback business will bring true long-term strategic and financial value to the Company. In the near term, the divestment and management changes will require internal changes directed on right-sizing the Company and focusing our execution. In the longer term, the changes will concentrate our resources on what we believe are our greatest strengths and opportunities.

The Board's decision to sell the two wireless businesses will ultimately result in significant improvements to the bottom line. The sale of the wireless businesses was not an easy decision to make in light of the amount of resources and capital we had invested into this business, and our development of some of the world's leading products in these markets. Our wireless businesses were struggling to turn a profit; therefore, we made the strategic decision to put our capital to work in our proven GPS business. This was the right business decision for the Company and for our shareholders. The write-down required in the first quarter as a result of the impairment of goodwill was substantial. Unfortunately, this write-down is a necessary by-product of the sale of the fixed wireless telephone business, however, we believe the price received was fair under the circumstances and that far greater value will be achieved for our shareholders by increasing our focus on Hemisphere GPS.

The overall long-term trend for the GPS agricultural precision guidance market is very clear and very strong. GPS guidance is the future of productive farming in the world. Agricultural operations are getting more yield from the fields, lowering the costs of production and increasing the efficiencies of the farming operation – all for very little investment. Many of CSI's Hemisphere GPS customers are getting payback on their investment in the first year and are reaping the returns that our agricultural guidance products offer for years thereafter. This market is going to be very strong and should see significant growth for many years to come.

Agricultural guidance has been our most profitable product line over the past several years and will continue to be for many more. By acquiring the Outback business from our lead distribution partner, we further solidified our strong position in this market.

We are very excited about the market reaction to our new Outback S2 product and the recently introduced Baseline product. We believe these products will be market dominators for years to come, supporting our ambition to own this market space. The adoption rate in the agricultural guidance market is expected to be significant over the next decade and CSI is very well positioned in this market. We believe that we have the right products for the right markets at the right time.

Thank you for your patience and support in this time of significant change. I look forward to reporting to you on the progress that we make in the coming quarters.

Thank you,

Michael Lang
Chairman and Interim Chief Executive Officer
May 15, 2006

Interim Management Discussion and Analysis

The following discussion and analysis is effective as of May 15, 2006 and should be read together with the unaudited interim consolidated financial statements and the accompanying notes.

Overview

CSI Wireless Inc. ("CSI" or "the Company") designs and manufactures innovative and cost-effective GPS products for mobile and fixed applications in the ground and aerial agriculture, marine, geographic information systems and other related markets. The Company owns leading brand names including Hemisphere GPS, Outback®, Satloc® and Del Norte, and has numerous patents and other intellectual property.

Results of Operations

Summary of Quarterly Results

	For the Quarter Ended							
(000's)	Jun 30 2004	Sep 30 2004	Dec 31 2004	Mar 31 2005	Jun 30 2005	Sep 30 2005	Dec 31 2005	Mar 31 2006
Sales	$ 8,416	$ 7,460	$ 7,836	$ 9,773	$11,642	$ 5,637	$ 5,625	$15,514
Gross margin	4,450	3,664	3,854	5,116	4,020	2,106	1,943	6,202
	53%	49%	49%	52%	35%	37%	35%	40%
Expenses:								
Research and development	914	827	921	933	933	1,094	990	1,170
Sales and marketing	712	657	690	661	1,727	1,626	1,818	2,819
General and administrative	862	991	693	1,049	1,295	1,537	1,387	1,330
Stock-based compensation	118	149	129	145	170	244	211	143
Amortization	192	221	237	197	499	565	592	587
	2,798	2,845	2,670	2,984	4,624	5,066	4,998	6,049
Earnings (loss) before undernoted items	1,652	819	1,184	2,131	(604)	(2,960)	(3,055)	153
Redemption premium on preferred shares	64	41	–	–	–	–	–	–
Foreign exchange (gain) loss	(294)	388	600	(33)	(56)	733	145	67
Interest income	(55)	(48)	(19)	(42)	(16)	(43)	(38)	(16)
Earnings (loss) before income tax	1,936	437	604	2,206	(532)	(3,650)	(3,162)	102
Current income tax	–	–	145	45	(45)	–	–	–
Earnings (loss) from continuing operations	1,936	437	459	2,161	(487)	(3,650)	(3,162)	102
Loss from discontinued operations	(376)	666	445	(844)	(615)	(2,139)	(3,302)	(9,257)
Net earnings (loss)	$ 1,560	$ 1,103	$ 904	$ 1,317	$(1,102)	$(5,788)	$(6,464)	$(9,155)
Earnings (loss) per common share from continuing operations *:								
Basic	$ 0.06	$ 0.01	$ 0.01	$ 0.06	$(0.01)	$(0.08)	$(0.07)	$ 0.00
Diluted	$ 0.05	$ 0.01	$ 0.01	$ 0.06	$(0.01)	$(0.08)	$(0.07)	$ 0.00
Net earnings (loss) per common share *:								
Basic	$ 0.05	$ 0.03	$ 0.03	$ 0.04	$(0.03)	$(0.13)	$(0.15)	$(0.20)
Diluted	$ 0.04	$ 0.03	$ 0.03	$ 0.04	$(0.03)	$(0.13)	$(0.15)	$(0.20)

** Calculated using quarterly weighted average number of shares outstanding.*

Quarter Ended March 31, 2006 versus Quarter Ended March 31, 2005

Acquisition

On January 19, 2006, the Company announced it had completed the acquisition of the business assets of Del Norte Technology, Inc. ("Del Norte"). Del Norte has operated for over 20 years designing and manufacturing GPS products for the aerial guidance market – primarily targeting crop dusting and aerial spraying. As such, Del Norte has been a competitor of the Hemisphere Aerial Guidance product line. In 2005, Del Norte sales were approximately US $1.7 million. Hemisphere GPS has combined the operations of Del Norte with its Aerial Guidance product line. Further detail relating to the acquisition is included in note 2 of the consolidated financial statements for the period ended March 31, 2006.

Discontinued Operations

The Company has made the strategic determination to focus its resources on its GPS product lines, where it views itself as a market leader with significant competitive advantages and intellectual property. On April 21, 2006, the Company announced it had signed a definitive agreement to sell its Fixed Wireless Telephone ("FWT") product line to Telular Corporation ("Telular") of Vernon Hills, Illinois. This transaction closed on May 8, 2006. This sale followed the announcement in February that CSI was in the process of finding a buyer for its Telematics product line.

The financial components associated with the FWT and Telematics product lines have been treated as "discontinued operations" in the Company's financial statements as all of the criteria necessary to adopt this presentation were met during the quarter. The primary implications of this treatment are:

- The results of operations of these product lines are removed from revenues and expenses and reported as a separate element of income in the statement of operations.
- The assets and liabilities of these product lines are presented separately in the appropriate sections of the balance sheet.
- The statement of operations and balance sheet treatment is applied retroactively for all periods presented.
- The assets of these product lines are measured at the lower of their carrying amount or their fair value less the expected costs to sell.

The results of operations reported in this MD&A have been restated to reclassify the revenues and expenses into the line item "loss from discontinued operations". The analysis of the results of operations and balance sheet components in this MD&A also reflect this accounting treatment. The results of operations reflect the continuing operations of the Hemisphere GPS product lines. Greater detail relating to discontinued operations is included in note 5 of the consolidated financial statements for the period ended March 31, 2006.

Revenue

For the three months ended March 31, 2006, revenue was $15.5 million, an increase of 59% relative to revenues of $9.8 million for the same period of 2005. The increase is due to strong demand for Hemisphere GPS' agricultural guidance products, its precision products, and the acquisition of the Outback business that was completed early in the second quarter of 2005. Following the acquisition, the Company now sells the Outback product line directly to distributors and to end customers at higher prices than prior to the acquisition, when the products were sold to the distributor – RHS, Inc. ("RHS") – who sold the product to the end customer.

During the first quarter, the Company experienced strong demand for several of its Outback products – the recently announced Outback S2 and the Outback eDrive. In addition, during the first quarter there was strong advance demand for the Outback Baseline product which commenced production during the second quarter. The Company's precision products line, focused on the marine and GIS markets, also saw improved revenue relative to 2005.

In the fourth quarter of 2005, the Company implemented an extended service program ("ESP") related to its Outback product line. Under this program, customers can purchase an extension of warranty coverage from one year to three years. Previously, the three year warranty program was standard with each sale. Customer take-up of this program has been very high. The revenue earned and commissions paid related to this program must be deferred for accounting purposes and amortized over the second and third years of the warranty. During the quarter, ESP receipts of $942 thousand and ESP commissions of $141 thousand have been deferred.

Revenue growth has been tempered by the decline in the US dollar, which has weakened by 6% compared to the average rate for the three month period ended March 31, 2005.

Gross Margin

Gross margins for the quarter of $6.2 million have increased from $5.1 million for the same quarter of 2005. In percentage terms, gross margins have decreased to 40% from 52% in 2005. Cost of sales in the first quarter of 2006 include the amortization of acquisition inventory step-up costs totaling $1.2 million. Prior to the amortization of these step-up costs, gross margins would have been 47%. The acquisition inventory step-up costs have been largely amortized during the first quarter of 2006 and will not materially impact future gross margins. Greater detail relating to this matter is provided below and in the section titled *Use of Non-GAAP Financial Measures*.

Effective this quarter, the Company has changed the accounting categorization of dealer selling commissions in the Statement of Operations. These costs represent incentives paid to third-party dealers in the Outback North American distribution channel and vary directly with North American Outback product sales. In 2005, these costs were included as a separate category of operating expense; however, as these costs are third-party variable costs that vary directly with Outback product sales in North America, the Company has determined that including them in determination of gross margin is a more meaningful presentation. Dealer commissions during the first quarter of 2006 were approximately $2.2 million. There were no dealer commissions in the first quarter of 2005 as this was prior to the acquisition of the Outback business.

Percentage gross margins are lower than in the first quarter of 2005 primarily because the percentage gross margins earned on Outback product sales to end customers are lower than the percentage gross margins earned on the Outback sales that were made directly to RHS in the first quarter of 2005. However, the sales price realized by the Company on all Outback product sales has increased following the acquisition of the Outback business because Outback products are now sold directly to the end customers and distributors. This increased sales price results in the absolute amount of gross margin realized on each unit sold being higher after the acquisition, although the percentage gross margin has been lower.

Expenses

Total operating expenses increased by $3.1 million, or 103% compared to the same period in 2005. The greatest contributor to this increase are the operating expenses of $2.8 million related to the acquisition of the Outback business. In addition, operating expenses of $200 thousand are included in the first quarter relating to the Del Norte acquisition which closed in January 2006.

Of the operating expenses, sales and marketing expenses increased by $2.1 million compared to the first quarter of 2005 entirely related to the Outback business acquisition. General and administrative and amortization expenses increased by $281 thousand and $390 thousand respectively. These increases are also primarily related to the Outback business acquisition.

As a result of the treatment of the FWT and Telematics product lines as discontinued operations, the Company has revised the treatment of costs that it describes as "corporate costs" (previously disclosed as the Corporate operating segment). Corporate costs are administrative costs that are not specifically attributed to any particular product line – including executive, human resources, information technology and public company costs. Following the application of discontinued operations accounting, these costs are entirely allocated to the continuing operations of the Hemisphere GPS product lines. This accounting treatment has been applied in the current and comparative periods presented.

Other

The Company realized a foreign exchange loss of $67 thousand during the first three months of 2006 compared to a foreign exchange gain of $33 thousand in 2005.

Discontinued Operations

The Company recorded a loss from discontinued operations of $9.3 million for the quarter ended March 31, 2006 compared to a loss of $844 thousand in 2005. As previously described, these amounts represent the results of operations of the Fixed Wireless Telephone and Telematics product lines.

On May 9, 2006, the Company announced that the disposition of the Fixed Wireless Telephone business to Telular Corporation had closed on May 8, 2006. Final proceeds for the sale are set out below and differ from the values disclosed in the April 24, 2006 press release as a result of (a) a working capital adjustment under the agreement; (b) a change in foreign exchange rates between the announcement date and the closing date; and (c) the method of determination of the Telular share price that must be used for accounting purposes compared to the share price agreed to in the Asset Purchase Agreement with Telular. Proceeds on the sale are:

- $3.4 (US $3.0) million cash on closing
- $0.6 (US $0.5) million accounts receivable relating to an agreed inventory reserve
- $6.2 (US $5.6) million 6-month escrowed Telular shares on closing (1,931,745 shares)
- $3.7 (US $3.4) million in contingent Telular shares (1,159,047 shares)

Total proceeds at closing were US $10.2 million. Total potential proceeds, including the contingent Telular shares, are $13.9 million. The number of contingent Telular shares that will ultimately be payable to CSI Wireless will be based on the revenues earned by the buyer on GSM and TDMA fixed wireless telephone sales in specific markets during defined periods that will end no later than June 30, 2007.

Summarized results for the FWT and Telematics product lines are as follows:

	Quarter Ended	
(000's)	Mar 31 2006	Mar 31 2005
Sales	$ 8,951	$ 12,425
Gross margin	1,272	2,164
	14%	17%
Operating expenses	2,543	2,996
Loss before undernoted items	(1,271)	(832)
Interest (income) expense	(14)	12
Goodwill impairment	8,000	–
Loss from discontinued operations	$ (9,257)	$ (844)

Prior to interest and the impairment of goodwill in the first quarter of 2006, these product lines incurred a loss of approximately $1.3 million compared to a loss of $832 thousand in the same period of 2005.

Revenues for these product lines in the first quarter declined by 28% to $9.0 million from $12.4 million in the same quarter of 2005, due to lower TDMA phone sales and a reduction in average selling prices for both TDMA and GSM fixed wireless telephone products.

Operating expenses for the FWT and Telematics product lines of $2.5 million, were down from $3.0 million in first quarter of 2005. These reductions were primarily related to the restructuring of the Telematics business to better position it for sale to prospective buyers.

During the quarter, an impairment in the carrying value of goodwill relating to the FWT product line was recorded totaling $8.0 million. This goodwill impairment was determined based on the proceeds the Company received at closing for the disposition of the Fixed Wireless Telephone business. The contingent Telular shares were not included in this determination and no portion of these proceeds will be recorded until the criteria associated with the payment of those shares have been achieved as required by GAAP.

Net Earnings (Loss)

The continuing operations of the Hemisphere GPS product lines generated earnings of $102 thousand in the first quarter of 2006 compared to $2.2 million in the first quarter of 2005.

The Company realized a net loss of $9.2 million, or ($0.20) per share (basic and diluted) in the first quarter of 2006, compared to net earnings of $1.3 million, or $0.04 (basic and diluted) per share in the first quarter of 2005.

Quarter Ended March 31, 2006 versus Quarter Ended December 31, 2005

Revenue

Revenue in the quarter was $15.5 million, a 176% increase from revenue of $5.6 million in the fourth quarter of 2005.

The first quarter of the calendar year has historically been the strongest quarter for sales to the agriculture guidance markets as the majority of sales are to customers with agricultural operations in the Northern hemisphere where the primary buying season is the first half of the calendar year. Following the Outback business acquisition, the seasonality in the agriculture guidance markets will have a greater impact on the Company's revenues because the agriculture guidance markets now make up a greater share of Hemisphere GPS' revenue.

Gross Margin

Gross margins of $6.2 million were up by over 200% from $1.9 million in the fourth quarter of 2005. In percentage terms, gross margins of 40% in the first quarter of 2006 were up from 35% in the fourth quarter of 2005. Gross margins realized on Outback product sales increased significantly over the fourth quarter as the last units of acquired Outback S inventory were sold mid-February and the last units of acquired Outback eDrive inventory were sold in March. As a result, the acquisition inventory step-up costs will no longer impact the gross margins on sales of these products. In addition, gross margins increased due to higher sales levels which allowed the cost of fixed manufacturing overhead to be spread over a larger revenue base.

Expenses

Operating expenses of $6.0 million for the three months ended March 31, 2006 increased $1.1 million, or 23%, from the last quarter of 2005. Of this increase, $900 thousand relates to increased Outback sales and marketing expenses arising because the first quarter is the strongest seasonal quarter for agricultural guidance sales resulting in increased internal sales commissions and other selling costs. In addition, sales costs of $100 thousand were incurred in the first quarter relating to the Del Norte acquisition.

Other

The Company earned interest income, net of interest expense, of $16 thousand in the first quarter, compared to $38 thousand for the quarter ended December 31, 2005. The Company is earning interest income on its cash balance, offset by interest expense on capital leases and long-term debt assumed with the Outback business.

The Company incurred a foreign exchange loss of $67 thousand in the first quarter of 2006 versus a loss of $145 thousand during the fourth quarter of 2005.

Discontinued Operations

The Company recorded a loss from discontinued operations of $9.3 million for the quarter ended March 31, 2006 compared to $3.3 million in the fourth quarter of 2005. As previously described, these amounts represent the results of operations of the Fixed Wireless Telephone and Telematics product lines.

Summarized results for the FWT and Telematics product lines are as follows:

	Quarter Ended	
(000's)	Mar 31 2006	Dec 31 2005
Sales	$ 8,951	$ 15,537
Gross margin	1,272	2,064
	14%	13%
Operating expenses	2,543	2,874
Loss before undernoted items	(1,271)	(810)
Restructuring charges	–	1,611
Interest income	(14)	(19)
Goodwill impairment	8,000	900
Loss from discontinued operations	$ (9,257)	$ (3,302)

Prior to restructuring charges, interest and goodwill impairment, these product lines incurred an operating loss of $1.3 million in the first quarter of 2006, compared to $800 thousand in the fourth quarter.

Revenues for these product lines declined by 42% to $9.0 million from $15.5 million in the fourth quarter as a result of lower sales of TDMA and GSM fixed wireless telephones.

Operating expenses declined to $2.5 million in the first quarter from $2.9 million in the fourth quarter primarily related to the restructuring of the Telematics product line.

Net Earnings (Loss)

Income from continuing operations was $102 thousand in the first quarter of 2006 compared to a loss from continuing operations of $3.2 million in the fourth quarter of 2005.

The Company realized a net loss in the first quarter of 2006 of $9.2 million, or ($0.20) per share (basic and diluted), compared to a net loss of $6.5 million, or ($0.15) per share (basic and diluted) in the fourth quarter of 2005.

Use of Non-GAAP Financial Measures

The Company is reporting non-GAAP (Generally Accepted Accounting Principles) financial measures called "Non-GAAP earnings from continuing operations" and "Non-GAAP diluted EPS from continuing operations" to supplement its consolidated financial statements presented in accordance with GAAP. These non-GAAP financial measures are intended to supplement the user's overall understanding of the Company's current financial performance and its prospects for the future. These non-GAAP financial measures are not intended to supersede or replace the Company's GAAP financial results. Non-GAAP earnings from continuing operations and Non-

GAAP diluted EPS from continuing operations do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

The following table presents the reconciliation of Non-GAAP Earnings to GAAP net income:

	Quarter Ended	
(000's)	Mar 31 2006	Mar 31 2005
GAAP earnings from continuing operations	$ 102	$ 2,161
Amortization of acquisition inventory step-up cost	1,163	–
Non-GAAP earnings from continuing operations	1,265	2,161
Non-GAAP diluted EPS from continuing operations	$ 0.03	$ 0.06
GAAP diluted EPS from continuing operations	$ 0.00	$ 0.06

The Company excludes the amortization of acquisition inventory step-up charges from the calculation of its non-GAAP financial measures. As previously disclosed, the inventory acquired as part of the acquisition of the Outback business is recorded under GAAP at the carrying cost of the seller (RHS) at the time of the acquisition, which includes the margin that CSI earned on the sale of the product to RHS. As a result, the gross margin earned on sales of the Outback product line will include only the share of margins previously earned by RHS until the inventory on hand at the date of the acquisition has been sold. Thereafter, margins on Outback product sales will reflect the combined margins previously earned by both CSI and RHS.

The total margin reflected in the purchased inventory is referred to as the "acquisition inventory step-up cost". In order to better understand the margins that are expected to be earned on this product line once this inventory has been sold, management will report the amount of "acquisition inventory step-up cost" that is amortized in the cost of sales each quarter until the purchased inventory has been sold. The balance of unamortized inventory step-up cost at the end of the first quarter was approximately $100 thousand after taking into account the portion amortized, as well as the change in the foreign exchange rate. As this step-up cost has now been largely amortized, future sales will no longer be materially impacted by this adjustment.

Liquidity and Capital Resources

CSI Wireless held cash of $11.8 million at the end of the first quarter compared to a balance of $12.6 million at December 31, 2005. The primary items impacting the cash balance during the first quarter were:

- Cash generated by continuing operations, prior to working capital changes, was $846 thousand.
- Inventories decreased to $10.2 million at March 31, 2006 from $11.0 million at the end of December 2005. This decline is a result of strong sales during the first quarter and is offset by additional inventory purchased to meet the strong demand for the Outback products during the quarter.
- Accounts payable relating to continuing operations increased by $3.3 million during the first quarter. A significant driver of this increase relates to high levels of accounts payable for Outback commissions for both third-party dealers and internal employees as the Company is in the middle of the strongest selling season.
- Current deferred revenue increased by $1.7 million compared to December 31, 2006. The Company has received prepayments from customers for advance orders of Outback S2 and Baseline products which the Company plans to deliver during the second quarter. As previously discussed, the demand for these products has been very strong.
- Long-term deferred revenue increased by $900 thousand during the first quarter. This balance represents sales proceeds received from customers for the three year ESP program on sales of Outback

products. The deferred revenue will be recognized in revenue over the final two years of the related warranty period.
- Total capital spending related to continuing operations in the first quarter of 2006 was approximately $500 thousand.
- The Company paid net cash of approximately $1.0 million related to the acquisition of the Del Norte business assets.
- Cash used in discontinued operations was $5.4 million. Prior to working capital changes, discontinued operations used cash of $1.3 million for operations, capital lease payments and capital spending. Non-cash working capital changes generated cash outflows of $4.1 million as the Company paid down accounts payable balances related to the high level of activity during the fourth quarter.
- During the first quarter, 69,629 stock options were exercised for proceeds of $100 thousand.

CSI has an unused operating line of credit with its bank with a maximum borrowing limit of $7.0 million. The available borrowing limit under this operating line is determined based on trade receivables and inventory levels. The Company has entered into a general security agreement with its bank to secure such indebtedness.

The table below sets forth the repayment schedule of CSI's long-term debt and capital lease obligations at March 31, 2006:

	Payments Due by Period		
	Total	less than 1-year	1 to 3 years
Long-term debt	$ 668,853	$ 494,681	$ 174,172
Capital lease obligations	626,719	281,076	345,643
Total	$ 1,295,572	$ 775,757	$ 519,815

Subsequent Event

Subsequent to the end of the first quarter, the Company announced the sale of the Fixed Wireless Telephone product line. The details of this disposition are included in note 6 of the consolidated financial statements and are discussed in other sections of this MD&A.

Critical Accounting Policies and Estimates

CSI prepares its consolidated financial statements in Canadian dollars and in accordance with accounting principles generally accepted in Canada. There were no changes in accounting policies or significant estimates in the quarter.

The information in the Management's Discussion and Analysis (MD&A) contains certain forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "would" and similar expressions. These statements involve substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control, including: the impact of general economic conditions; industry conditions; changes in laws and regulations and changes in how they are interpreted and enforced; fluctuations in foreign exchange and interest rates; stock market volatility and market valuations; competition for, among other things, capital and skilled personnel; incorrect assessments of the value of acquisitions; stock market volatility and market valuations and changes in income tax laws. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, such 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, what benefits the Company will derive from them. Except as required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements.

Consolidated Balance Sheets

(unaudited)

	March 31, 2006	December 31, 2005
Assets		
Current assets:		
Cash	$ 11,760,674	$ 12,595,354
Accounts receivable	4,751,232	3,400,719
Inventories	10,198,101	11,030,410
Prepaid expenses and deposits	581,312	550,621
Current assets of discontinued operations (note 5)	9,638,267	11,045,664
	36,929,586	38,622,768
Deferred commissions	165,782	24,472
Property and equipment	6,369,068	6,189,739
Intangible assets	4,844,627	4,727,733
Goodwill	22,961,432	22,394,799
Assets of discontinued operations (note 5)	10,032,371	18,229,059
	$ 81,302,866	$ 90,188,570
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 6,257,686	$ 2,999,227
Deferred revenue	1,739,359	–
Current portion of long-term debt	494,681	483,134
Current portion of capital lease obligations	281,076	284,922
Current liabilities of discontinued operations (note 5)	5,190,033	10,969,890
	13,962,835	14,737,173
Deferred revenue	1,164,514	222,413
Long-term debt	174,172	300,672
Capital lease obligations	345,643	408,411
Shareholders' equity:		
Share capital (note 3)	103,566,255	103,463,383
Contributed surplus	2,224,416	2,036,664
Deficit	(40,134,969)	(30,980,146)
	65,655,702	74,519,901
Subsequent event (note 7)		
	$ 81,302,866	$ 90,188,570

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations and Deficit

Three months ended March 31, 2006 and 2005
(unaudited)

	2006	2005
Sales	$ 15,514,035	$ 9,773,461
Cost of sales	9,311,614	4,657,899
	6,202,421	5,115,562
Expenses:		
Research and development	1,170,136	932,998
Sales and marketing	2,819,069	660,715
General and administrative	1,330,029	1,049,139
Stock-based compensation (note 3(d))	143,303	144,496
Amortization	586,926	197,116
	6,049,463	2,984,464
Earnings before undernoted items	152,958	2,131,098
Foreign exchange (gain) loss	66,610	(32,730)
Interest income	(15,827)	(41,897)
Earnings before income tax	102,175	2,205,725
Current income tax	–	45,000
Earnings from continuing operations	102,175	2,160,725
Loss from discontinued operations (note 5)	(9,256,998)	(843,891)
Net earnings (loss)	(9,154,823)	1,316,834
Deficit, beginning of period	(30,980,146)	(18,942,658)
Deficit, end of period	$ (40,134,969)	$ (17,625,824)
Earnings per common share from continuing operations:		
Basic and diluted	$ 0.00	$ 0.06
Earnings per common share:		
Basic and diluted	$ (0.20)	$ 0.04
Weighted average shares outstanding:		
Basic	45,899,354	33,626,415
Diluted	45,899,354	35,895,576

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Three months ended March 31, 2006 and 2005
(unaudited)

	2006	2005
Cash flows from (used in) operating activities:		
Earnings from continuing operations	$ 102,175	$ 2,160,725
Items not involving cash:		
Amortization	586,926	197,116
Stock-based compensation	143,303	144,496
Unrealized foreign exchange loss	13,928	–
	846,332	2,502,337
Change in non-cash operating working capital:		
Accounts receivable	(1,329,415)	(162,696)
Inventories	959,590	330,582
Prepaid expenses and deposits	(30,691)	36,614
Accounts payable and accrued liabilities	3,129,899	(384,865)
Deferred revenue	1,739,359	–
	5,315,074	2,321,972
Cash used in discontinued operations (note 5)	(5,007,179)	(2,626,135)
	307,895	(304,163)
Cash flows from (used in) financing activities:		
Deferred commissions	(141,310)	–
Deferred revenue	942,101	–
Long-term debt	(128,881)	–
Capital leases	(66,614)	(44,040)
Issue of share capital, net of share issue costs	92,724	609,215
Cash used in discontinued operations (note 5)	(299,396)	(438,283)
	398,624	126,892
Cash flows used in investing activities:		
Purchase of property and equipment	(510,299)	(253,011)
Business acquisition, net	(959,302)	–
Cash used in discontinued operations (note 5)	(71,598)	(226,544)
	(1,541,199)	(479,555)
Decrease in cash position	(834,680)	(656,826)
Cash, beginning of period	12,595,354	10,253,440
Cash, end of period	$ 11,760,674	$ 9,596,614
Supplemental disclosure:		
Interest paid	$ 28,920	$ 25,161
Interest received	69,206	51,145

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Three months ended March 31, 2006 and 2005
(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, 2005. 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. Business acquisition:

On January 3, 2006, the Company, through its wholly-owned subsidiary Hemisphere GPS LLC ("Hemisphere GPS"), completed the acquisition of the business assets of Del Norte Technology, Inc. ("Del Norte"). The acquisition has been accounted for using the purchase method and the allocation of the purchase price based on fair values was as follows:

Cash	$	157,659
Current assets		148,379
Property and equipment		95,146
Intangible assets		277,704
Goodwill		566,634
Current liabilities		(128,560)
	$	1,116,962

Consideration paid consisted of:

Cash	$	1,087,674
Transaction costs		29,288
	$	1,116,962

3. Share capital:

(a) Authorized:

Unlimited number of common shares

3. Share capital (continued):

(b) Issued:

	Number of shares		Amount
Balance, December 31, 2005	45,856,449	$	103,463,383
Issued on exercise of stock options	69,629		108,227
Share issue costs	–		(15,503)
Transfer from contributed surplus on exercise of stock options	–		10,148
Balance, March 31, 2006	45,926,078	$	103,566,255

(c) Stock options:

At March 31, 2006 there were 3,017,696 stock options outstanding.

(d) Stock based compensation:

During the first quarter of 2006 the Company did not grant any stock options. For the three months ended March 31, 2006, the Company recorded $197,900 (2005 – $208,744) as compensation expense, including the amount that is attributable to, and included in, the loss from discontinued operations.

4. Segmented information:

Assets and sales by geographic segment:

	Assets		Sales	
	March 31, 2006	December 31, 2005	2006	2005
United States	$ 54,801,000	$ 72,988,000	$ 9,902,000	$ 6,935,000
Canada	26,502,000	17,201,000	3,214,000	593,000
Europe	–	–	935,000	722,000
Other	–	–	1,463,000	1,523,000

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

5. Discontinued operations:

In the fourth quarter of 2005, the Company commenced activities to restructure and dispose of its Telematics product line, which was a component of the Wireless Business Unit. At March 31, 2006, the Fixed Wireless Telephone product line of the Wireless Business Unit also met all of the criteria for presentation as a discontinued operation. As a result, the entire Wireless Business Unit has been classified as discontinued operations in these financial statements, with the comparative information being restated to conform to this disclosure.

As a result of an assessment of the fair value of the Wireless Business Unit compared to its net realizable value, an impairment of goodwill attributed to the discontinued operations has been recorded totaling $8,000,000.

5. Discontinued operations (continued):

The results of discontinued operations are as follows:

	2006	2005
Sales	$ 8,951,275	$ 12,424,782
Cost of sales	7,679,632	10,261,090
	1,271,643	2,163,692
Expenses:		
Research and development	1,386,688	1,650,237
Selling	581,603	651,997
General and administrative	251,214	328,833
Stock-based compensation	54,597	64,248
Amortization	268,286	300,344
	2,542,388	2,995,659
Loss before undernoted items	(1,270,745)	(831,967)
Interest (income) expense	(13,747)	11,924
Goodwill impairment	8,000,000	–
Loss from discontinued operations	$ (9,256,998)	$ (843,891)

Assets and liabilities presented in the consolidated balance sheet are recorded at fair value and include the following assets and liabilities of discontinued operations:

	March 31, 2006	December 31, 2005
Current assets	$ 9,638,267	$ 11,045,664
Assets:		
Property and equipment	4,505,037	4,701,725
Goodwill	5,527,334	13,527,334
	10,032,371	18,229,059
Current liabilities	(5,190,033)	(10,969,890)
	$ 14,480,605	$ 18,304,833

5. Discontinued operations (continued):

The cash flow from discontinued operations are as follows:

	2006	2005
Cash flows used in operating activities:		
Net loss from discontinued operations	$ (9,256,998)	$ (843,891)
Items not involving cash:		
Amortization	268,286	300,344
Stock-based compensation	54,597	64,248
Goodwill impairment	8,000,000	–
	(934,115)	(479,299)
Change in non-cash operating working capital:		
Accounts receivable	1,559,855	(840,040)
Inventories	(171,094)	(988,985)
Prepaid expenses and deposits	18,636	56,984
Accounts payable	(5,480,461)	(374,795)
	(5,007,179)	(2,626,135)
Cash flows used in financing activities:		
Capital leases	(299,396)	(438,283)
Cash flows used in investing activities:		
Property and equipment	(71,598)	(226,544)
	$ (5,378,173)	$ (3,290,962)

6. Comparative figures:

Effective this quarter, the Company has changed the accounting categorization of dealer selling commissions in the Statement of Operations. As these costs vary directly with sales of the Outback product line, the Company has determined that inclusion in determination of gross margin is a more meaningful presentation. This presentation has been applied in the current and comparative periods.

7. Subsequent event:

On April 24, 2006, the Company announced it had signed a definitive agreement to sell its Fixed Wireless Telephone business to Telular Corporation (“Telular”). Proceeds include cash of US $3,000,000, accounts receivable of US $500,000, 1,934,745 shares of Telular with a value of US $5,600,000 and the potential to earn an additional 1,159,047 shares of Telular. On May 9, 2006 it was announced the sale had closed on May 8, 2006.

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