

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

For the fiscal year ended  
December 31, 2006

March 26, 2007

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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;
- changes in the GPS network and other systems outside of our control;
- misappropriation of proprietary information;
- incorrect assessments of the value of acquisitions;
- fluctuation in foreign exchange or interest rates;
- negative conditions in general economic and financial markets;
- reliance on key suppliers;
- dependence on major customers;
- product liability;
- stock market volatility and market valuations;
- changes in income tax laws and other government regulations; 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

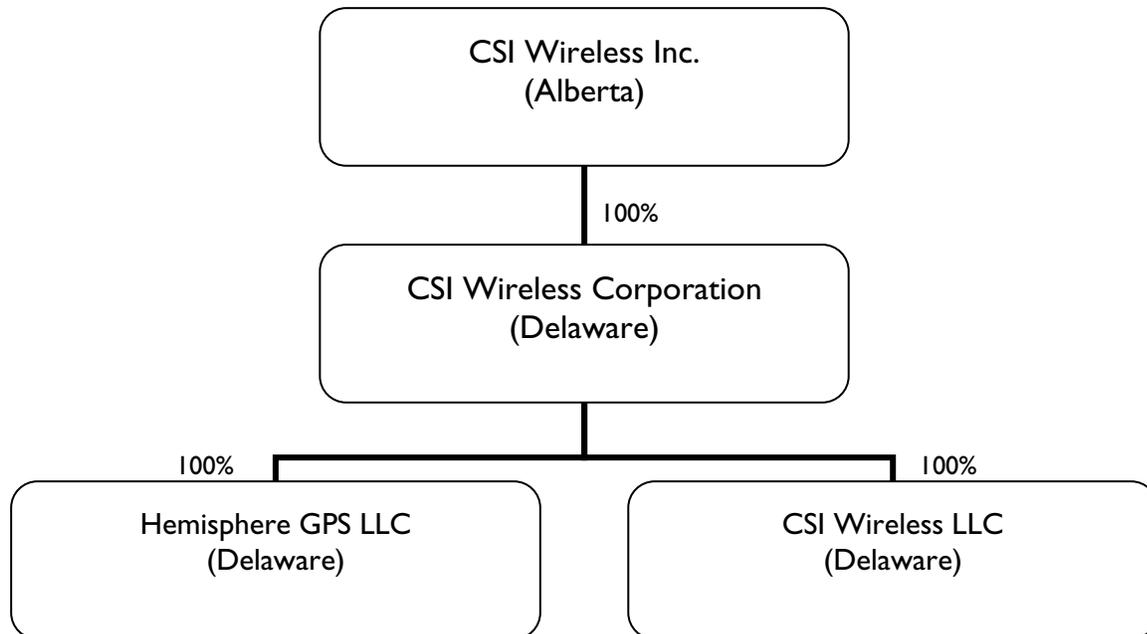
CSI Wireless Inc. (the "Corporation", "CSI", "CSI Wireless", "us", "we", or "our", where the context requires, also includes our predecessors and our subsidiaries) was incorporated as Canadian Systems International Inc. pursuant to the *Business Corporations Act (Alberta)* ("ABCA") on July 31, 1990. On October 26, 1992 the Corporation changed its name to Communication Systems International Inc. The Corporation is planning to change its name to Hemisphere GPS Inc. and is seeking shareholder approval for this name change at the Corporation's Special and Annual General Meeting to be held on May 9, 2007. Throughout this document, the name "Hemisphere GPS" is used to refer to our GPS business.

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, GPS products for applications in ground agriculture, air 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 subsidiaries that are directly or indirectly wholly-owned: 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.



At December 31, 2006, the Corporation had 206 employees.

## 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

#### 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 (Global System for Mobile Communications) 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 (Time Division Multiple Access) 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, original equipment manufacturers (“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.

## **2006**

On January 3, 2006, we announced that we had signed an agreement to acquire the business assets of Del Norte Technology, Inc. ("Del Norte") located in Dallas, Texas for US\$940,000. On January 19, 2006, we announced that we had completed the acquisition, and 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 that we had reduced staff and expenses in the telematics product line and had commenced the search for a buyer for the telematics business assets.

On February 14, 2006, we announced we that have secured experienced international distributors for our recently announced 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. As part of that announcement, the Corporation announced that based upon a strategic determination to focus on business lines with the greatest opportunity, we had made the decision to sell the telematics product line and had commenced the search for a buyer.

On April 3, 2006, we announced the introduction of the Outback BaseLine product, a high-definition product for agricultural applications that is much more accurate than standard GPS at a very competitive cost.

On April 4, 2006, we announced that we would be demonstrating our recently announced GSM fixed wireless telephones at the CTIA Wireless Conference in Las Vegas.

On April 5, 2006, we announced that we had signed an OEM agreement with ComNav Marine Ltd. of Vancouver, Canada to provide our Vector GPS compass heading sensor under a private branding arrangement.

On April 24, 2006, we announced that we had signed a definitive agreement to sell our fixed wireless telephone product line to Telular Corporation of Vernon Hills, Illinois. The transaction was completed on May 8, 2006. Net proceeds on the sale at the time of closing were as follows:

Cash	\$ 3,179,005
Accounts receivable	577,102
1,931,745 common shares of Telular Corporation	6,159,692
Less: disposition costs	(431,630)
Net Proceeds	<u><u>\$ 9,484,169</u></u>

In addition, the Corporation received a cash payment of \$178,000 for working capital items acquired by Telular Corporation.

The agreement for the sale of the Fixed Wireless product line included the provision that the Corporation may earn additional common shares of Telular Corporation based on the revenues earned by Telular Corporation on GSM and TDMA fixed wireless telephone sales in specific markets during defined periods ending prior to or on June 30, 2007. The TDMA earnout provision was based on certain TDMA fixed wireless telephone sales during the period April 1 to December 31, 2006. Under this provision, the Corporation has earned 150,990 additional common shares of Telular Corporation, of a total available of 515,132. The GSM earnout provision is based on certain GSM fixed wireless telephone sales during the period July 1, 2006 to June 30, 2007 and provides the Corporation the opportunity to earn up to 643,915 additional common shares.

On April 26, 2006, we announced the introduction of the Crescent A100 smart antenna, combining a GPS antenna with a GPS receiver in a durable, compact enclosure.

On May 15, 2006, we released our first quarter 2006 financial results. As part of that press release, the Corporation announced certain senior management changes. Stephen Verhoeff resigned from the position of President, CEO and Director. The Chairman of our Board of Directors, Michael Lang, assumed the position of Interim-CEO during the recruitment period for a replacement. Our Chief Financial Officer, Cameron Olson, assumed the role of Interim President, in addition to his responsibilities as Chief Financial Officer. Rick Heiniger, President of Hemisphere GPS, moved from that role to Vice-Chairman of the Board of Directors, focusing on special assignments such as strategic planning and direction for our GPS business.

On May 30, 2006, we announced the appointment of two new members of our Board of Directors; John M. Tye III and Barry Batcheller.

On July 28, 2006, we announced that we had signed an agreement to sell the assets associated with our Location Tag telematics product line to Trace Technologies LLC ("Trace"), a wholly owned subsidiary of Gabriel Technologies Corporation (OTC Bulletin Board: GWLK) of Omaha, Nebraska for total consideration of \$1 million. As of the date of this Annual Information Form, this transaction has not closed due to circumstances at Trace. The agreement with Trace includes a break fee of US\$125 thousand that is payable to us if Trace does not meet the conditions required to complete the transaction. At this point in time, we believe that the likelihood of this transaction closing is low based on recent discussions with Trace. A press release will be filed by the Corporation announcing either the completion or termination of the transaction in due course.

On September 8, 2006, we announced the appointment of Steven L. Koles as our President and Chief Executive Officer. As a result of the appointment of Mr. Koles, Michael Lang relinquished the position of Interim Chief Executive Officer, and Cameron Olson relinquished the position of Interim President, but remained in the position of Chief Financial Officer.

On October 21, 2006, we announced that we had been served with a statement of claim filed in the Court of Queen's Bench of Alberta by Longview Advantage, Inc., a private company located in Calgary, Alberta ("Longview"). The statement of claim relates to our telematics activities and claims damages of \$35 million. Based on our review and understanding of the circumstances, we believe that the lawsuit is without merit and plan to vigorously defend our position. In March 2007, we filed a statement of defence and a counterclaim against Longview since which time no further actions have been taken.

On November 14, 2006, we announced the introduction of the Crescent R100 Series DGPS Receiver, incorporating our Crescent technology.

On November 28, 2006, we announced the introduction of our new SBX-4 DGPS beacon module for OEM customers who need to integrate a versatile precision beacon receiver module into their products.

On December 20, 2006, we announced that we had sold 1,931,745 common shares of Telular Corporation, for proceeds of approximately \$7.3 million.

On December 20, 2006, we announced that we had completed the sale of the assets of our Asset-Link telematics product line to CHI-Agra Products Inc. of Vancouver, Canada. Proceeds at closing were US\$10 thousand in cash, and a promissory note for US\$90 thousand. In addition, we have the potential to earn up to US\$250,000 based on the volume of Asset-Link products sold by CHI-Agra.

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

On January 19, 2007, we announced plans to formally change our corporate name to Hemisphere GPS Inc. in connection with our re-focusing of the Corporation on the strengths of our GPS business. We will seek shareholder approval of the name change at our Special and Annual General Meeting to be held on May 9, 2007. If the name change is approved, we intend to change the trading symbol of our common shares on the Toronto Stock Exchange from "CSY" to "HEM". The symbol "HEM" has been reserved with the Toronto Stock Exchange.

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

### **SIGNIFICANT ACQUISITIONS**

We did not complete any significant acquisitions in the year ended December 31, 2006 which required disclosure under part 8 of National Instrument 51-102 – *Continuous Disclosure Obligations* ("NI 51-102").

### **RECENT DEVELOPMENTS**

On January 19, 2007, we announced plans to formally change our corporate name to Hemisphere GPS Inc. in connection with our re-focusing of the Corporation on the strengths of our GPS business. We will seek shareholder approval of the name change at our Special and Annual General Meeting to be held on May 9, 2007.

On February 12, 2007, we announced the introduction of new products with centimeter-level accuracy through a Real-Time Kinematic ("RTK") application with our single frequency Crescent technology. This is being offered in several of our products including the Outback BaseLineHD, Outback S2, Crescent MasterLink, and Crescent R100 Series Receivers.

On February 14, 2007, we announced that our Outback S2 GPS guidance system had won a FinOvation Award, presented by the *Farm Industry News*. Hemisphere GPS was the only GPS entity to receive a Finovation Award, which recognizes the most innovative new products published in *Farm Industry News* during the past year.

On February 14, 2007, we announced that we had recently received two new patents entitled (1) *Automatic Steering System and Method* and (2) *Articulated Equipment Position Control System and Method*.

On March 13, 2007, we filed a Statement of Defence and Counterclaims responding to the Longview Statement of Claim served on the Corporation on October 21, 2006.

## **DESCRIPTION OF OUR BUSINESS**

### **HEMISPHERE GPS**

#### **General**

We design, manufacture and market products that integrate GPS positioning, machine guidance, steering and flow control. Our products provide for machine control accuracy at market leading costs in robust outdoor environments and have a specific focus on the following markets: ground agriculture, aerial agriculture and precision markets (marine, geographic information systems ("GIS"), mapping and surveying). Specifically, our products include ground and aerial guidance, machine control and steering 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 two frequency bands (1.575 GHz and 1.2276 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 multiplying the time of transit of the signal by 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, though less accurate than the PPS, is available to all 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, with 95% confidence. 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 no longer in place, autonomous GPS is able to achieve a horizontal accuracy of about 10 meters, with 95% confidence.

## **Differential GPS**

The purpose of Differential GPS (“DGPS”) systems is to remove the effects of errors with the goal of enhancing GPS system integrity and position accuracy. Errors that impact accuracy include ionospheric errors, timing errors, multipath interference and satellite orbit errors. Prior to May 1, 2000, DGPS also helped to reduce 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 various forms of wireless communications. The remote receiver uses these differential corrections to correct its satellite range measurements, providing a more accurate position. This approach is the predominant DGPS strategy used for real-time applications.

*Wide-Area DGPS (WADGPS).* A version of differential GPS that provides error corrections over a large geographic area and employs multiple, widely distributed reference receivers. The data from the reference receivers is typically processed at a centrally located facility before being distributed to the end-user.

### **Differential GPS Services**

We offer receiver equipment that is compatible with the four main sources of differential corrections: Beacon DGPS, L-Band Satellite WADGPS, Space Based Augmentation Systems (“SBAS WADGPS”) and a proprietary Carrier phase-based Local DGPS known as L-Dif™.

*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, with 95% confidence.

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 DGPS' 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 WADGPS.* 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®, Navcom and Veripos systems and provide almost worldwide signal coverage.

Because L-Band WADGPS 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 with a horizontal accuracy of 1 meter or better, with 95% confidence.

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.

SBAS WADGPS. The most notable SBAS system is the US Federal Aviation Administration's Wide Area Augmentation System ("WAAS"). Others include the European Geostationary Overlay System ("EGNOS") and Japan's MTSAT Satellite-Based Augmentation System ("MSAS"). They are similar to L-Band DGPS in that they use satellite transponders to relay correction information back to earth, however, they are free-of-charge systems that have been developed primarily for aviation navigation. Other countries, including China and India are developing SBAS systems.

SBAS WADGPS determine the individual constituents of the satellite ranging errors, rather than generating one lumped error correction as is done by Beacon DGPS and some commercial L-Band WADGPS systems. These constituents include satellite orbit, clock, and ionospheric errors. A more consistent level of accuracy can be achieved in comparison to the lumped error correction method. SBAS systems provide a similar level of overall accuracy to commercial L-Band services at about 1 metre, with 95% confidence.

Another benefit of SBAS WADGPS is that their signals are broadcast at the same frequency as GPS, enabling suitably designed GPS receiver systems to track both the GPS and SBAS signals. This reduces overall system costs, compared to requiring a separate differential receiver for Beacon DGPS or for L-Band WADGPS. 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 improve accuracy. SBAS coverage over other regions of the world is the responsibility of respective regional aviation navigation authorities. The overall goal of SBAS systems is to develop an interoperable GPS augmentation system covering the majority of air traffic routes. It is expected that this will ultimately provide coverage to the majority of the world.

*Local DGPS.* These systems utilize portable base station receiver units that calculate and broadcast localized code and carrier phase corrections to mobile GPS receivers ("rovers"). The corrections are processed in the rover GPS receiver to achieve accuracy and repeatability that is not possible with code-only DGPS methods such as Beacon DGPS or SBAS WADGPS. Multiple rover receivers can operate from a single local base station. Local DGPS systems enable the use of real time kinematic ("RTK") applications that provide centimetre level accuracy for applications that require very high precision.

## **The Hemisphere GPS Solution**

Hemisphere GPS 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 products.

*Technology and Applications.* Originally, the focus of our technology and products was on DGPS. However, our technology portfolio has been expanded beyond DGPS technology through research and development, and through strategic acquisitions. Today, our technology portfolio includes strong proprietary technology in GPS and DGPS, as well as advanced applications for guidance, machine control, steering and flow control. Our GPS engineering team has become known in the industry for innovation and creativity as a result of achievements such as:

- developing the Crescent™ GPS technology – our own application-specific integrated circuit ("ASIC") providing our GPS receivers with greater accuracy and performance than previously available for lower cost. Our GPS technology leadership is further demonstrated in our eDif™ and COAST® software that provides enhanced GPS coverage where no DGPS exists or in difficult conditions.
- developing a Local DGPS system that we refer to as L-Dif™ with centimetre-level accuracy for advanced applications by incorporating RTK technology with our single-frequency Crescent GPS technology platform. This enables higher accuracy at lower cost compared to competing systems.
- achieving continual cost reductions through initiatives such as integrating GPS and differential receivers in a single module to share common resources.

- developing a GPS-based heading sensor system that replaces expensive competing systems by combining two GPS receivers and two antennas into a single enclosure to provide heading information to within half-degree accuracy.
- developing a high-quality Beacon DGPS receiver design that provides superior immunity to man-made noise, resulting in high performance under noisy conditions.

*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, situational awareness, and high performance products as their comfort with the technology grows. Our DGPS products are compatible with all primary sources of differential corrections currently available: Beacon DGPS, L-Band WADGPS, SBAS WADGPS and our recently introduced Local DGPS system, called L-Dif. This provides customers with the option of selecting the technology that is most compatible with their 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 provider of high performance GPS guidance and positioning devices at market-leading prices. We continue to pursue means of reducing the cost of our products to maintain our competitive advantage for the customer segments that we target. For example, in 2006, we introduced single-frequency RTK products, which provide higher performance and features for lower cost than competing systems.

*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. Through the internal manufacturing of our GPS products, we are able 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**

The key elements of our business strategy are:

1. Increase market share in existing verticals and defend current penetration through new product innovation and international expansion;
2. Expand business to new vertical markets and applications;
3. Streamline operations for sustained profitability; and

*Production Innovation.* Our success has been driven by our ability to develop new positioning, guidance and machine control technologies, to respond to environmental and market changes, and to apply creativity and innovation in the development of new products that meet the evolving demands of our customers. We will continue drive product leadership through focus and innovation.

*Develop Strategic Relationships.* We believe that strategic relationships with suppliers, OEMs, dealers, distributors and other customers is critical to long-term success. We will continue to develop existing and new strategic relationships.

*International Expansion.* In the near-term, the North American market is a significant opportunity where we are well positioned through our distribution networks and product portfolio. We believe that focus on international

expansion is important to position for mid to longer-term growth opportunities and to buffer the seasonality associated with our exposure to the North American agricultural markets.

*Mitigate Seasonality.* In 2006, revenues associated with agriculture markets comprised approximately 80% of our revenue. Similarly, in 2006 North American revenues were approximately 80% of total revenues. As a result, our revenues are significantly tied to seasonality of the buying season of the North American agricultural market, which is heavily skewed to the first half of the calendar year. In 2006, revenues in the first half of the year were approximately 70% of the total revenues for the year. We will seek and pursue opportunities to mitigate this seasonality to the extent that they also create value.

*New Vertical Markets and Applications.* We have achieved strong positions in the ground agriculture, aerial agriculture and other markets. To support mid to longer-term growth, we will seek expansion to new vertical markets where we can leverage our core strengths in positioning, guidance, machine control, steering and flow control technologies and applications.

*Optimize Product Cost.* We intend to continue to aggressively pursue opportunities to reduce or optimize the cost of our products through product design, manufacturing efficiencies and procurement strategies, with an objective to balance functionality, performance and quality with customer needs.

*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.

*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**

### **Ground Agriculture Products**

#### *Outback Products*

Our Outback product line for agricultural use include our *Outback S*, *Outback S2*, *Outback 360*, *Outback eDrive*, and our new *Outback BaselineHD* product.

Our *Outback S* is a DGPS guidance system featuring a WAAS and L-Band receiver. *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 months.

*Outback S2* is the next generation DGPS guidance system that has all the features of *Outback S* plus our proprietary Crescent receiver technology that enables the system to achieve a 50% increase in accuracy, along with other performance advantages. The performance of the *Outback S* and *S2* can be improved by combining the products with *Outback BaselineHD*, described below.

Our *Outback 360* is an accessory product to *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.

*Outback eDrive* is an accessory product to *Outback S* and *Outback S2* providing GPS-assisted auto-steering that enables farmers to drive their tractors and other self-propelled agricultural equipment hands-free, along straight or contoured lines. We also offer an 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 BaselineHD*, featuring Hemisphere GPS's L-Dif and single-frequency Crescent RTK technologies, is a Local DGPS system for agricultural applications that achieves much more accuracy than conventional DGPS products while also being much more affordable than competing dual-frequency RTK systems. *Outback BaselineHD* is a portable base station receiver mounted on a tripod that calculates and broadcasts localized corrections to *Outback S2* products, improving the performance to centimetre-level accuracy.

#### *Other Ground Agriculture Products*

Our guidance products for agricultural use also include non-*Outback* products focused on OEM and commercial customers including *LiteStar II* and *GPSteer*.

*LiteStar II* is a high-performance land-based guidance system providing guidance for spraying, swathing, mapping, yield monitoring and soil sampling. *LiteStar II* can also be utilized for aerial spraying applications.

*GPSteer* is our OEM-oriented auto-steering system for tractors and other self-propelled agricultural equipment.

#### ***Air Agriculture Products***

Our air agriculture products include guidance and flow control products for the aerial application market including spraying, pattern and mission control, automated constant or variable flow control and prescription mapping among others. Products include the *Satloc M3*, *Del Norte DGPS Flying Flagman*®, *AerialACE*, *Intelliflow*®, and the *Fire/Dry Gate Controller*.

*Satloc M3* is a high-performance aerial guidance system for aerial applicators. The *M3* allows pilots to fly and spray precise patterns using constant and/or variable rate flow control reducing fuel, flying time and application costs. The *Del Norte DGPS Flying Flagman* system is a rugged, waterproof, versatile aerial guidance system for aerial applicators operating in more demanding conditions.

The *AerialACE* and *Intelliflow* products enable liquid chemical flow control for aerial guidance applications. Our *Fire/Dry Gate Controller* delivers precise application for dry chemicals in aerial guidance applications.

#### ***Precision Products***

Our Precision Products lines are our products focused on non-agriculture markets such as marine and Geographic Information Systems (“GIS”) mapping. These products include OEM products, GPS Heading Sensor products, integrated GPS and DGPS receivers and antennas.

#### *Original Equipment Manufacturer Products*

Hemisphere GPS' OEM products include *Crescent GPS*, *Crescent Vector*, , *SBX-4* and *LX-1*.

Our *Crescent GPS OEM board* is a 12 channel, L1 GPS receiver that features integrated SBAS support, and the capability to utilize Beacon DGPS and L-Band WADGPS corrections. It also incorporates Hemisphere GPS' COAST™ and e-Dif® technologies that enable it to continue to effectively use out-dated differentially corrected data for up to 40 minutes without any significant accuracy degradation. The *Crescent GPS OEM board* can also be augmented for very high accuracy applications with Hemisphere GPS's RTK and our exclusive L-Dif technology.

Our *SBX-4 OEM Beacon DGPS module*, introduced November 2006, is the newest in the family of SBX modules, and offers a Beacon DGPS engine that augments a separate GPS receiver with free correction signals from beacon stations.

Our recently introduced *LX-1 OEM L-Band WADGPS module* provides the capability to augment a separate Crescent GPS with OmniSTAR L-Band error corrections.

Our *Crescent Vector OEM* is a high accuracy GPS compass and positioning system designed primarily for the marine market and other machine control applications. The Crescent Vector OEM incorporates Hemisphere GPS' COAST technology in order to maintain consistent, accurate positioning during periods of differential signal loss.

Our *Crescent MasterLink* product is similar to the Outback BaseLineHD and augments many of our Crescent products, enabling centimetre-level accuracy where required by our customers.

#### *GPS Heading Sensor Products*

Our *Vector* line of GPS heading sensor products enable users to maintain highly accurate headings at substantially less than the cost of traditional gyrocompasses. The Vector line incorporates our exclusive COAST technology.

*Crescent V100 Series* and *Crescent VS100 Series* are targeted primarily to the marine industry, but are also targeted for other machine control markets – including port handling and heavy construction equipment applications. Each have the capability to utilize accuracy enhancing data from Beacon DGPS, SBAS DGPS, as well as Local DGPS – when combined with our Crescent MasterLink product.

*Crescent V100* 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 sufficient to replace gyrocompasses for many applications at a much lower cost.

*Crescent VS100* is made up of a receiver and two separate antennas. Users can increase the distance between the antennas which increases the heading accuracy, enabling a broad range of machine control applications.

#### *Integrated GPS Receivers and Antennas*

Our *Crescent A100 Smart Antenna* combines our Crescent GPS receiver technology with an antenna in a single enclosure and offers an affordable, portable solution with professional level accuracy for several markets including agricultural, marine, GIS mapping and other applications. A100 features integrated SBAS WADGPS support, our exclusive COAST and e-Dif technologies.

Our *Crescent R100 Series* of GPS receivers are intended for a wide variety of applications including marine and land navigation, precision guidance in agriculture, asset-tracking, GIS, mapping and other industrial applications. The R100 series features integrated SBAS WADGPS support, as well as our exclusive COAST and e-Dif technologies. In addition, the R100 series has the capability to utilize accuracy enhancing data from Beacon DGPS, L-Band WADGPS and Local DGPS, when combined with the Crescent MasterLink product.

We also sell a variety of antenna products that are targeted for marine, GIS, surveying and other industrial applications.

#### *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.

We also have *e-Dif* or "extended differential" software that enables standard GPS receivers to achieve higher accuracy without any help from accuracy-enhancing differential signals. *e-Dif* enables a standard GPS receiver, capable of only 2 to 3 metres accuracy, to internally generate differential corrections that improve its accuracy to less than one metre without the expense or potential uncertainties of differential signals. *e-Dif* computes corrections with a very slow error drift rate, typically maintaining sub-metre accuracy for as long as 40 minutes, and is often a practical solution for much longer periods of time.

*e-Dif* can save customers the cost of subscription fees for DGPS signals in regions such as South America, Africa and Australia where no differential 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 SBAS systems such as WAAS, or when a receiver is on the fringe of land-based radio beacon networks.

## **Research and Product Development**

The focus of Hemisphere's research and development team is on expanding our core GPS positioning technologies and on developing new products and applications. We believe that our research and product development capabilities are critical 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.

Our research and development team includes individuals with specialized skills in the following disciplines, among others: electrical engineering, radio-frequency engineering, geomatics engineering, mechanical design, system architecture and software design. Although the availability of these resources is limited, we have not experienced significant problems accessing the required skill and knowledge required for our research and development activities.

In 2005, our research and development team completed development of our own patented application-specific integrated circuit ("ASIC"), branded as Crescent receiver technology. The Crescent receiver technology provides a significant improvement in accuracy to Hemisphere GPS products and avoids the risks and costs of purchasing GPS 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. During 2005 and 2006, we incorporated the Crescent receiver technology into most of our related products.

In 2006, our research and development team achieved another milestone when they completed the development of our single-frequency RTK application utilizing our Crescent receiver technology. This technology provides similar accuracy as competing dual-frequency RTK systems but at a fraction of the cost and presents an affordable and robust positioning solution for customers in precision agriculture, marine navigation, GIS, surveying and other industrial applications. We believe that the combination of RTK performance and affordability in our Crescent-based products will have a significant market impact on applications that typically relied on much more expensive solutions and extend the range of applications that our products serve.

## **Marketing, Sales and Distribution**

Our strategy for distribution of our GPS products has traditionally been through large OEMs, dealer networks and distributors with established channels for multi-country distribution. This strategy eliminated the need to devote significant direct resources to developing these distribution channels on our own. This strategy has enabled us to participate in a broader range of high-growth commercial and consumer GPS-enabled markets and continues to be utilized for all of our product lines.

In 2005, we broadened our sales and distribution strategy in the ground agriculture markets when we acquired the Outback distribution network. In North America, we have over 300 Outback Guidance Centres each responsible

to support our sales of Outback products to end-user customers in defined territories. Outside of North America, we have established relationships a variety of distributors for the Outback product line who sell to the end-user customers.

The acquisition of the Outback business included a variety of intangible assets including trademarks, brands, marketing and distribution assets and technology. We believe that these intangible assets provide us with significant ongoing benefits, particularly in the North American after-market where the Outback brand-names, trademarks, distribution network and customer lists are an integral part of our ongoing business strategy.

Hemisphere GPS serves global markets. Of its 2006 sales, 54.8% (2005 – 54.6%) occurred in the US, 25.9% (2005 – 18.6%) occurred in Canada, 8.0% (2005 – 10.1%) occurred in Europe and 11.3% (2005 – 16.7%) occurred in other areas of the world.

Our GPS guidance products currently serve the ground agriculture, aerial agriculture, marine, GIS and other markets. Our products provide solutions for ground agricultural guidance and auto-steering, aerial agricultural guidance and flow control, marine navigation, GIS and mapping applications, and others.

From a customer's perspective, the primary benefits provided by GPS and DGPS products are more accurate navigation, improvements in productivity, 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: price, ease of use, physical characteristics, power consumption, product features (including accuracy), product reliability, size of installed base, brand reputation, vendor reputation and financial stability of the vendor. We believe that our products compete favourably with competitors' products on many of the foregoing factors and as a result, we have achieved a strong market position in certain of our markets including ground agricultural guidance and auto-steering, aerial agricultural guidance and flow control and marine heading sensors.

We recognize that some of our competitors may have access to greater financial, marketing, service and support and technological resources. See "Risk Factors".

## **Manufacturing**

Up until early 2007, we manufactured and populated all printed circuit boards and completed the final assembly and quality assurance testing of OEM modules, integrated positioning units and antennas in-house at our Calgary facility. We have begun to outsource certain high-volume components in our products which will result in cost savings and an increase in manufacturing capacity.

The electrical components associated with our Outback products are manufactured in the Calgary facility and are delivered to our distribution facility in Hiawatha, Kansas for final assembly, configuration and packaging. The Del Norte aerial agriculture products are assembled and tested in our Eules, Texas facility.

Our operations department 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 circumstances.

In the last half of 2006, we implemented a new Enterprise Resource Planning ("ERP") system that we believe will help us to improve the effectiveness and efficiency of our operations, including manufacturing.

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**

We conduct operations from facilities in Calgary, Alberta; Scottsdale, Arizona; Hiawatha, Kansas; Eules, Texas; and Winnipeg, Manitoba; with a combined area of approximately 103,500 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 our annual sales for the foreseeable future.

### **Personnel**

At December 31, 2006, we had 206 employees in total, with 36 in Research and Development, 62 in Sales and Marketing, 79 in Manufacturing Operations and 29 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 issued and 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.

## ESCROWED SECURITIES

To our knowledge, the number of Common Shares held in escrow are as set out in the following table:

Designation of Class	Number of Securities held in Escrow	Percentage of Class
Common Shares	3,400,000	7.4%

### Notes:

- (1) The escrow agent for the Common Shares is Computershare Trust Company of Canada.
- (2) The above Common Shares are held in escrow in accordance with an Asset Purchase Agreement dated April 8, 2005 between Satloc LLC (now Hemisphere GPS LLC) and RHS, Inc. ("RHS") relating to the purchase by CSI of the Outback business assets from RHS. The Common Shares held in escrow are to be released as follows:
  - 1,000,000 Common Shares on April 8, 2007;
  - 1,950,000 Common Shares on April 8, 2008; and
  - 450,000 Common Shares are held in escrow as security for an indemnification provided to Hemisphere GPS LLC and are to be released from escrow on the earlier of the settlement of matters to which the indemnification relates and ten years following the closing date. Alternatively, the Common Shares may be released from escrow if RHS deposits US\$1.5 million in cash in a manner acceptable to Hemisphere GPS LLC, or a lesser amount if agreed by Hemisphere GPS LLC.

## MARKET FOR SECURITIES

Our Common Shares are listed and posted for trading on the TSX under the symbol "CSY". As described under General Development of the Business, Anticipated Changes in the Business, we plan to change the trading symbol from "CSY" to "HEM" if we receive approval of the change in the name of the company to Hemisphere GPS Inc. at the Annual Special and General Meeting to be held on May 9, 2007.

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
2006			
January	\$2.40	\$1.52	7,538,481
February	\$2.50	\$1.85	3,730,018
March	\$2.09	\$1.57	2,536,098
April	\$2.25	\$1.76	4,810,892
May	\$2.14	\$1.68	1,932,636
June	\$1.84	\$1.35	6,089,187
July	\$1.65	\$1.45	1,649,067
August	\$1.78	\$1.51	2,642,919
September	\$1.83	\$1.60	6,458,393
October	\$1.77	\$1.62	5,504,220
November	\$1.77	\$1.50	2,464,782
December	\$1.95	\$1.57	1,564,242
2007			
January	\$2.48	\$1.80	3,697,971
February	\$2.43	\$2.13	3,145,262

## DIRECTORS AND OFFICERS

The names, provinces and countries 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, Province and Country of Residence	Position	Principal Occupation During the Last Five Years	Number of CSI Shares Beneficially Owned or Controlled
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), and a director of publicly traded Dynetek Industries Ltd.	516,005 (1.11%)
Barry Batcheller <sup>(2)</sup> North Dakota, USA	Director since May 2006	President and CEO of Appareo Systems, LLC since 2005. Prior thereto Director of Technology Growth with John Deere & Company since 2002. Prior thereto, President and CEO of Phoenix International Corporation.	Nil (0.00%)

Name, Province and Country of Residence	Position	Principal Occupation During the Last Five Years	Number of CSI Shares Beneficially Owned or Controlled
Paul L. Camwell <sup>(1)(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) since April 2004, a University of Calgary subsidiary responsible for its technology commercialization. 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.	3,000 (0.01%)
Richard W. Heiniger Missouri, USA	Director since 2005	Chief Executive Officer of RHS Inc. during the last five years. President of Hemisphere GPS LLC from April 9, 2005 to May 15, 2006.	4,400,000 (9.54%)
John M. Tye III <sup>(1)(3)</sup> Texas, USA	Director since May 2006	Chairman, Bigham Brothers Inc.	Nil (0.00%)
Howard W. Yenke <sup>(2)</sup> Massachusetts, USA	Director since 1996	Retired executive.	30,000 (0.07%)
Steven L. Koles Alberta, Canada	President and Chief Executive Officer	President and Chief Executive Officer of CSI since September 8, 2006. Prior thereto General Manager at AOL Canada from 2003 to 2006. Prior thereto Managing Director of R4 Management Group / Windy Point Capital from 2002 to 2003. Prior thereto Senior Vice President, Marketing & Sales Support of GT Group Telecom.	15,000 (0.03%)
Cameron B. Olson Alberta, Canada	Senior Vice President and Chief Financial Officer	CSI's Senior Vice President and Chief Financial Officer since October 2003 and Vice President, Finance of CSI since May 2000.	37,490 (0.08%)
Dean Ryerson Kansas, USA	Senior Vice President and Chief Operating Officer, Agriculture	CSI's Chief Operating Officer for the Hemisphere GPS since January 2006, and previously its Vice President and General Manager since April 2005. Prior thereto, President of RHS, Inc.	Nil (0.00%)
William Burdick Kansas, USA	General Manager, Ground Agriculture	CSI General Manager, Ground Agriculture since July 2006. Prior thereto, CSI's Vice President, Sales, Ground Agriculture since April 2005. Prior thereto, Manager of Sales, RHS, Inc.	Nil (0.00%)
Phil W. Gabriel Alberta, Canada	General Manager, Precision Products,	CSI's General Manager, Precision Products, for Hemisphere GPS since November 2005. Prior thereto CSI's Vice President Sales, Wireless.	41,124 (0.09%)

Name, Province and Country of Residence	Position	Principal Occupation During the Last Five Years	Number of CSI Shares Beneficially Owned or Controlled
Chad A. Lind Texas, USA	General Manager, Air Division	CSI's General Manager, Air Agriculture product line. Prior thereto Project Manager and Vice President of BancTec, Inc.	Nil (0.00%)
Michael Pratt Alberta, Canada	Vice President, Finance and Administration	CSI's Vice President, Finance and Administration since July 2006. Prior thereto CSI's Director of Management Information Systems since March 2005. Prior thereto management consultant.	Nil (0.00%)
Lisa M. Smith Alberta, Canada	Vice President, Operations	CSI's Vice President of Operations since July 2006. Prior thereto CSI's Vice President of Supply Chain Operations, Wireless since September 2005 and previously the Director of Supply Chain, Wireless from 2001 to September 2005.	Nil (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 subject to 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.

Steven L. Koles was previously an officer of GT Group Telecom Inc.. In March 2002, Mr. Koles resigned from his position with that company. GT Group Telecom Inc. filed for CCAA protection prior to the end of 2002. GT Group Telecom Inc. later merged with 360 Networks Inc.

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 *Business Corporations Act (Alberta)* (the "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**

Except as stated below, there were no material interests, direct or indirect, of our directors and executive officers, any person or company 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., a company owned by Richard W. Heiniger and his family. The transaction was at arm's length. Subsequent to the transaction, Mr. Heiniger became a senior officer of CSI and 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 NI 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 into outside of the ordinary course of business.

### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

KPMG LLP, Chartered Accountants, Suite 2700, 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**

***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. 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.

**Paul L. Camwell, Calgary, Alberta**

Paul Camwell is Vice-President and Chief Technology Officer of Extreme Engineering Limited. A former Industrial Technical Advisor to NRC/TRLabs, he has held senior management positions in the Scientific Civil Service (U.K.), at NovAtel Communications Ltd. and at Ryan Energy Technologies Inc. Dr. Camwell is qualified as a physicist and electronic engineer. He is a Professional Engineer practicing in Alberta.

**John M. Tye III, Plainview, Texas**

John Tye III is the Chairman of Bigham Brothers Inc. He was formerly President and CEO of AgEquipment Group. He was also a partner in InterAg Technologies. He has extensive industry knowledge being the only individual to have served as Board Chairman of both of the major farm equipment associations – the Equipment Manufacturers Institute and the Farm Equipment Manufacturers Association. In addition, Mr. Tye has served with several other organizations such as the Conservation Technology Information Center and the Southern Farm Equipment Manufacturers Association.

**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 2006 and 2005.

Type of Service Provided	2006	2005
Audit and Quarterly Review Fees	\$150,000	\$132,000
Audit-Related Fees (financing related)	–	\$18,700
Audit-Related Fees (divestment related)	\$85,000	–
Tax Fees	–	–
All Other Fees	–	–

**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 Fluctuations**

Sales of our products are transacted in primarily in US dollars. As our revenues are reported 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 inventory, other costs and many services in US dollars. However, a strengthening in the Canadian dollar relative to the US dollar will result in lower revenues and earnings. As we expand with increased global sales, we expect that it may be necessary to transact sales in foreign currencies other than US dollars, thus exposing us to additional foreign currency risk.

In 2006, we entered into derivative financial instruments to manage our foreign currency exposure in connection with the implementation of a foreign exchange risk management program. Although this program has been implemented, there is no guarantee we will not experience foreign exchange gains and losses in future periods.

## **General Economic and Financial Market Conditions**

In 2006, we faced negative conditions in certain economic, financial and product markets. Negative changes in market and business environments, or adverse geopolitical events, could have a negative impact on our 2007 performance. Our agricultural product sales were affected to some extent by drought conditions in 2006 and in prior years. This negatively impacted our sales of agriculture guidance products. Should negative weather conditions arise in 2007, we could be faced with lower-than-expected revenues in the impacted market areas.

## **Dependence on Key Personnel and Consultants**

Our success is largely dependent upon the performance of personnel and key consultants. The unexpected loss or departure of any of the key officers, employees or consultants could be detrimental to our future operations. Our success 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 industry. There can be no assurance that we will be able to engage the services of such personnel or retain our current personnel.

## **Competition**

We compete in a highly competitive industry that is constantly evolving and changing. We expect this competition to increase as new competitors 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 allow competitors to respond more quickly to the GPS 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 increased operating expenses.

## **Third-Party Dependence**

Many of our products rely on signals from satellites that we does 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. However, 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 existing products, future results would be adversely affected.

## **Intellectual Property**

The industry in which we operate has many participants that own, or claim to own, proprietary intellectual property. We have received, and may receive, claims from third parties claiming that we have infringed on their intellectual property rights. Determination of the rights to intellectual property is very complex, and litigation may be required to establish if we have violated the intellectual property rights of others. As a result of such claims, we could be subject to losses arising from product injunctions, awards for damages and third party litigation costs, requirements to license intellectual property, legal expenses, diversion of Managements' time and attention, and other costs

## **Government Regulation**

Our products are subject to government regulation in the United States, Canada and other regions in which we operate. Although we believe that we have obtained the necessary approvals for the products that we currently sell, we may not be able to obtain approvals for future products on a timely basis, or at all. In addition, regulatory requirements may change or we may not be able to obtain regulatory approvals from countries in which we may desire to sell products in the future

## **Availability of Key Supplies**

We are reliant upon certain key suppliers for raw materials and components, and 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 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 its 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 increasing 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. Losses could be realized if customers default on their balances owing.

## **Technology Risk**

Our success in the GPS markets 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. 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 could 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 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 *Business Corporations Act (Alberta)* (the "ABCA") 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 Risks**

In common with other companies, we are subject to legal risks related to our operations, contracts, relationships and otherwise under which we may be served with legal claims. Whether or not the claims are legally valid, such claims may result in legal fees, damages, settlement costs and other costs. Such claims may also result in significant time and distraction of management and employees.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

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.

On October 17, 2006, we were served with a statement of claim in the Court of Queen's Bench of Alberta by Longview Advantage, Inc. ("Longview"), a former customer of our Telematics product line. The statement of claim cites damages of \$35 million related to breach of contract, intentional interference and misrepresentation relating to commercial dealings between CSI and Longview and negotiations for the sale of the Asset-Link Telematics product line. On March 13, 2007, we filed a statement of defence and a counterclaim for damages incurred by us relating to these matters. We believe that the lawsuit is without merit and intend to vigorously defend our position. Since March 13, 2007, no further actions have been taken by CSI or Longview.

We are the defendant in a lawsuit filed by Trimble Navigation Limited in the United States District Court of California on September 27, 2002 in which Trimble claims that certain of the Corporation's GPS products infringe a patent held by them. No specific amount of damages has been claimed in the court documents. The Corporation does not believe that its products infringe upon the referenced patent and is vigorously defending its position.

We are not aware of any (i) penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority in the year ended December 31, 2006; (ii) any other penalties or sanctions imposed by a court or regulatory body against the Corporation that would likely be considered important to a reasonable investor in making an investment decision; or (iii) settlement agreements the Corporation entered into with a court relating to securities legislation or with a securities regulatory authority during the year ended December 31, 2006.

### **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, 2006, which are set forth in our 2006 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.

1. **Establishment of Audit Committee:** The board of directors (the "Board") hereby establish a committee to be called the Audit Committee (the "Committee").
2. **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 "independent", as such term is defined in Multilateral Instrument 52-110, "Audit Committees" ("MI 52-110"). Members shall be appointed periodically from among the "independent" members of the Board. All members of the Committee shall be financially literate, being defined under MI 52-110 and herein as having the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that can reasonably be expected to be raised by the Corporation's financial statements.
3. **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:

- Monitor the management of the principal risks that could impact the financial reporting of the Company;
- Monitor the integrity of the Company's financial reporting process and system of internal controls regarding financial reporting and accounting compliance;
- Oversee and monitor the independence and performance of the Company's external auditors;
- 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;
- Encourage adherence to, and continuous improvement of, the Company's policies, procedures, and practices at all levels;
- Monitor compliance with legal and regulatory requirements; and
- Ensure that effective procedures are in place for the anonymous submission, receipt, retention and treatment 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**

- (a) Review periodically the Committee's Terms of Reference;

- (b) 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;
- (c) Following completion of the annual audit, review separately with each of management and the independent auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information;
- (d) Review any significant disagreements among management and the independent auditors in connection with the preparation of the financial statements;
- (e) 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;
- (f) Review risk management policies and procedures of the Company (i.e., litigation and insurance);
- (g) 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;
- (h) Review significant findings prepared by the external auditors together with management's responses;
- (i) Review the principal risks affecting financial reporting;
- (j) Review with financial management and the external auditors, and approve, the company's quarterly financial results and related documents, including the quarterly press releases and MD&A, prior to the public release. 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;
- (k) 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**

- (l) 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;
- (m) Approve the fees and other significant compensation to be paid to the external auditors;
- (n) 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;
- (o) Review the external auditors' audit plan - discuss and approve audit scope, staffing, locations, reliance upon management, and general audit approach;

- (p) Prior to releasing the year-end financial results, 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;
- (q) Consider the external auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in the Company's financial reporting;
- (r) 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:
  - (i) Tax services connected with the preparation of the Corporation's tax returns, or the tax returns of any of its subsidiaries; and
  - (ii) Due diligence and tax services connected with any mergers, acquisitions or dispositions being considered by the Corporation;
- (s) Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present or former auditors;
- (t) When there is to be a change in external auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change;

#### **Legal Compliance**

- (u) 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; and

#### **Other Audit Committee Responsibilities**

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

#### **4. Administrative Matters:** The following general provisions shall have application to the Committee:

- (a) 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;
- (b) 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;
- (c) 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 independent 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;

- (d) The Committee shall meet at least four times per year and/or as deemed appropriate by the Chair;
- (e) 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;
- (f) 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;
- (g) 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;
- (h) 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;
- (i) 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;
- (j) 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.