

**CSI WIRELESS INC.**  
**ANNUAL INFORMATION FORM**

For the fiscal year ended  
December 31, 2005

March 31, 2006

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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained in this annual information form ("Annual Information Form"), and in certain documents incorporated by reference into this Annual Information Form, constitute 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" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this annual information form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form or as of the date specified in the documents incorporated by reference into this Annual Information Form, as the case may be.

In particular, this Annual Information Form, and the documents incorporated by reference, contain forward-looking statements pertaining to the following:

- financial results;
- new and emerging markets;
- technological developments;
- availability of wireless data networks;
- expectations regarding the ability to raise capital; and
- research and capital expenditures programs.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form:

- competition;
- departure of key personnel or consultants;
- inability to introduce new technology and new products in a timely manner;
- misappropriation of proprietary information;
- incorrect assessments of the value of acquisitions;
- fluctuation in foreign exchange or interest rates;
- reliance on key suppliers;
- dependence on major customers;
- product liability;
- stock market volatility and market valuations;
- changes in income tax laws; and
- the other factors discussed under "Risk Factors".

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this Annual Information Form and the documents incorporated by reference herein are expressly qualified by this cautionary statement. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements and readers should also carefully consider the matters discussed under the heading "Risk Factors" in this Annual Information Form.

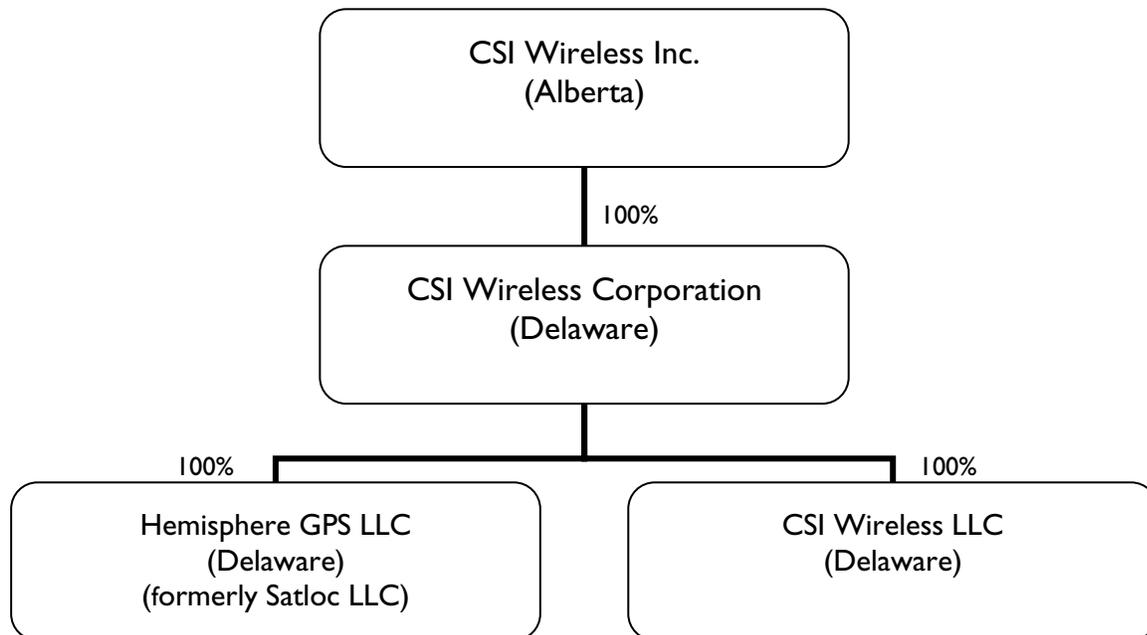
## CORPORATE STRUCTURE

CSI Wireless Inc. (the "Corporation", "CSI", "CSI Wireless", "us", "we", or "our", where the context requires, also includes our predecessors and our subsidiaries) was incorporated as Canadian Systems International Inc. pursuant to the *Business Corporations Act (Alberta)* ("ABCA") on July 31, 1990. On October 26, 1992 the Corporation changed its name to Communication Systems International Inc. Effective April 30, 1996, the Corporation amended its articles to effect, among other things, a re-designation of the Corporation's Class A common shares to common shares of the Corporation ("Common Shares"), a stock split of the Common Shares on a 12,500 to 1 basis and to delete the "private company" share transfer restrictions. On June 21, 2000, by articles of amendment, the Corporation changed its name to CSI Wireless Inc. CSI designs and manufactures innovative, cost-effective, wireless and GPS products for applications in consumer, agriculture, marine and other markets.

Our registered and head office is located at 4110 – 9<sup>th</sup> Street S.E., Calgary, Alberta, T2G 3C4.

### Inter-Corporate Relationships

We have three wholly-owned subsidiaries: CSI Wireless Corporation, incorporated under the laws of the state of Delaware, Hemisphere GPS LLC ("Hemisphere") and CSI Wireless LLC, both of which are limited liability corporations incorporated under the laws of the State of Delaware. Hemisphere GPS LLC was previously named Satloc LLC, before a name change in November, 2005.



CSI Wireless is organized into two operating business units: the Hemisphere GPS business unit and the Wireless business unit. At December 31, 2005, the Hemisphere GPS business unit had 159 employees and the Wireless business unit had 53 employees. In addition, 25 employees, including the President and CEO, performed corporate functions that are not directly attributed to either operating unit.

## GENERAL DEVELOPMENT OF THE BUSINESS

This section discusses the major events or conditions that have influenced the general development of the Corporation over the last three completed financial years, as applicable, including significant acquisitions and dispositions that have occurred.

### Three Year History

#### 2003

On May 28, 2003, we announced that we had signed an agreement with Fleetboss Global Positioning System Solutions Inc. to supply a customized version of our Asset-Link™ 200 product as hardware for Fleetboss' systems for monitoring fleet vehicles. The Agreement provided that Fleetboss would purchase approximately \$2 million of Asset-Link 200 units from us over a 24 month period.

On June 17, 2003, we announced that we had received purchase orders valued at approximately \$11 million from RHS Inc. ("RHS") for our Outback® S and Outback® 360 products.

On July 2, 2003, we announced that we were awarded a patent on our ceramic frequency filter for differential GPS correction signals. The patented filter is a key element in our MBX3 DGPS receiver.

On July 15, 2003, we announced that we were awarded a patent for our antenna splitter technology found in the AVL-I Antenna Signal Splitter, which uses the vehicle's standard AM/FM radio antenna to receive accuracy enhancing differential GPS signals for the automotive market. AVL refers to the automatic vehicle location and the ability to pinpoint the location of a vehicle within a given range.

On August 11, 2003, we announced the closing of an offering of 3,305,750 CSI Units issued at a price of \$1.60 per Unit for gross proceeds of approximately \$5.3 million. Each Unit was comprised of one Common Share and one Warrant to purchase one Common Share at a price of \$2.00 until August 8, 2005.

On October 1, 2003, we announced that we had been denied a claim against a previous customer for alleged breach of contract and that total expenses, including legal fees, tribunal hearing charges, inventory write-offs and other costs related to the claim were expected to be approximately \$1.2 million in the third quarter of 2003. The total costs related to the claim in 2003 totaled \$1.5 million.

On October 6, 2003, we announced that Brian Hamilton, Executive Vice-President and Chief Financial Officer, resigned and Cameron Olson, Vice President of Finance for our Wireless business unit was named our new Chief Financial Officer.

On October 16, 2003, we announced the launch of our new GSM-based Asset-Link 400 asset tracking and telematics product.

On December 2, 2003, we announced that we had received an initial \$2.1 million purchase order from RHS for our new GPS Assisted Automatic Steering System which RHS has named eDrive®.

On December 8, 2003, we announced the introduction of two new products for the global aerial guidance market: the LiteStar™ II, a low-cost entry-level guidance system and the AerialACE™, an automated variable rate flow control system for aerial spraying.

On December 17, 2003, we announced the expansion of our partnership with Brightstar Corporation ("Brightstar") to develop a GSM version of our desktop cellular telephone.

On December 18, 2003, we announced that, in November and December of 2003, a total of 1,782,000 Warrants were exercised by the holders thereof, resulting in proceeds of \$3.1 million.

## 2004

On February 11, 2004, we announced that we had received additional purchase orders from Brightstar for our desktop cellular telephone, the Motorola-branded FX800t. The purchase orders represent a significant demand increase when compared to volumes shipped in the last two quarters of 2003.

On March 3, 2004, we announced the closing of a bought-deal private placement of 5,000,000 Special Warrants, which included 1,000,000 Special Warrants pursuant to the exercise of the underwriters' option. The Special Warrants were purchased at a price of \$3.25 per Special Warrant, for gross proceeds of approximately \$16.3 million. Each Special Warrant entitled the holder to receive, without payment of further consideration, one Common Share, subject to adjustment in certain circumstances.

On April 20, 2004, we announced the introduction of PowerMAX, a Differential GPS receiver with built-in Bluetooth® wireless technology. Through Bluetooth, the PowerMAX communicates wirelessly with the user's computer or hand-held computing device, eliminating the need for a hard-wired data link between the devices.

On May 27, 2004, we announced product details and shipping plans for our new desktop cellular telephones that feature GSM and GPRS technology. GPRS (General Packet Radio Service) is an extension to the GSM standard to include packet data services. The 410 Series of phones have GSM-GPRS capability for voice, Internet, email and text-message transmissions, and the lower-cost 400 Series of phones have GSM capability for voice and text-message transmissions.

On June 3, 2004, we announced an agreement to begin supplying asset-tracking units to Caterpillar Inc., the world's leading manufacturer of construction and mining equipment. Caterpillar brands the asset-tracking units as the Product Link PL102C as an after-market product to enable equipment owners and insurers to accurately monitor their assets' movements and engine running hours.

On June 22, 2004, we announced that we had received purchase orders totaling \$18 million from Brightstar for CSI's TDMA-based desktop cellular telephone known as the Motorola FX800t.

On June 30, 2004, we announced the introduction of GPSteer™ – a CSI-branded, auto-steering system for tractors and other self-propelled agricultural equipment. GPSteer is marketed globally through our distribution partners to end-users, farm equipment manufacturers and guidance system integrators.

On July 6, 2004, we announced the receipt of \$15 million of purchase orders from RHS for the Outback S, Outback 360 and Outback eDrive-branded GPS guidance products for agriculture that CSI manufactures exclusively for RHS.

On July 15, 2004, we announced that we established a supply and product-development relationship with DICKEY-john Corporation, a leading manufacturer of electronic equipment for the agricultural and public works sectors, with customers on six continents.

On September 8, 2004, we announced that we had received a \$5.7 million purchase order from Brightstar for our new 400 Series desktop cellular telephone model that employs GSM technology.

On October 4, 2004, we announced that our Fleet-Link™ asset-tracking product was being shipped to application service providers, OEMs and other customers. Fleet-Link is a self-powered asset-tracking product to remotely monitor and manage truck trailers, freight containers and other mobile assets from a central command centre.

On October 14, 2004, we announced that we had received an \$8.3 million purchase order from Brightstar for our Motorola FX800t.

On October 26, 2004, we announced that we had achieved an important corporate milestone by shipping our 500,000th wireless device.

## 2005

On Feb. 18, 2005, we announced that we had introduced two new desktop cellular telephones featuring GSM wireless technology, to be distributed by Brightstar. One product is an entry-level phone for consumers wanting voice-only service, while the other product features voice, Internet, email and text-messaging capability.

On March 1, 2005, we announced that we had signed an agreement with Saab TransponderTech and begun integrating our GPS circuit board technology into Saab's entire Automatic Identification System ("AIS") product line that uses GPS to identify and monitor maritime traffic. AIS systems send and receive vessel identification and position data between ships, between ships and shore, and through information broadcasts. Saab TransponderTech is part of the Saab Group of companies.

On March 28, 2005, we announced we had entered into an agreement with a syndicate of underwriters led by GMP Securities Ltd. for a "bought deal" underwritten private placement financing of 3.2 million Common Shares at \$3.75 per share for gross proceeds of \$12 million. Underwriters had the option to purchase an additional 800,000 CSI Common Shares on identical terms. The underwriters subsequently exercised their option – purchasing 4 million CSI Common Shares in total, for gross proceeds to CSI of \$15 million, as announced on April 19, 2005.

On April 8, 2005, we announced the closing of our acquisition from RHS Inc. of the Kansas-based sales, marketing and distribution assets of the Outback® line of GPS guidance products for agricultural applications (the "Outback Business"). At closing, a promissory note was issued to RHS for approximately US\$9.6 million, and we issued 4.4 million CSI Common Shares. We also assumed approximately US\$1.2 million of RHS debt, and agreed to issue an additional 2.1 million CSI Common Shares if the Outback business achieves certain growth and profitability targets in 2005, 2006 and 2007. Some of the proceeds from our \$15 million financing were used to pay the US\$9.6 million promissory note to RHS.

On May 24, 2005, we announced that we had received \$5 million of purchase orders for our desktop cellular telephones.

On May 25, 2005, we announced the introduction of our own application-specific integrated circuit (ASIC) computer chipset technology, branded as Crescent® receiver technology, and said we would be gradually integrating it into our existing and future GPS products – including our products for Original Equipment Manufacturers (OEM).

On June 8, 2005 we announced that we had begun supplying essential differential GPS technology for the Trinity Solution available from MX Marine, a unit of Brunswick Corporation.

On June 28, 2005, we announced that we had entered into an agreement to design and supply high-performance GPS receivers and automatic steering systems to CLAAS KGaA mbH for use throughout CLAAS' extensive product lines and platforms including tractors, grain harvesters, forage harvesters and wide-area mowing machines. CLAAS, including its AGROCOM precision farming division, is one of the world's largest agricultural machinery manufacturers. The German firm markets its products in more than 140 countries.

On August 16, 2005, we announced our newest telematics and asset-tracking products – the digital Asset-Link 410 and analog Asset-Link 150.

On October 12, 2005, we announced that Hamid Najafi had resigned from CSI's Board of Directors. Mr. Najafi is the founder and CEO of Broadlink Research Inc., a wireless communications consulting firm that has begun working with CSI on several projects. These projects – and their potential to cause conflicts of interest for Mr. Najafi in his role on CSI's Board of Directors – prompted his resignation.

On November 1, 2005, we announced the introduction of the Outback® S2, our new GPS guidance system for agricultural applications. Because it is equipped with our new proprietary Crescent receiver technology, the Outback S2 is capable of a 50% increase in accuracy and performance over previous models. It is the primary product in our Outback product line that also includes the Outback S, Outback eDrive and Outback 360.

On December 6, 2005, we announced the introduction of the Crescent Vector OEM module – a new heading sensor module (or circuit board) featuring our new proprietary Crescent receiver technology. The module is designed primarily for marine applications, but can also be used for other markets including agriculture and machine control.

On December 14, 2005, we announced that we had reached a sales milestone by selling more than 2,000 of our Outback eDrive and Satloc® GPSteer automated steering systems for tractors and other self-propelled agricultural equipment. We introduced our automatic steering products in North America in early 2004, and in South America, Europe and Australia in 2005.

### **Anticipated Changes in the Business**

In accordance with our business strategy, we will continue to pursue cost-effective and timely strategic investments, acquisitions, partnerships and dispositions that will improve our competitive and financial position.

On January 3, 2006, we announced that we had acquired the business assets of Del Norte Technology, Inc. (“Del Norte”) located in Dallas, Texas. Further details regarding this acquisition are included in the Recent Developments section of this document.

On February 9, 2006, we announced that we had reduced staff and expenses in the telematics product line and had commenced the search for a buyer. We expect to sell the elements of this product line to one or more buyers during 2006. Further details regarding this announcement are included in the Recent Developments section of this document.

### **SIGNIFICANT ACQUISITIONS**

On April 8, 2005, the Company, through its wholly-owned subsidiary Satloc LLC, completed the acquisition of certain sales, marketing and distribution assets relating to the Outback line of products from RHS Inc. A Business Acquisition Report (Form 51-102F4) was filed with respect to this acquisition on August 12, 2005 which is incorporated into this document by reference. The Outback Business became an integral part of our GPS business unit which is now branded “Hemisphere GPS”. In connection with the integration of the Outback Business with our GPS business unit, Satloc LLC was renamed to Hemisphere GPS LLC.

### **RECENT DEVELOPMENTS**

On January 19, 2006, we announced the completion of our acquisition of the business assets of Del Norte, for US\$940,000. Under the terms of the agreement, which took effect January 1, 2006, we also acquired approximately US\$250,000 of working capital from Del Norte. We combined Del Norte with our own Hemisphere GPS aerial guidance division to create a new division called Hemisphere Air.

On January 27, 2006, we announced the receipt of more than \$5 million of new purchase orders for our fixed wireless phones.

On February 2, 2006 we announced the introduction of two new fixed wireless telephones featuring GSM technology.

On February 9, 2006, we announced the reduction of staff, expense and overall investment within our telematics product line. In the fourth quarter of 2005, based upon a strategic determination to focus on business lines with the greatest opportunity, we commenced the search for a buyer for our telematics product line. We are in discussions with potential buyers and are expecting to complete the disposal of the product line during 2006. As a result, and in accordance with Canadian generally accepted accounting principles (“GAAP”), the Telematics financial components have been treated as “discontinued operations” in the Company’s financial statements (please refer to the consolidated financial statements and management discussion and analysis for the year ended December 31, 2005). Given these actions, references to the telematics product line have been removed from the Description of Our Business section in this document.

On February 14, 2006, we announced we that have secured experienced international distributors for our new fixed wireless phones featuring GSM technology.

On February 27, 2006, we announced that Mr. Michael Brower had resigned from our Board of Directors.

On March 7, 2006 we announced the receipt of more than \$7.5 million in purchase orders for our GSM-based fixed wireless telephones.

On March 7, 2006, we released our fourth quarter and fiscal 2005 financial results.

## **DESCRIPTION OF OUR BUSINESS**

### **HEMISPHERE GPS BUSINESS UNIT**

#### **General**

Through our Hemisphere GPS business unit, we design, manufacture and market precision GPS positioning products for multiple markets including agriculture (both aerial and ground applications), marine, geographic information systems ("GIS"), mapping and surveying. Our products include ground and aerial guidance systems for agriculture, high-accuracy DGPS receivers, autonomous GPS receivers, OEM engines (PCB-based GPS and DGPS sensors), and GPS and DGPS antennas.

#### **Industry Background**

##### ***The Global Positioning System***

The United States' Department of Defence ("DoD") operates a reliable, 24-hour-per-day, all-weather Global Positioning System ("GPS"). This system consists of ground control facilities and a constellation of 24 satellites (plus active spares) orbiting the Earth at an altitude of approximately 22,000 km.

*How GPS Works.* GPS satellites transmit coded information to users at band frequencies (1.575 GHz) that enable user equipment to calculate a range to each satellite. GPS is a timing system; that is, ranges are calculated by timing how long it takes for the GPS signal to reach the user's GPS antenna. The GPS receiver calculates the range by referencing the time of transit of the signal to the speed of light.

To calculate a geographic position, the GPS receiver uses a complex algorithm incorporating satellite coordinates and ranges to each satellite. Reception of any four or more of these signals enables a GPS receiver to compute three-dimensional coordinates. Tracking of only three satellites reduces the position fix to two-dimensional coordinates (horizontal with fixed vertical). The GPS receiver calculates its position with respect to the phase centre of the GPS antenna.

#### **GPS Services**

The positioning accuracy offered by GPS varies depending upon the type of service and equipment available. For security reasons, two GPS services exist: the Standard Positioning Service ("SPS") and the Precise Positioning Service ("PPS"). The US DoD reserves the PPS for use by its personnel and authorized partners. The SPS is provided free of charge, worldwide, to all civilian users.

In order to maintain a strategic advantage, the US DoD used to artificially degrade the performance of the SPS so the positioning accuracy was limited to 100 metres 95% of the time. This intentional degradation was called Selective Availability. On May 1, 2000, Selective Availability was reduced to zero, effectively turning off the degradation. The intent, which has proven to be quite successful, was to stimulate the development of applications that utilize GPS technology, together with the related social and economic benefits.

With Selective Availability effectively turned off, autonomous GPS is able to achieve a horizontal accuracy of about 10 meters, with 95% confidence.

### **Differential GPS**

The purpose of differential GPS (DGPS) is to remove the effects of ionospheric errors, timing errors, and satellite orbit errors, with the goal of enhancing GPS system integrity and position accuracy. Prior to May 1, 2000, DGPS also reduced the impact of Selective Availability.

*How it Works.* DGPS involves setting up a reference GPS receiver system at a point of known coordinates. This receiver makes distance measurements, in real-time, to each of the GPS satellites, which includes any errors present in the system. The base station receiver calculates what the true range should be without errors, knowing its own coordinates and those of each satellite. The difference between the known and measured range to each satellite is the range error. This error is the amount that must be removed from each satellite distance measurement to correct for errors present in the system.

*Real-Time DGPS.* To correct for system errors in real-time, the GPS base station transmits the range error corrections to remote receivers using wireless communications. The remote receiver corrects its satellite range measurements using these differential corrections, providing a more accurate position. This approach is the predominant DGPS strategy used for real-time applications.

Positioning using corrections generated by DGPS radio beacons (Beacon DGPS) provides a horizontal accuracy of one to five meters with 95% confidence. Positioning using corrections generated by Wide Area Augmentation Systems (WAAS) or other L-Band subscription-based differential networks (L-Band DGPS) provides a horizontal accuracy of 1 meter or better with 95% confidence. CSI's GPS technology for our SLX and SX products is capable of centimetre-level accuracy with a short-range (1 to 10 km) base station and radio link.

### **Differential GPS Services**

We offer receiver equipment that is compatible with the three main differential correction services: beacon DGPS, L-Band Satellite DGPS, and Space Based Augmentation Systems (SBAS).

*Beacon DGPS.* Many marine authorities around the world have installed networks of medium-frequency (283.5 to 325 kHz) beacons that broadcast free GPS correction information to users. When in range of a beacon, these signals may be used to differentially correct a GPS position. The achievable accuracy depends on the sophistication of the GPS receiver used and ranges from one to five metres.

An advantage of the free beacon service over satellite-based services is that beacon signals are able to provide excellent coverage around obstacles, similar to how AM radio signals are able to penetrate tree canopies or diffract around obstacles such as buildings and other structures. The disadvantages include beacon GPS' susceptibility to noise interference by man-made equipment and the decreasing applicability of correction information as users move away from the base station.

*L-Band DGPS.* Currently, a number of private organizations provide, for a subscription fee, differential corrections to the positioning industry by transmitting correction data via an L-band communication satellite. They include the OmniSTAR® and Veripos systems and they provide almost worldwide signal coverage.

Because L-band DGPS features networks of reference stations to provide correction information throughout the coverage regions, the correction data is optimized so it does not degrade as readily as single reference station services, such as beacon DGPS. This feature results in improved consistency of performance when compared to conventional services, which improves the confidence of system users. Although the performance of L-band systems is more consistent than single base station systems, the overall accuracy provided is similar.

Because these services broadcast in the L-band, similar to GPS, they are line-of-sight signals. The satellite must be in view of the antenna at all times or the signal may be lost.

*Space Based Augmentation Systems.* The most notable Space Based Augmentation System (SBAS) is the US Federal Aviation Administration's Wide Area Augmentation System (WAAS). Others include Europe's EGNOS (European Geostationary Overlay System) and Japan's MSAS (MTSAT Satellite-Based Augmentation System). They are similar to L-Band DGPS in that they use satellite transponders to relay correction information back to Earth.

These free-of-charge SBAS have been developed primarily for aviation navigation. They use a different methodology for correcting GPS errors than beacon or L-band services. Instead of attempting to solve for the sum of errors as observed by measurements to each satellite, SBAS attempt to solve for each error separately. The advantage of this approach is that if the errors – including satellite orbit, clock, and ionospheric errors – can be determined separately, a more consistent level of accuracy can be achieved in comparison to range measurement methods. Even though the elegance of this correction technique will likely improve the consistency of accuracy further over L-band services, it will provide a similar level of overall accuracy when compared to beacon and L-Band services.

Another benefit of SBAS is that their signals are broadcast at the same frequency as GPS, enabling suitably designed GPS receiver systems to track both GPS and WAAS. This reduces overall system costs, compared to requiring a separate differential receiver for beacon or for L-band. However, a drawback of transmitting data at the GPS frequency is that the signal is line-of-sight – increasing the potential for signal loss.

WAAS provides excellent coverage of most of the US, southern Canada and Mexico. WAAS is also being upgraded (additional reference stations, satellites, etc.) during the next few years to expand coverage and ensure that it is even more accurate. SBAS coverage over other regions of the world is the responsibility of respective regional authorities. The overall goal of SBAS is to develop an interoperable GPS augmentation system covering the majority of air traffic routes. It is likely that this will ultimately provide coverage to the majority of the world.

## **The CSI Wireless Solution**

Through our Hemisphere GPS business unit, CSI Wireless has been a leader in the design and manufacture of competitive, high-accuracy, cost-effective GPS positioning devices since 1990. The following characteristics describe the competitive advantages associated with our GPS products.

*Technology.* Our technology portfolio has been expanded beyond differential GPS technology through development and strategic acquisitions. Today, our technology portfolio includes strong proprietary technology in GPS, DGPS and guidance. Our GPS engineering team has become known in the industry for innovation and creativity as a result of achievements such as:

- We developed a high-quality beacon receiver design that provides superior immunity to man-made noise, resulting in high performance under noisy conditions.
- The SLX-2 and SXI modules provide sub-5 cm accuracy positioning for advanced applications by incorporating Real-Time Kinematics ("RTK") technology.
- Cost reductions have been continually achieved through initiatives such as combining GPS and differential receivers in a single module to share common resources, and the design of integrated antennas.
- We have developed a GPS heading system that combines two GPS receivers and two antennas into a single enclosure to provide heading information to within half-degree accuracy.
- We developed the Crescent technology – our own application-specific integrated circuit ("ASIC") providing our GPS receivers with greater accuracy and performance than previously available for lower cost.

*Range of Options.* Our products offer a range of options to customers. For example, our Outback family of products starts with basic guidance for agricultural applications. Beyond this entry point, customers can expand their guidance capability with auto-steering and situational awareness products as their comfort with the technology grows. Our DGPS products are compatible with all three primary sources of differential corrections currently available: beacon, L-Band and SBAS. This provides customers with the option of selecting the technology that is most compatible with the application while considering several factors including the required precision and

cost. To date, none of the DGPS correction sources has proven itself as an industry standard because each source has its advantages and disadvantages.

*Price.* Hemisphere GPS has distinguished itself as a low-cost provider of GPS guidance and positioning devices while maintaining a high level of performance, features and quality. We continue to pursue means of reducing the cost of our products to maintain our competitive advantage. For example, we introduced the Crescent technology in 2005 which provides higher performance and features for lower cost.

*Reliability.* Our products are designed to meet very high standards of reliability in a wide range of applications and environments. For example, we have implemented a difficult agricultural standard (EP455) against which we evaluate our products. Meeting these standards will ensure our products can withstand the harshest environments.

*Quality.* We have selected GPS component suppliers that meet very high standards for quality. Manufacturing our GPS products internally allows us to maintain a high standard of quality control and documentation to ensure continued production of high-quality products.

*Ease of Use.* Our products are designed for ease of use by commercial or consumer businesses. The Outback product line, targeted to farming customers, provides for simple, out of the box installation and use. Our commercial products are designed for simple integration with our customers' applications and/or products. A significant investment is made in customer support to ensure that both consumer and commercial customers have the resources they need to achieve full benefit from the products.

## **Business Strategy**

*Expand Technology Portfolio.* Our Hemisphere GPS business unit's success has been driven by the ability of the research and development team to develop new positioning technology, respond to environmental and market changes, and apply creativity and innovation in the development of new products that meet the evolving demands of our customers. We intend to continue focusing on technology leadership and innovation.

*Optimize Product Cost.* We intend to continue to aggressively pursue opportunities to reduce or optimize the cost of our products by balancing functionality, performance and quality with customer needs, as well as through design and manufacturing improvements.

*Expand and Develop Strategic Relationships.* We believe that strategic relationships with suppliers, OEMs and other customers enable us to realize value from our technology while avoiding or reducing the dedication of resources to many areas.

*Enhance Manufacturing Quality and Capacity.* We have focused on the maintenance of high-quality standards for manufacturing. Time and resource investments in quality development, and design and manufacturing processes, are critical to ensure that our products meet our customers' functionality, performance and quality requirements.

*Pursue Focused Acquisitions.* We believe that we have the products, brands, people and intellectual property that can continue to support organic growth. However, we will supplement internal growth and technology development with acquisitions when and where this will accelerate the achievement of our business strategy. For example, our acquisition of the Outback Business from RHS in April 2005 significantly expanded our product offerings, branding and distribution capabilities in the precision agriculture market. Similarly, in early 2006, we acquired Del Norte, to solidify our position in the aerial guidance market.

*Invest in the Corporation's Intellectual Capital.* We believe the employees in all levels of our organization have been, and will continue to be, the key factor in achieving our objectives. As a result, we will continue to place a high priority on our intellectual capital.

## **Products**

### ***Agriculture Guidance Products***

Our guidance products for agricultural use include our popular Outback S and second-generation Outback S2, Outback 360, Outback Hitch, Outback eDrive, and our new Outback Baseline™ product.

Our Outback S is a DGPS guidance system featuring a WAAS and L-band receiver. The Outback S enables farmers to navigate their fields with minimal overlap whether in straight lines or contours in any visibility, including darkness. Eliminating overlap saves enough time, fuel, fertilizer and insecticide that Outback S purchasers say they typically recoup the costs of their easy-to-install and operate guidance systems in only 12 to 18 months.

Our new Outback S2 is a DGPS guidance system that has all the features of the Outback S plus our new proprietary Crescent receiver technology that enables the system to achieve a 50% increase in accuracy, along with other performance advantages.

Our Outback 360 is an accessory product to the Outback S and Outback S2. It is a computerized visual aid system that features a high-resolution colour display that effectively enables farmers to look down from the sky – monitoring the progress of their tractors and farming implements as they move across their fields, while collecting and processing data.

Our Outback Hitch is another accessory product to the Outback S and Outback S2. It enables the hitch or link between the tractor and the agricultural implement trailing behind to automatically adjust to the left or right. Using the Outback Hitch keeps implements precisely on track – overcoming the impact of curves, hillsides and inattentive driving.

Our Outback eDrive is another accessory product to the Outback S and Outback S2. It is a GPS-assisted auto-steering system that enables farmers to drive their tractors and other self-propelled agricultural equipment hands-free, along straight or contoured lines. We also offer a Satloc-branded OEM-oriented version called GPSteer. Both systems enable operators to focus their attention on monitoring sprayers, combines or other equipment to achieve greater efficiency. Another key benefit is the reduction in driver fatigue – enabling the machinery to operate for more hours each day, or through the night if necessary.

Our new Outback Baseline is a high-definition DGPS base station receiver system for agricultural applications that achieves much more accuracy than conventional DGPS while also being much more affordable than RTK (Real-Time Kinematic) GPS. Outback Baseline features our proprietary high-performance Crescent receiver technology.

Our guidance products for agricultural use also include a variety of Satloc-branded items including our AirStar M3™, LiteStar II and GPSteer.

The AirStar M3 is a high-performance aerial guidance system, while the LiteStar II is a high-performance land-based guidance system. Both are very accurate for spraying, swathing, mapping, yield monitoring and soil sampling.

GPSteer is our new OEM-oriented, hands-free auto-steering system for tractors and other self-propelled agricultural equipment. Its Outback-branded counterpart is the Outback eDrive.

Our guidance products for the agriculture industry now also include our Del Norte line of aerial guidance systems and automated rate control systems for aerial spraying.

### ***Original Equipment Manufacturer ("OEM") Products***

Hemisphere GPS' OEM products, most of which are designed to serve markets other than agriculture, include the SBX-3B, SLX-2, SX-1 and the Vector OEM.

Our SBX-3B is a differential beacon engine that augments a separate GPS receiver with free correction signals from beacon stations. The resulting positioning accuracy of the GPS receiver is between one and five metres.

Our SLX-2 is a DGPS engine equipped to receive additional signals from two global sources – the subscription-based L-band OmniSTAR system, and/or freely available SBAS such as the US WAAS, Europe's EGNOS, and Japan's MSAS. The SLX-2 features Hemisphere GPS' unique COAST™ and e-Dif® technology that enable it to continue to effectively use out-dated differentially corrected data for up to 40 minutes without any significant accuracy degradation.

Our SX-1 is a very affordable module for receiving DGPS and SBAS signals. It features Hemisphere GPS' COAST and e-Dif technologies and is accurate to less than one metre – making it ideal for applications such as agricultural guidance, GIS and mapping.

Our Vector OEM is a complete GPS compass and positioning system designed primarily for the marine market but it can also be used for agricultural guidance and machine control. Its positioning performance is sub-metre 95% of the time when using internal SBAS corrections, optional on-board beacon corrections, or externally input corrections.

### ***GPS Heading Systems***

We introduced our Vector line of GPS heading systems in late 2002. Representing an entirely new core technology for us, the systems enable users to maintain very accurate headings at substantially less than the cost of traditional gyrocompasses. The Vector line incorporates our exclusive COAST technology.

The Vector is designed primarily for marine use, while the Vector Sensor is targeted to the marine industry and for the rapidly emerging machine control market – including agricultural and heavy construction equipment.

The Vector is a "smart antenna" system that combines two GPS receivers and two antennas into a single enclosure about a half-metre long. Using a sophisticated moving base station RTK technique, the Vector provides heading information to within a half-degree (0.5°) accuracy – enough to replace gyrocompasses for many applications at a fraction of the cost. It is capable of receiving accuracy-enhancing data from land-based DGPS beacon stations and from space-based WAAS, EGNOS and MSAS.

The Vector Sensor is similar to the Vector in that its two receivers and other electronics are housed in a single enclosure; however, each of the Sensor's two antennas are housed in a separate enclosure. Users can increase the distance between the antennas which increases the heading accuracy. With the antennas two meters apart, the Vector Sensor computes heading information with better than 0.15 degree accuracy. This accuracy matches or exceeds the accuracy of competitors' products while being significantly more affordable.

### ***Integrated GPS Receivers***

Our integrated receivers include the ultra-compact Seres, a combined DGPS/SBAS receiver and antenna system designed to serve several markets including agricultural guidance, GIS and mapping. The Seres features our exclusive COAST technology, and is also compatible with our unique e-Dif software.

Our other integrated receivers include the DGPS MAX, MBX-3S, SLXg3, SLXg3 Combo, MiniMAX and PowerMAX. These receivers are intended for a wide variety of applications including marine and land navigation, precision guidance in agriculture, asset-tracking, GIS and mapping. The DGPS MAX, which is our flagship integrated receiver, features beacon, SBAS, OmniSTAR capability, plus COAST technology. The MiniMAX features beacon and SBAS capability and the PowerMAX features beacon, SBAS, OmniSTAR and Bluetooth capability.

### ***GPS Software***

We have a growing variety of innovative GPS software products, including several that significantly enhance the location-sensing capabilities of our other products.

Our software includes COAST, which enables DGPS receivers to use original differential data for up to 40 minutes without seriously degrading accuracy. COAST makes various Hemisphere GPS receivers less likely than competing products to be affected by trees, buildings and other obstacles that temporarily block differential signals. COAST enables the receivers to "coast" through temporary signal outages with minimum impacts on accuracy. Hemisphere GPS products that incorporate COAST include the Seres, SX-1, SLX-2, Vector, Vector Sensor and DGPS MAX.

We also have e-Dif or "extended differential" software that enables standard GPS receivers to achieve the much higher accuracy available from DGPS without any help from accuracy-enhancing differential signals. e-Dif enables a standard GPS receiver, capable of only 10-metre or 15-metre accuracy, to internally generate differential corrections that improve its accuracy to one metre without the expense or potential uncertainties of differential signals. e-Dif computes corrections that last for as long as 40 minutes, after which the receiver re-computes a fresh set of corrections for another 40 minutes.

e-Dif can save customers the cost of subscription fees for DGPS signals in regions such as South America, Africa and Australia where no signals are available for free. Even in North America, where signals are free, e-Dif is a valuable back-up against signal outages. And in northern latitudes, including many parts of Canada, e-Dif can achieve better accuracy than what is possible using free differential signals from public satellite networks such as WAAS, or when a receiver is on the fringe of land-based radio beacon networks.

CSI has integrated e-Dif software into many of its products including the DGPS MAX, SLX-2, SLXg3, SLXg3 Combo, Seres, AgIQ, Outback S and Outback S2.

## **Research and Product Development**

The focus of the Hemisphere GPS business unit's research and development team is on expanding our core GPS positioning and guidance technologies and on developing new products. We believe research and product development are primary factors contributing to our success and primary barriers to potential competitors' entry into the GPS industry. Accordingly, we intend to continue investing significant resources in research and product development.

*ASIC GPS DSP.* In May 2005, we completed development of our own patented application-specific integrated circuit (ASIC) GPS correlator digital signal processor ("DSP"), branded as Crescent receiver technology, and began introducing it to the market. We gradually supplanted the commercial correlator IC we had been using with our proprietary ASIC GPS DSP, and integrated it into our existing GPS product lines, as well as using the device in new product designs. At the same time, with our OEM partners, we started planning the switch-over of customer-specific GPS products to Crescent technology. The Crescent GPS DSP correlator provides a significant improvement in accuracy to Hemisphere GPS products, avoids the risks and costs of purchasing GPS DSP technology from a third party. In addition, controlling our own core GPS intellectual property enables us to modify its implementation as needed for tailor-made GPS solutions.

*Microstrip GPS Antenna.* In early 2006, we completed development of our new Apex patent-pending GPS antenna technology. Apex technology is a broadband aperture-coupled GNSS microstrip patch antenna that provides enhanced broadband GPS performance, including OmniSTAR reception, enhanced multi-path rejection, excellent axial ratio and frequency response, very low noise, and improved product manufacturability.

*Crescent-equipped SX2 GPS Circuit Board.* Our product development team has completed the integration of our SX2 GPS board, using Crescent technology, into our Outback product line. This is enabling us to ship a next-generation Outback S2 guidance system with enhanced features and performance and lower manufacturing costs.

*Other.* Our automatic steering systems are now supported on a large number of after-market agricultural vehicles with improved control. We are also in the final stages of field testing and development of the Outback Baseline that will offer improved accuracy through "local differential."

## **Marketing, Sales and Distribution**

We are focused on providing low-cost GPS guidance and positioning technology and products to growing commercial and consumer GPS markets. Our strategy for distribution of our GPS products has traditionally been through large OEMs and dealer networks with established channels for multi-country distribution. This strategy has eliminated the need to devote significant resources to developing these distribution channels on our own. As part of its distribution strategy, we have developed strategic relationships with suppliers, OEMs and distributors that enable us to participate in a broader range of high-growth commercial and consumer GPS-enabled markets.

In 2005, we broadened our sales and distribution strategy with regard to the after-market precision agriculture markets through the distribution network acquired with the Outback business. Outback has an extensive distribution network and branding presence which significantly expanded our reach in the precision agriculture markets.

Our Hemisphere GPS business unit serves global markets. Of its 2005 sales, 54.6% (2004 – 76.8%) occurred in the US, 10.1% (2004 – 4.5%) occurred in Europe, 18.6% (2004 – 4.6%) occurred in Canada and 16.7% (2004 – 14.1%) occurred in other areas of the world.

Our GPS guidance products currently serve the agriculture, marine, GIS and other markets. Our DGPS products are focused on markets where an accuracy level of five meters or less is required.

Our GPS guidance products provide solutions for agriculture, GIS and mapping applications including ground-based chemical applicators, yield monitoring, soil sampling, crop scouting and other precision farming applications.

From a customer's perspective, the primary benefits provided by DGPS and GPS are more accurate navigation, improvements in productivity and safety, and savings in costs and time. For example, in farming applications, our guidance products result in savings to users through reduced overlap and reduced driver fatigue. In addition, our products can be used in conjunction with devices that monitor the grain yield on harvesting equipment. This yield monitor constantly records the harvest yield and, in conjunction with a DGPS system, enables yield-by-field location maps which can be used in subsequent years to increase or decrease the type and amount of fertilizers and other additives used. Significant cost savings can be achieved by using these types of precision farming techniques.

In marine applications, our commercial customers typically use our products for accurate navigation – enabling vessels to maintain accurate headings while navigating at substantially less cost than traditional gyrocompasses.

## **Competition**

We have competitors in each of our target markets and expect competition to intensify as acceptance and awareness of GPS technology increases. One of our main competitors is Trimble Navigation Limited ("Trimble"). Trimble's GPS products currently address the survey and mapping, tracking and communications, navigation, precision agriculture and military systems markets. Other competitors offering products similar to those of Hemisphere GPS include NovAtel Inc., Thales Navigation Inc., Beeline Technologies Inc., Novariant, Inc. and Raven Industries. In addition, we expect to face competition from new market entrants over time.

We believe the principal competitive factors in the markets we serve include: ease of use, physical characteristics, power consumption, product features (including DGPS), product reliability, price, size of installed base, brand reputation, vendor reputation and financial stability of the vendor. Management believes Hemisphere GPS' products compete favourably with competitors' products on the majority of the foregoing factors. Management also recognizes that we may be at a competitive disadvantage against companies with greater financial, marketing, service and support and technological resources.

We also face competition from various low-end manufacturers of DGPS receivers. Management believes that Hemisphere GPS' primary advantage is that its digital-based products are viewed in the marketplace as being more

reliable for everyday operation and offering a larger coverage range relative to certain competing analog-based products.

### **Manufacturing**

We manufacture and populate all printed circuit boards and complete the final assembly and quality assurance testing of OEM modules, integrated positioning units and antennas in-house at our Calgary facility. The operations department of our Hemisphere GPS business unit provides production engineering to ensure that our products can be manufactured in large volumes, technical production problems are corrected and averted, and alternative production methodologies are introduced to remain competitive. In addition, vendor and subcontractor qualifications are reviewed by the engineering group and test engineering is provided to guide the department in achieving specifications and ensuring product integrity. We source our assembly materials and components from a variety of suppliers. All of our suppliers are at arm's length. Alternate supply sources for all components is a desired goal, but currently is not available in all cases.

We are determined to maintain our position as a low-cost, high-quality producer and to ensure that production processes are responsive, smooth and flexible to serve the needs of our customers.

### **Facilities**

Our Hemisphere GPS business unit conducts operations from facilities in Calgary, Alberta; Scottsdale, Arizona; Hiawatha, Kansas; Eules, Texas; Kansas City, Missouri; and Winnipeg, Manitoba; with a combined area of approximately 85,500 square feet to manufacture and assemble products, carry out research and development, sales and marketing, and finance and administration activities. We lease the facilities and they are deemed adequate to support annual Hemisphere GPS sales for the foreseeable future.

### **Personnel**

At December 31, 2005, our Hemisphere GPS business unit had 159 employees in total, with 35 in Research and Development, 54 in Sales and Marketing, 56 in Manufacturing Operations and 13 in Administration.

## **WIRELESS BUSINESS UNIT**

### **General**

Through our Wireless business unit, we design, manufacture and market desktop cellular telephones, also known as fixed wireless telephones, for sales to commercial and consumer markets. "Wireless" refers to radio-based systems that enable transmission of telephone and/or data signals through the air without a physical connection, such as a metal wire or fibre optic cable. Through CSI Wireless LLC, and its predecessor, Wireless Link Corporation, we have been developing wireless technology and products since 1987 and have created an extensive portfolio of intellectual property that enables us to develop products that operate on a variety of wireless platforms. Our desktop cellular telephone product line is focused on markets where wireless products can compete effectively against conventional wire-line products, particularly in developing countries that lack sufficient wired infrastructure.

Our Wireless business unit has also been involved in the design, development and sales of telematics products. In the fourth quarter of 2005, based upon a strategic determination to focus on business lines with the greatest opportunity, we commenced the search for a buyer for our telematics product line. We are in discussions with certain potential buyers and are expecting to complete the disposal of the product line during 2006. Given these actions, this product line was treated as a discontinued operation in our Consolidated Financial Statements for the year ended December 31, 2005 and references to the telematics product line have been removed from this section.

## **Industry Background and Trends**

The worldwide wireless communications industry has seen significant year-over-year growth, with 2.0 million cellular subscribers at the end of September 2005, 26% more than the 1.6 million subscribers recorded a year earlier, according to the GSM Association on the GSM World website ([www.gsmworld.com](http://www.gsmworld.com)). We believe that this growth has occurred as a result of declining cost, broadening network coverage, expanding product features and improved reliability. While the majority of wireless use has been voice-based, the transmission of wireless data for commercial and consumer applications is beginning to enjoy significant growth. The industry remains in transition as digital 3<sup>rd</sup> generation networks begin to reach the major metropolitan markets, while 2<sup>nd</sup> generation wireless protocols continue to grow rapidly throughout the world.

### ***Wireless Communications Technologies***

The wireless voice and data communications industry is comprised of several technologies.

*First Generation Technologies - Analog Circuit-Switched.* The Advanced Mobile Phone Service ("AMPS") is a circuit-switched, analog wireless technology and is currently the most widely used North American wireless technology due to its broad geographic coverage. AMPS operates using Frequency Division Multiple Access ("FDMA") that assigns each user a unique frequency channel for the duration of his or her telephone conversation. Because there are a limited number of frequency channels available in a given cellular area, AMPS telephone networks have a limited capacity that can result in loss of service in high-usage areas. This and other factors mean that AMPS is being phased out in favour of digital services.

*Second-Generation ("2G") Technologies - Digital Circuit-Switched.* Since the early 1990s, digital techniques that convert analog voice signals into digital data for transmission have been developed to improve the efficiency, security and reliability of wireless transmission, and to enable advanced services such as text messaging. These technologies are used in conjunction with FDMA circuit-switched technology and increase capacity by sharing the frequency channels between users.

Time Division Multiple Access ("TDMA") is a 2G digital wireless technology that increases the number of potential users in an area by assigning each user a specific timeslot on a common frequency channel, thereby enabling up to eight users to transmit on the same channel. TDMA has had a very strong presence in the Western Hemisphere, however, many TDMA operators are converting their networks to GSM technology, which dominates the global market. Globally, TDMA subscribers totaled 71.9 million at the end of September 2005, compared with 100.1 million at the end of 2003 (GSM World website). TDMA's proportion of total worldwide cellular subscribers decreased to 4% at the end of September 2005 from 8% in 2004 (GSM World website), however, given the installed infrastructure, and the capital cost associated with the transition to GSM, it is expected that existing TDMA networks will continue to operate for many years.

The Global System for Mobile communications ("GSM") is the international standard and world leader in 2G digital wireless transmission. GSM claims approximately 79% of the global digital wireless market, with 1.6 billion subscribers at the end of September 2005, compared to 1.3 billion subscribers at the end of 2004 (GSM World website). Many carriers have announced plans to convert their networks to GSM in coming years. Therefore, these subscriber numbers are expected to continue increasing.

Code Division Multiple Access ("CDMA") is a 2G digital technology that splits wireless signals into pieces that are tagged with a user's code. These pieces are spread over several frequencies and are reassembled at the receiver. Like TDMA and GSM, CDMA permits a much more comprehensive use of the available frequency channels. CDMA subscribers represent about 14% of worldwide cellular subscribers, with a global subscriber base of 281 million at the end of September 2005, compared to 231 million at the end of 2004. (GSM World website).

*Third Generation ("3G") Technologies.* Also referred to as 2.5G and 3G, these higher-speed data networks coexist with digital voice services. In the GSM world, these data services are called the General Packet Radio Service ("GPRS"), which is 2.5G, and the higher-speed 3G version known as Enhanced Data Rates for Global Evolution ("EDGE"). In the CDMA world, the 2.5G data services are known as 1X or 1XRTT and the higher-speed 3G

upgrade is referred to as EV-DO. Most North American cellular carriers have deployed 2.5G networks in major population centres, while continuing to depend on AMPS and 2G in rural areas until more capital investment can be justified. In certain key markets, some carriers have 3G upgrades in place, but the full deployment of 2.5G and 3G networks across all markets is expected to take several more years. When they do become widely available, these networks will provide data transmission rates that will enable a much broader range of applications.

*Fixed Wireless Telephones (FWT)*, also called desktop cellular telephones, use wireless technologies to provide voice and data communication services to residential or business customers rather than connecting the customers to the telephone networks using copper wire. Typically, desktop cellular phones have been seen as a solution to reduce the infrastructure costs associated with providing widespread telecommunications in developing countries.

Landline penetration rates are significantly lower in the developing world compared to the developed world. In order to bridge the gap, developing nations are increasingly employing Wireless Local Loops (“WLL”), which use wireless technology to connect users to the network rather than copper wire, as a cost-effective, rapidly deployed alternative to traditional copper wire telecommunications networks. In doing so, they are more efficiently and effectively bringing communications connectivity to their populations and accelerating economic development.

The largest fixed wireless markets currently include India, China, Mexico and Brazil. The demand for fixed wireless solutions in these developing markets, where land line penetration rates are extremely low by the standards of developed countries, is driven by the desire to provide the communications infrastructure necessary to sustain economic development and growth in the most cost-effective manner. In support of these initiatives, many governments, including those in India, Pakistan and Mexico, have offered financial incentives in support of the deployment of fixed wireless networks by carriers.

With respect to the various cellular technologies employed by fixed wireless carriers, globally, the most pervasive standard for fixed wireless worldwide to-date is CDMA, followed closely by GSM. In the Latin American market, GSM is the leading technology, followed closely by CDMA. TDMA has also had an important representation in Latin America.

### **The CSI Wireless Solution**

We design, manufacture and market cost-effective fixed wireless telephones for commercial and consumer markets. Our desktop cellular telephone product line is focused on markets where wireless products can compete effectively against conventional wire-line products, particularly in developing countries that lack sufficient wired telecommunications infrastructure.

*Quality.* Our products are engineered to high standards and subjected to extensive testing. The Wireless business unit has adopted an external manufacturing strategy and has established relationships with large manufacturing companies that meet the world's highest quality standards including ISO 9000 Certification.

*Wireless Technology Engineering Depth and Experience.* Through our subsidiary, CSI Wireless LLC (previously Wireless Link Corporation, acquired in 2000), our engineering team has been active in designing wireless communications technologies since 1987. Over this period, we have developed very strong experience designing products for a wide variety of wireless technologies that serve a wide range of applications. Designs by our engineering team have included the following:

<u>Air Interface</u>	<u>Network</u>
AMPS	AMPS Cellular
Aeris MicroBurst	AMPS Cellular Control Channel
Cellemetry	AMPS Cellular Control Channel
TDMA	TDMA Cellular
GSM	GSM Cellular
GPRS	GSM/GPRS

*Strong Partnerships in the Desktop Cellular Market.* We have established and continue to develop strong relationships with suppliers, carriers, distributors and other participants in the desktop cellular telephone markets.

*Sales and Marketing.* Originally focused on distribution into Latin America, the Company's sales and marketing activities have broadened to include direct marketing to addressable markets around the world.

*Cost and Cost Reduction Capabilities.* CSI uses external manufacturing partners to achieve low wireless product manufacturing costs and high quality. In addition, its proprietary radio design capabilities have enabled chipset level radio designs that provide for the maximum level of integration and the most cost-effective architectures. Strong supply chain capabilities, coupled with radio design expertise and contract manufacturing teams have enabled CSI to achieve significant cost reductions first on its TDMA desktop cellular product and more recently on its GSM products. For example, in the first year following its introduction, the Company was able to reduce the manufacturing cost of its TDMA phone by over 35%. Similar cost reductions have been realized on the GSM phones.

*Applications Capability.* Given our complete control of the telephone functionality and man-machine-interface ("MMI"), we are able to implement special features or applications on desktop cellular telephones that open up new customized vertical applications. To date, the engineering team has delivered three specific applications. Examples of these applications include:

- Semi-public – the phone can be used by a store owner in a fashion similar to a pay phone, but the cash is passed to the store owner for the use of the phone. The telephone calculates the charge for the phone usage;
- Pre-paid minutes – in this application, the phone can be used as a terminal for adding minutes to a pre-paid phone, with no need for phone cards or codes. The customer pays a store owner and he uses the phone to add minutes to the customer's pre-paid cell phone; and
- Inventory replenishment – store owners use the phone as a means of communicating inventory status or replenishment requirements from their store to a central warehouse location.

## **Business Strategy**

Our objective is to be a leading global provider of wireless communications devices in the desktop cellular telephone market. Key elements in our strategy include:

*Expand Technology Portfolio.* Our research and development capabilities have been and will continue to be the key driver of success in the rapidly evolving wireless markets. We intend to continue to expand our technology offerings by developing our wireless technology portfolio.

*Implement Disciplined Product Development.* Formal product development processes are necessary to ensure the business develops the right products on time, on budget and on schedule. These processes link the following activities:

- Business development (ideas inventory, opportunities identification)
- Product management (business case, marketing specifications, complete product life cycle management, communications, reporting, beta testing)
- Program management (engineering project management, design verification testing)
- Production management (design for manufacturability, design for test, materials optimization, product on planning)
- Product termination management

*Diversify Markets.* Recent history has shown that new markets for technology advance at varying rates, based on many factors that are difficult to predict. In the near term, we are focused on diversifying our customers and the regional markets into which our products are sold.

*Expand and Develop Strategic Relationships.* The wireless communications industry environment is extensive, competitive and rapidly changing. We believe that in this environment, it is critical to develop and maintain strategic relationships with suppliers, communications network suppliers, telecommunications carriers, distributors and industry associations. These relationships provide CSI with access to broad distribution channels, new sales opportunities, technology insights and market intelligence.

*Continued Aggressive Product Cost Reduction.* We will continue to aggressively focus on product cost reductions to enable the delivery of cost effective, high quality, high performance products.

*Enhance Manufacturing Quality and Capacity.* We have adopted an External Manufacturing ("EM") strategy to focus our capital on the development of technology and products designed to achieve our business strategy. We have been selective in establishing relationships with EM companies to ensure that our products are of high quality and that extra capacity is available to expand production in the face of expanding market opportunities. Our engineering and manufacturing teams have developed high quality processes and practices as a result of the demands associated with having products and manufacturing processes certified within the Motorola quality requirements.

*Invest in Intellectual Capital.* We believe that employees at all levels of the organization have been and will continue to be the key factor in achieving our objectives. Therefore, we will continue to place a high priority on its intellectual capital.

## **Products**

Our desktop cellular telephones resemble traditional desktop or wall-mounted phones but use wireless technologies to provide voice and data communication services to residential or business customers rather than connecting the customers to networks using copper wire. Today, they are used primarily in rural areas and developing countries where current landline systems are unavailable or inadequate. In developing countries, WLL telephone systems often represent the fastest and most cost-effective method of providing telecommunications services. Our

The Company has three desktop cellular phone product lines:

- The Motorola FX800t, or 300 Series, features TDMA cellular technology that is very popular in the Americas;
- The 400 Series, including a Motorola-branded version know as the Motorola FX1900xg, that features GSM cellular technology that is targeted for markets worldwide; and
- The 410 Series that features GSM technology for voice transmission, and GPRS technology for email and Internet access.

*300 Series (TDMA)* The 300 Series TDMA desktop cellular phone is marketed exclusively under the Motorola brand name through Brightstar Corporation. The Motorola FX800t is a three-watt, dual-mode product (800 MHz/TDMA digital and AMPS analog frequencies) that, by rivalling the signal strength and voice quality of landline phones, is bringing the convenience and affordability of wireless into the home.

The Motorola FX800t connects to standard AC wall outlets and features 30 minutes of talk-time emergency backup power. It offers the convenience and portability of cellular, with all the traditional advantages of landline networks. Its three-watt power capability gives Motorola FX800t users better signal range and voice quality than what is possible with 0.6-watt alternatives.

The phone features 832 channels, PIN security to lock and unlock the phone, an 11-digit display and built-in monitor capability. It also has 89 memory locations, 16 alpha and 32 numeric digits per location, on-hook dialing capability, one-touch dialing and programmable one-touch emergency dialing.

*410 Series (GSM – GPRS)* The 410 Series of GSM desktop cellular telephones, including a version known as the Motorola FX1900g that is marketed exclusively by Brightstar Corporation, have GPRS technology for voice, Internet, email and text-messaging transmissions.

The phones provide dual-band support (either 850/1900 MHz in the Americas or 900/1800 MHz in Asia, Africa, Europe and the Middle East), and feature a broad feature set, with customized models that reflect the languages and frequencies of specific countries and regions.

410 Series phones also feature hands-free operation, three-digit PIN security to allow/block outgoing calls, memory capacity for 250 phone numbers, speed dial, auto re-dial, one-touch emergency dialing, a large back-lit display, 90 minutes of talk-time emergency back-up power, and attractive styling.

*400 Series (GSM)* CSI's 400 Series of GSM desktop cellular phones, including a Motorola-branded version known as the Motorola FX1900xg that is marketed exclusively by Brightstar Corporation, offer voice and text-messaging transmissions. They provide dual-band support (either 850/1900 MHz in the Americas or 900/1800 MHz in Asia, Africa, Europe and the Middle East) for calling capabilities needed in rural areas, or in developing metropolitan areas where phone service is simply not available to all residents.

400 Series phones also feature hands-free operation, three-digit PIN security to allow/block outgoing calls, memory capacity for 250 phone numbers, speed dial, auto re-dial, one-touch emergency dialing, a large back-lit display, 90 minutes of talk-time emergency back-up power, and attractive styling.

*Other Products* The strength of our engineering team, and the wireless radio designs owned by us, enable us to undertake projects or product developments outside of the desktop cellular markets that may help to advance the product roadmap and/or cost performance of its desktop cellular products.

## **Research and Product Development**

The primary objective of our wireless engineering group is to deliver new products and support current technologies while progressing along our technology roadmap. Opportunities with low strategic or economic value will not be pursued.

We are developing a growing variety of desktop cellular telephones – involving TDMA, GSM, GPRS, SMS and other wireless technologies – for worldwide markets. We introduced two new phones – one GSM-capable, and the other GSM-GPRS-capable – in early 2005, and have undertaken a number of other projects.

In 2005, our engineering team performed engineering projects focused on supporting unique carrier needs which enhance the flexibility and performance of our products. For example, one project enabled techniques focused on addressing potential fraud issues and had application in Latin America and Asia.

Other products currently under development include an ultra-low cost GSM model fixed wireless telephone and a program to significantly reduce the production cost of the Series 400 and Series 410 desktop cellular phone products.

## **Marketing, Sales and Distribution**

Our initial go-to-market channel was through Brightstar, focusing on Latin America. With the introduction of the GSM telephone, and the global nature of GSM networks, we commenced the development during 2005 of a direct sales network and global relationship development. In 2005, we focused on developing our direct sales channels. We are currently in various stages of progress on a variety of channel opportunities.

## Customers

Companies that distribute our products include Brightstar Corporation, Bharti Televentures Inc., Access Telecom Inc., Anglo-Nordic and Wireless Market Rendszerhaz Kft.

## Competition

We view our primary competitors in the desktop cellular telephone market to include:

- Telular Corporation;
- Axesstel, Inc.;
- LG Electronics;
- Telian Corporation; and
- Pantech&Curitel Communications, Inc.

## Manufacturing

We out-source most of our desktop cellular telephone manufacturing to partners in Mexico and China. By out-sourcing manufacturing activities, we benefit by:

- enabling ourselves to focus on our core competencies including research and development and sales and marketing;
- gaining access to the latest equipment, process knowledge and manufacturing expertise without making capital investment in facility costs;
- realizing significant financial benefits through high efficiency and superior capital utilization, using a business model that leverages these resources among multiple customers;
- capturing the lowest total component costs through global volume purchasing programs; and
- producing high-quality products in a ISO-registered facility.

We believe the drivers of success in manufacturing include:

1. Quality Systems
  - (a) Component engineering and standardization
  - (b) Document control
  - (c) Engineering change ("EC") management
  - (d) Quality audits
2. Time to Market
  - (a) New Product Introduction ("NPI") programs and reviews
  - (b) Flexibility in design change and product enhancements
  - (c) Responsiveness to customer requirements and market demand
3. Product Cost Reduction
  - (a) Design cost reductions
  - (b) Supply chain programs and vendor cost-reduction programs/negotiation
  - (c) Component selection at the design level

## **Facilities**

Our Wireless business unit currently occupies space in the Company's Calgary facilities and also leases approximately 7,000 square feet of space in Milpitas, California. A significant component of our wireless research and development activities are located in Milpitas.

## **Personnel**

At December 31, 2005, our Wireless business unit had 53 total employees, with 29 people in Research and Development, 16 in Sales and Marketing, 6 in Operations, and 2 in Administration.

## **DIVIDEND POLICY**

We have not paid any dividends on the Common Shares during the last three financial years. The future payment of dividends will be determined by our board of directors, and will depend on the financial needs of the Corporation to fund future growth, the general financial condition of the Corporation and other relevant factors. We do not intend to pay dividends on our Common Shares in the foreseeable future.

## **CAPITAL STRUCTURE**

The Corporation is authorized to issue an unlimited number of Common Shares, an unlimited number of first preferred shares, issuable in series (the "First Preferred Shares") and an unlimited number of second preferred shares, issuable in series ("Second Preferred Shares"). As at March 15, 2006, an aggregate of 45,926,078 Common Shares, no First Preferred Shares, Series I and no Second Preferred Shares were outstanding.

The following is a summary of the rights, privileges, restrictions and conditions attaching to each class of shares.

### **Common Shares**

The holders of Common Shares will be entitled to one vote at all meetings of our shareholders except at meetings of which only holders of a specified class of shares are entitled to vote. The holders of Common Shares will be entitled to receive, subject to the prior rights and privileges attaching to any other class of our shares, such dividends as may be declared by us. Holders of Common Shares will be entitled upon any liquidation, dissolution or winding-up of CSI, subject to the prior rights and privileges attaching to any other class of shares of CSI, to receive the remaining property and assets of CSI.

### **First Preferred Shares**

Our Board of Directors may at any time and from time to time issue First Preferred Shares in one or more series, each series to consist of such number of shares as may, before the issuance thereof, be determined by the Board of Directors. CSI has no outstanding First Preferred Shares at this time.

### **Second Preferred Shares**

Our Board of Directors may at any time and from time to time issue Second Preferred Shares in one or more series, each series to consist of such number of shares as may, before the issuance thereof, be determined by the Board of Directors.

The Second Preferred Shares of each series rank on a parity with the Second Preferred Shares of every other series with respect to accumulated dividends and return of capital. The Second Preferred Shares shall be entitled to a preference over the Common Shares and over any other shares of CSI ranking junior to the Second Preferred Shares with respect to priority in the payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of CSI, whether voluntary or involuntary, or any other distribution of our assets among our shareholders for the purpose of winding-up our affairs.

The rights, privileges, restrictions and conditions attaching to the Second Preferred Shares as a class may be added to, changed or removed but only with the approval of the holders of the Second Preferred Shares given as specified in our articles.

## MARKET FOR SECURITIES

Our Common Shares are listed and posted for trading on the TSX under the symbol "CSY". The following table shows the price range and trading volume of the Common Shares as reported by the TSX for the periods indicated:

	High	Low	Volume
2005			
January	\$4.35	\$3.02	4,645,961
February	\$3.62	\$3.16	3,493,511
March	\$4.10	\$3.41	5,211,387
April	\$4.00	\$3.40	2,210,131
May	\$3.80	\$3.25	3,196,085
June	\$3.48	\$3.35	3,329,933
July	\$3.62	\$2.70	4,000,806
August	\$2.95	\$2.17	4,133,841
September	\$2.30	\$1.51	4,626,891
October	\$1.85	\$1.50	1,900,357
November	\$1.56	\$1.11	4,735,868
December	\$1.62	\$1.13	3,057,288

## DIRECTORS AND OFFICERS

The names, municipalities of residence, positions with the Corporation, and principal occupation of the directors and officers of the Corporation are set out below and in the case of directors, the period each has served as a director of the Corporation.

Name and Municipality of Residence	Position	Principal Occupation During the Last Five Years	Number of CSI Shares Beneficially Owned or Controlled
Stephen A. Verhoeff Alberta, Canada	President and Chief Executive Officer	President and Chief Executive Officer of CSI.	630,804 1.38%
	Director since 1990		
Brian J. Hamilton <sup>(1)(3)</sup> Alberta, Canada	Director since 1996	Independent businessman since October 2003. Previously, Executive Vice-President and Chief Financial Officer of CSI.	10,000 0.02%
Richard W. Heiniger Missouri, USA	Director since 2005	President of CSI's Hemisphere GPS division, and owner of RHS Inc.	4,400,000 9.60%
Michael J. Lang <sup>(1)(2)</sup> Alberta, Canada	Director since 1996 and Chairman of the Board	Chairman of StoneBridge Merchant Capital Corp. (a private investment company), a director of publicly traded Dynetek Industries Ltd., and former Vice Chairman of Beau Canada Exploration Ltd.	516,005 1.13%
Howard W. Yenke <sup>(2)</sup> Massachusetts, USA	Director since 1996	Retired executive.	30,000 0.07%

Name and Municipality of Residence	Position	Principal Occupation During the Last Five Years	Number of CSI Shares Beneficially Owned or Controlled
Paul L. Camwell <sup>(3)</sup> Alberta, Canada	Director since 1998	Chief Technology Officer and Vice President for Extreme Engineering Ltd., an engineering and technology firm.	24,562 0.05%
Paul G. Cataford <sup>(1)</sup> Alberta, Canada	Director since 2004	President and CEO of University Technologies International Inc. (UTI), a University of Calgary subsidiary responsible for its technology commercialization since April 2004. Prior thereto, Managing Partner of HorizonOne Asset Management, a Toronto-based firm he co-founded in 2001. Prior thereto, Executive Managing Director of BMO Nesbitt Burns Equity Partners from 2001 to 2002, and Managing Director and President of BCE Capital from 1997 to 2001.	3,000 0.01%
Theresa J. Lea Alberta, Canada	Senior Vice President, People and Communications	CSI's Senior Vice President, People and Communications since 2004. Previously, CSI's Vice President and General Manager, GPS business unit.	6,412 0.01%
Cameron B. Olson Alberta, Canada	Chief Financial Officer and Vice President, Finance	CSI's Chief Financial Officer since October 2003 and Vice President, Finance of CSI since May 2000.	37,490 0.08%
Colin A. Maclellan Alberta, Canada	Sr. Vice President and General Manager, Wireless	CSI's Sr. Vice President and General Manager, Wireless business unit. Joined CSI March 2002. Previously, Vice President of Nortel Networks global wireless operations.	84,970 0.19%
Terry W. Sydoryk Alberta, Canada	VP Marketing & Product Management, Wireless	CSI's Vice President of Marketing and Product Management for Wireless business unit's Telematics division, since October 2004. Previously, COO of Plazmic Inc. Prior thereto, Vice President of Marketing and Business Development for AudeSi Technologies.	– 0.00%
Michael S. Cummiskey California, USA	Vice President, Business Development – Fixed Wireless and Radio Products	CSI's Vice President, Business Development for the Wireless business unit's Fixed Wireless and Radio Products division since 2003. Previously, Business Development Manager at PrairieComm, Inc. Prior thereto, Global Account Manager for Mentor Graphics Corporation.	– 0.00%
Dean Ryerson Kansas, USA	Chief Operating Officer, Hemisphere GPS	CSI's Chief Operating Officer for the Hemisphere GPS since January 2006, and previously its Vice President and General Manager since April 2005. Previously, President of RHS, Inc.	– 0.00%
Phil W. Gabriel Alberta, Canada	Vice President Sales, Precision Products, Hemisphere GPS	CSI's Vice President Sales, Precision Products, for Hemisphere GPS since November 2005, and previously CSI's Vice President Sales, Wireless.	34,624 0.08%

Name and Municipality of Residence	Position	Principal Occupation During the Last Five Years	Number of CSI Shares Beneficially Owned or Controlled
Lisa M. Smith Alberta, Canada	Vice President, Supply Chain, Wireless	CSI's Vice President of Supply Chain Operations, Wireless since September 2005 and previously the Director of Supply Chain, Wireless. Before joining CSI Wireless Inc. in October 2001, was the Director of Supply Chain for Novatel Wireless.	— 0.00%

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Corporate Governance Committee.

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

No director or officer of CSI, or a shareholder holding a sufficient number of securities of CSI to affect materially the control of CSI is, or within the last ten years has been, a director, officer or promoter of any reporting issuer that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied us access to any statutory exemption for a period of more than 30 consecutive days or, within a year of such person ceasing to act in that capacity or within the 10 years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person, except that Michael Lang was a director of Environmental Technologies Inc., which company was given a cease trade order in 1997. Environmental Technologies was a subsidiary of Beau Canada Exploration Ltd. and traded on the Alberta Stock Exchange. Mr. Lang subsequently resigned as a director.

No director or officer of CSI, or a shareholder holding a sufficient number of securities of CSI to affect materially the control of CSI, has been subject to any penalties or sanctions under securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

The directors and officers of the Corporation may, from time to time, be involved in the business and operations of other issuers, in which case a conflict may arise. See "Risk Factors".

The Alberta Business Corporations Act (ABCA) provides that in the event a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the ABCA. To the extent that conflicts of interests arise, such conflicts will be resolved in accordance with the provisions of the ABCA.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

There were no material interests, direct or indirect, of our directors and senior officers, any shareholder who beneficially owns more than 10% of the outstanding Common Shares, or any known associate or affiliate of such persons, in any transaction since the beginning of our last completed financial year or in any proposed transaction which has materially affected or will materially affect the Corporation.

In April 2005, CSI acquired the Outback business from RHS Inc. and its owner Richard Heiniger. The transaction was at arm's length. Subsequent to the transaction, Mr. Heiniger was appointed to CSI's Board of Directors.

## INTERESTS OF EXPERTS

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by us during, or related to, our most recently completed financial year other than KPMG LLP, our auditors. KPMG LLP is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation.

## MATERIAL CONTRACTS

We currently have no material contracts in place that were entered outside of the normal course of business.

## AUDITORS, TRANSFER AGENT AND REGISTRAR

KPMG LLP, Chartered Accountants, Suite 1200, Bow Valley Square II, 205 - 5<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 4B9, are the auditors of the Corporation.

Computershare Trust Corporation of Canada, 600, 530 - 8<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3S8, is the Transfer Agent and Registrar of the Corporation.

## AUDIT COMMITTEE INFORMATION

Our audit committee (the "Audit Committee") is appointed by the board of directors to assist the board in fulfilling its oversight responsibilities. The committee is composed of three external independent directors. All three are financially literate, meaning they are able to read and understand financial statements of a complexity level comparable to that of the financial statements of CSI Wireless. The Audit Committee's Charter is available in Appendix "A".

### **Audit Committee Members**

#### ***Michael J. Lang, Calgary, Alberta***

Michael Lang is Chairman of Stonebridge Merchant Capital Corp. and a director of several public companies. He is a member of the board, and chairs the audit committee, of Dynetek Industries Ltd. He holds a Bachelor of Science and MBA degrees from the University of Alberta.

#### ***Brian J. Hamilton, Calgary, Alberta***

Brian Hamilton is a financial consultant and former Executive Vice-President and Chief Financial Officer for CSI Wireless. He has served as a senior financial officer for several financial institutions, including Paramount Life Insurance Co., ParaCorp Inc. and Canadian Commercial Bank. Mr. Hamilton is a Chartered Accountant and Chartered Financial Analyst, and has a Bachelor of Commerce degree (Honours) from the University of Manitoba.

#### ***Paul G. Cataford, Calgary, Alberta***

Paul Cataford is President and CEO of University Technologies International Inc. He has extensive investment, technology and business development experience from more than 14 years in the venture capital/private equity industry. Mr. Cataford is a graduate of the Institute of Corporate Directors' Directors Education Program and sits on a number of audit and corporate governance committees. He also currently serves on the boards of Sierra Wireless Inc., of SemBioSys Genetics Inc., and of a number of private companies. Mr. Cataford has a Mechanical Engineering degree from Queen's University and an MBA from York University's Schulich School of Business.

## Pre-approval of Policies and Procedures – Non-Audit Services

We have adopted policies and procedures with respect to the pre-approval of audit and permitted non-audit services to be provided by KPMG LLP as set forth in the Audit Committee charter, which is reproduced in Appendix A to this Annual Information Form. The Audit Committee has approved the provision of a specified list of audit and permitted non-audit services that the audit committee believes to be typical, reoccurring or otherwise likely to be provided by KPMG LLP during the current fiscal year. The list of services is sufficiently detailed as to the particular services to be provided to ensure that the Audit Committee knows precisely what services it is being asked to pre-approve and it is not necessary for any member of management to make a judgment as to whether a proposed service fits within pre-approved services.

## Auditor Service Fees

The following fees are for services provided by KPMG relating to fiscal years 2005 and 2004.

Type of Service Provided	2005	2004
Audit Fees	\$132,000	\$93,200
Audit-Related Fees (financing related)	\$18,700	\$29,200
Tax Fees	–	\$18,200

## RISK FACTORS

The following is a summary of certain risk factors relating to our business. The information is only a summary of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form. An investment in the Common Shares of the Corporation involves a significant degree of risk. Prospective investors should carefully consider the following factors, together with other information contained in this Annual Information Form.

### Foreign Currency Exchange Rate Fluctuation

Sales of most CSI products are predominantly transacted in US dollars. As revenues are reported by us in Canadian dollars, we are exposed to risk associated with US and Canadian dollar currency fluctuations. These risks are mitigated to some extent by purchasing most inventories, other materials and many services in US dollars. However, a strengthening in the Canadian dollar relative to the US dollar results in lower revenues and earnings for CSI. We implemented a foreign currency risk management program in 2005 to hedge our US dollar working capital against exchange rate fluctuations; however, there is no guarantee that we will not experience foreign exchange gains and losses. As we expand with increased sales into Europe and other countries, it may be necessary to transact sales in foreign currencies other than US dollars, thus exposing us to additional foreign currency risk.

### General Economic and Financial Market Conditions

Negative changes in the market and business environments or adverse geopolitical events could have a negative impact on our 2006 performance. In addition, our agricultural product sales have been affected by drought conditions in prior years that have negatively impacted the agricultural market, which resulted in lower sales of agricultural guidance products. Should drought conditions arise again in 2006, we could be faced with lower-than-expected revenues in these market areas.

### Dependence on Key Personnel and Consultants

Our success is largely dependent upon the performance of our personnel and key consultants. The unexpected loss or departure of any of our key officers, employees or consultants could be detrimental to our future operations. The success of CSI will depend, in part, upon our ability to attract and retain qualified personnel, as they are needed. The competition for highly skilled technical, research and development, management, and other

employees is high in the GPS and wireless industries. There can be no assurance that we will be able to retain our currently personnel or engage the services of other highly skilled personnel.

### **Competition**

We are operating in a highly competitive industry that is constantly evolving and changing. We expect this competition to increase as new companies enter the market. Many of our competitors have greater financial, technical, sales, production and marketing resources. We compete with companies that also have established customer bases and greater name recognition. This may enable competitors to respond more quickly to the GPS and/or wireless market and better implement technological developments. There is no assurance that we will be able to compete on the same scale as these companies. Such competition may result in reduced sales, reduced margins or both.

The wireless data and communications industry is intensely competitive and subject to rapid technological change. We expect competition to intensify. More established and larger companies with greater financial, technical and marketing resources may decide to sell products that compete with our products. Existing or future competitors may be able to respond more quickly to technological developments and changes, or may independently develop and patent technologies and products that are superior to ours, or achieve greater acceptance due to factors such as more favourable pricing or more efficient sales channels. If we are unable to compete effectively with competitors' pricing strategies, technological advances and other initiatives, our market share and revenues may be reduced.

### **Third-Party GPS and Wireless Dependence**

Customers can use wireless products only over wireless data networks operated by third parties. If these third-party network operators cease to offer effective and reliable service, or fail to market their services effectively, sales of our products may decline and revenues may decrease.

Many of our products rely on signals from satellites that we do not own or operate. Such satellites and their ground support systems are complex electronic systems subject to electronic and mechanical failures and possible sabotage. The satellites have limited design lives and are subject to damage by the hostile space environment in which they operate. If a significant number of satellites were to become inoperable, there could be a substantial delay before they are replaced with new satellites. A reduction in the number of operating satellites would impair the current utility of the Global Positioning System (GPS) and/or the growth of current and additional market opportunities, which would adversely affect our results of operations. In addition, there is no assurance that the US government will remain committed to the operation and maintenance of GPS satellites over a long period of time, or that the policies of the US government for the commercial use of GPS without charge will remain unchanged.

### **Dependence on New Products**

We must continue to make significant investments in research and development to develop new products, enhance existing products and achieve market acceptance for such products. There can be no assurance that development-stage products will be successfully completed or, if developed, will achieve significant customer acceptance. If we are unable to successfully define, develop and introduce competitive new products, and enhance our existing products, our future results of operations will be adversely affected.

### **Availability of Key Supplies**

We are reliant upon certain key suppliers for raw materials and components. No assurances can be given that we will not experience delays or other difficulties in obtaining supplies as a result of trade disputes or other matters. While no single vendor currently supplies more than 10% of the raw materials used by us, the raw materials used in certain operations are available only through a limited number of vendors. Although we believe there are alternative suppliers for most of our key requirements, if our current suppliers are unable to provide the necessary raw materials or otherwise fail to timely deliver products in the quantities required, any resulting delays in the

manufacture or distribution of existing products could have a material adverse effect on our results of operations and our financial condition.

### **Credit Risk**

We have undergone significant sales growth, resulting in a significant growth in our customer base. As a result, we have an increased exposure to credit risk related to trade balances owing from customers. In the normal course of business, we monitor the financial condition of our customers and review the credit history of new customers to establish credit limits. We establish an allowance for doubtful accounts that corresponds to the credit risk of our customers, historical trends and economic circumstances. We could realize losses if customers default on their balances owing.

### **Dependence on Major Customers**

For the year ended December 31, 2005, 50% (2004 - 56%) of our sales were made to one customer. The loss of this customer could have an adverse effect on our business.

### **Wireless Industry Technology Risk**

Our success in the wireless market may depend in part on our ability to develop products that keep pace with the continuing changes in technology, evolving industry standards and changing customer and end-user preferences and requirements. Our products embody complex technology that may not meet those standards, changes and preferences. In addition, wireless communications service providers require that wireless data systems deployed in their networks comply with their own standards, which may differ from the standards of other providers. We may be unable to successfully address these developments on a timely basis or at all. Our failure to respond quickly and cost-effectively to new developments through the development of new products or enhancements to existing products could cause us to be unable to recover significant research and development expenses and reduce our revenue.

### **Future Acquisitions**

We may seek to expand our business through the acquisition of compatible products or businesses. There can be no assurance that suitable acquisition candidates can be identified and acquired on terms favourable to us, or that the acquired operations can be profitably operated or integrated into CSI. In addition, any internally generated growth experienced by CSI could place significant demands on our management, thereby restricting or limiting our available time and opportunity to identify and evaluate potential acquisitions. To the extent management is successful in identifying suitable companies or products for acquisition, we may deem it necessary or advisable to finance such acquisitions through the issuance of Common Shares, securities convertible into Common Shares, debt financing, or a combination thereof. In such cases, the issuance of Common Shares, Preferred Shares or convertible securities could result in dilution to the holders of Common Shares at the time of such issuance or conversion. The issuance of debt to finance acquisitions may result in, among other things, the encumbrance of certain of our assets, impeding our ability to obtain bank financing, decreasing our liquidity, and adversely affecting our ability to declare and pay dividends to our shareholders.

### **Proprietary Protection**

Our success will depend, in part, on our ability to obtain patents, maintain trade secrets and unpatented know-how protection, and to operate without infringing on the proprietary rights of third parties or having third parties circumvent our rights. We rely on a combination of contract, copyright, patent, trademark and trade secret laws, confidentiality procedures and other measures to protect our proprietary information. There can be no assurance that the steps taken by us will prevent misappropriation of our proprietary rights. Our competitors also could independently develop technology similar to our technology.

Although we do not believe that our products or services infringe on the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from

infringement claims) will not be asserted or prosecuted against us, or that any such assertions or prosecutions will not materially adversely affect our business, financial condition or results of operations. Irrespective of the validity or the successful assertion of such claims, we could incur significant costs and diversion of resources with respect to the defence thereof, which could have a material adverse effect on our business.

### **Conflicts of Interest**

Certain directors of CSI are engaged and will continue to be engaged in the design, manufacture and marketing of GPS or wireless products, and situations may arise where the directors may be in direct competition with CSI. Conflicts of interest, if any, which arise will be subject to and governed by the procedures prescribed by the Alberta Business Corporations Act which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with CSI to disclose his interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

### **Product Liability**

The sale and use of our products entail risk of product liability. Although we have product liability insurance, there is no assurance that such insurance will be sufficient or will continue to be available on reasonable terms.

### **New and Emerging Markets**

Many of the markets for our products are new and emerging. Our success will be significantly affected by the outcome of the development of these new markets.

### **Physical Facilities**

We have facilities at several different locations, as well as component inventory, finished goods and capital assets at third-party manufacturing facilities. Tangible property at each location is subject to risk of fire, earthquake, flood, and other natural acts of God. In the event of such acts, there could be delays in production and shipments of product due to both the loss of inventory and/or capacity to produce.

## **LEGAL PROCEEDINGS**

We are not aware of any proceeding that involves a claim for damages, exclusive of interest and costs, of more than ten percent of our current assets, except for the following.

We received a demand for arbitration dated January 23, 2006 relating to a supply agreement with Lojack Corporation. This demand for arbitration alleges breach of contract giving rise to damages in the amount of US\$6.1 million. We do not believe that we breached the terms of the supply agreement and further believe that if we did breach the contract, our liability is limited to an immaterial amount by the terms of the contract. We have agreed to participate in a non-binding mediation discussion with Lojack Corporation with the objective of resolving the dispute prior to entering into formal binding arbitration.

## **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under our equity compensation plans, as applicable, is contained in our information circular for the most recent annual meeting of shareholders that involved the election of directors. Additional financial information is provided in our financial statements and management discussion and analysis for the year ended December 31, 2005, which are set forth in our 2005 Annual Report. Documents affecting the rights of security holders, along with additional information relating to us, may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **APPENDIX "A" – AUDIT COMMITTEE TERMS OF REFERENCE**

### **Establishment of Audit Committee**

The Board of Directors (the "Board") hereby establishes a committee to be called the Audit Committee (the "Committee").

### **Membership**

The Committee shall be composed of three members or such greater number as the Board may from time to time determine, all of whom shall be outside directors and unrelated to the Corporation. Members shall be appointed periodically from among the outside members of the Board. All members of the Committee shall be financially literate, being defined as able to read and understand financial statements of a complexity level comparable to that of the Corporation's financial statements, and at least one member of the Committee shall have accounting or related financial management expertise.

### **Mandate**

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities.

### **Audit Committee Purpose**

Through discussion with management and the external auditors of the Corporation, the Audit Committee will be responsible to:

- 1) Monitor the management of the principal risks that could impact the financial reporting of the Company.
- 2) Monitor the integrity of the Company's financial reporting process and system of internal controls regarding financial reporting and accounting compliance.
- 3) Oversee and monitor the independence and performance of the Company's external auditors.
- 4) Provide an avenue of communication among the external auditors, management and the Board of Directors, including the resolution of disagreements between management and the external auditors regarding financial reporting.
- 5) Encourage adherence to, and continuous improvement of, the Company's policies, procedures, and practices at all levels.
- 6) Monitor compliance with legal and regulatory requirements.
- 7) Ensure that effective procedures are in place for the anonymous submission and review of complaints and concerns regarding accounting, internal control and auditing matters.

### **Audit Committee Duties and Responsibilities**

Primarily through review and discussion with management and the external auditors, the Audit Committee is responsible to:

#### ***Review Procedures***

- 1) Review periodically the Committee's Terms of Reference.

- 2) Review the Company's annual audited financial statements and related documents, including the press release and MD&A, prior to filing or distribution. Review should include discussion with management and external auditors of significant issues regarding accounting principles, practices, and significant management estimates and judgments.
- 3) Periodically, in consultation with management and external auditors, consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures.
- 4) Periodically review and assess the adequacy of the procedures that are in place for the review of the Company's public disclosure of financial information extracted from or derived from the Company's financial statements.
- 5) Review significant findings prepared by the external auditors together with management's responses.
- 6) Review the principal risks affecting financial reporting.
- 7) Review with financial management and the external auditors, and approve, the company's quarterly financial results and related documents, including the quarterly press release and MD&A, prior to the public release of earnings. By approval of these Terms of Reference for the Audit Committee, the Board delegates the authority to approve these documents on behalf of the Board.
- 8) Discuss any significant changes to the Company's accounting principles prior to their adoption. The Chair of the Committee may represent the entire Audit Committee for purposes of this review.

#### **External Auditors**

- 9) The external auditors are ultimately accountable to the Audit Committee and the Board of Directors, as representatives of the shareholders. The Audit Committee shall review the independence and performance of the auditors and annually recommend to the Board of Directors the appointment of the external auditors or approve any discharge of auditors when circumstances warrant.
- 10) Approve the fees and other significant compensation to be paid to the external auditors.
- 11) On an annual basis, the Committee should review and discuss with the external auditors all significant relationships they have with the Company that could impair the auditors' independence.
- 12) Review the external auditors' audit plan - discuss and approve audit scope, staffing, locations, reliance upon management, and general audit approach.
- 13) Prior to releasing the year-end earnings, discuss the results of the audit with the external auditors. Discuss certain matters required to be communicated to audit committees in accordance with the standards established by the Canadian Institute of Chartered Accountants.
- 14) Consider the external auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in the Company's financial reporting.
- 15) Approve all non-audit services to be provided to the Corporation by the external auditors' firm, prior to such services being performed, except that by approval of these terms of reference, the Audit Committee hereby approves the following non-audit services to be provided by the external auditors:
  - a. tax services connected with the preparation of the Corporation's tax returns, or the tax returns of any of its subsidiaries; and

- b. due diligence and tax services connected with any mergers, acquisitions or dispositions being considered by the Corporation.

16) Review and approve the Company's hiring policies regarding partners, employees, and former partners and employees, of the present or former auditors.

### **Legal Compliance**

17) On at least an annual basis, review with the Company's counsel any legal matters that could have a significant impact on the organization's financial statements, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.

### **Other Audit Committee Responsibilities**

18) Periodically assess the effectiveness of the committee against its terms of reference and report the results of the assessment to the Board.

### **Administrative Matters**

The following general provisions shall have application to the Committee:

- 1) The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the external auditors as well as anyone in the organization. The Audit Committee has the ability to retain, at the Company's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties.
- 2) Two members of the Committee shall constitute a quorum. No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. Meetings may occur via telephone or teleconference.
- 3) Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a director. The Board may fill vacancies on the Committee by appointment from among its outside members. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its powers so long as a quorum remains.
- 4) The Committee shall meet at least four times per year and/or as deemed appropriate by the Chair.
- 5) If deemed necessary by the Chair, agendas shall be circulated to Committee members along with background information on a timely basis prior to the Committee meetings.
- 6) Any issues arising from these meetings that bear on the relationship between the Board and management should be communicated to the Chief Executive Officer by the Board Chair.
- 7) The Committee may invite such officers, directors and employees of the Corporation as it may see fit from time to time to attend at meetings of the Committee and assist thereat in the discussion and consideration of the matters being considered by the Committee.
- 8) The time at which and place where the meetings of the Committee shall be held and the calling of meetings and the procedure in all respects at such meetings shall be determined by the Committee, unless otherwise determined by the by-laws of the Corporation or by resolution of the Board.
- 9) Unless otherwise designated by the Board, the members of the Committee shall elect a Chairman from among the members and the Chairman shall preside at all meetings of the Committee. The Chairman of the

Committee shall have a second and deciding vote in the event of a tie. In the absence of the Chairman, the members of the Committee shall appoint one of their members to act as Chairman.

- 10) Minutes of the Committee will be recorded and maintained and circulated to directors who are not members of the Committee or otherwise made available at a subsequent meeting of the Board.