



2,570,000 Common Shares

Of the 2,570,000 Common Shares offered hereby, 2,470,000 shares are being sold by NovAtel Inc. (“NovAtel” or the “Company”) and 100,000 shares are being sold by a Selling Shareholder. The Company will receive a portion of the proceeds from the sale of shares by the Selling Shareholder. See “Use of Proceeds” and “Principal and Selling Shareholders.”

Prior to this offering, there has been no public market for the Common Shares of the Company. See “Underwriting” for a discussion of the factors considered in determining the initial public offering price. The Common Shares have been approved for quotation on the Nasdaq National Market under the symbol “NGPSF.”

This offering involves a high degree of risk. See “Risk Factors” commencing on page 6 for a discussion of certain factors that should be considered by prospective purchasers of the Common Shares offered hereby.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	<i>Price to Public</i>	<i>Underwriting Discount(1)</i>	<i>Proceeds to Company(2)</i>	<i>Proceeds to Selling Shareholder(2)</i>
<i>Per Share</i>	<i>US\$7.50</i>	<i>US\$0.525</i>	<i>US\$6.975</i>	<i>US\$6.975</i>
<i>Total(3)</i>	<i>US\$19,275,000</i>	<i>US\$1,349,250</i>	<i>US\$17,228,250</i>	<i>US\$697,500</i>

(1) See “Underwriting” for information concerning indemnification of the Underwriters and other matters.

(2) Before deducting expenses payable by the Company estimated at US\$670,000.

(3) The Company and the Selling Shareholder have granted the Underwriters a 30-day option to purchase up to 385,500 additional Common Shares solely to cover over-allotments, if any. If the Underwriters exercise this option in full, the Price to Public will total US\$22,166,250, the Underwriting Discount will total US\$1,551,638, the Proceeds to Company will total US\$18,033,863 and the Proceeds to Selling Shareholder will total US\$2,580,750. See “Underwriting.”

The Common Shares are offered by the several Underwriters named herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that delivery of the certificates representing such shares will be made against payment therefor at the office of Montgomery Securities on or about February 7, 1997.

MONTGOMERY SECURITIES

PRUDENTIAL SECURITIES INCORPORATED

February 3, 1997

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and the Consolidated Financial Statements and Notes thereto appearing elsewhere in this Prospectus. Certain terms used in this Prospectus are defined in the Glossary attached hereto. Financial information herein is expressed in Canadian dollars (“\$” or “Cdn\$”), unless otherwise noted. See “Exchange Rate.” Except as noted, financial data in this Prospectus are presented in accordance with generally accepted accounting principles as applied in Canada (“Canadian GAAP”). When required, such financial data contain a reconciliation to generally accepted accounting principles as applied in the United States (“US GAAP”). See Note 20 of Notes to Consolidated Financial Statements.

The Company

NovAtel designs, markets and supports a broad range of products which determine precise geographic locations using the Global Positioning System (“GPS”). NovAtel’s GPS products are used principally for applications in high-end markets such as the surveying, geographic information systems (“GIS”), agriculture, aviation, marine and mining and machine control markets, rather than for applications in low-end markets such as the vehicle navigation and consumer/cellular markets. The Company focuses on these high-end GPS markets where users require higher performance, accuracy and reliability. NovAtel’s advanced technology provides accuracy to the sub-centimeter level while showing a high degree of integrity in dynamic environments. An innovative receiver design allows the Company to use a limited number of hardware platforms to offer a variety of GPS products, which serve multiple markets, through software enhancements. This design facilitates shorter product development and production times, reduced manufacturing complexities and lower product costs.

GPS is the most widely accepted and commercialized satellite navigation system in the world. It is based on signals provided by 24 orbiting NAVSTAR satellites launched, funded and controlled by the U.S. Department of Defense. GPS is used for a variety of purposes, including navigating, tracking, mapping, conducting geographic surveys and monitoring crop yield. With GPS technology, one receiver can provide all relevant positioning data 24 hours a day worldwide, which offers many advantages over traditional positioning systems. According to data from the U.S. GPS Industry Council, the worldwide civilian market for GPS receiver systems in the high-end GPS applications markets was an estimated US\$700 million in sales revenue in 1995 and is expected to grow to over US\$3 billion in sales revenue by the year 2000, representing a projected compound annual growth rate of more than 30%. The Company believes that because of the accuracy, reliability and other advantages offered by GPS technology, GPS applications will continue to emerge.

Since January 1, 1995, the Company has sold its products to over 300 customers worldwide, over 200 of which are OEM customers. OEM customers provide the Company with access to a wide range of GPS applications and allow the Company to participate in new product developments as these applications emerge.

NovAtel’s objective is to strengthen its technological leadership and become a market leader in the high-end GPS markets. The Company believes that its substantial investment in research and development, combined with its reputation for providing high quality products and superior customer support, position the Company well to compete in the high-end GPS markets. Other key elements of the Company’s strategy are to (i) capitalize on the strength of its OEM customer base, (ii) pursue strategic relationships, (iii) expand sales to end users and (iv) increase its international sales and marketing efforts.

Recent Developments

The Company believes that its revenues for the three months and the year ended December 31, 1996 will be approximately \$4.5 million and \$22.6 million, respectively.

The Offering

Common Shares offered by the Company	2,470,000 shares
Common Shares offered by the Selling Shareholder	100,000 shares
Common Shares to be outstanding after the offering	7,670,000 shares(1)
Use of proceeds	To retire indebtedness, finance construction of a new corporate facility and for general corporate purposes.
Nasdaq National Market symbol	NGPSF

(1) Excludes 740,000 shares reserved for future issuance under the Company’s Stock Option Plan, of which options to purchase approximately 592,000 Common Shares at the initial public offering price will be granted upon the consummation of this offering, and 111,000 shares reserved for future issuance under the Company’s Directors Stock Option Plan, of which options to purchase approximately 7,400 Common Shares at the initial public offering price will be granted upon the consummation of this offering. See “Management — Stock Plans.”

Summary Consolidated Financial Data(1)
(in thousands, except per share data)

	Period from May 29 to December 31, 1992(2) (3)	Year Ended December 31,			Nine Months Ended September 30, 1995	Nine Months Ended September 28, 1996
		1993(1) (3)	1994(1)	1995		
Statement of Operations Data:						
Revenues	\$ 456	\$ 4,892	\$ 8,586	\$ 13,502	\$ 9,996	\$18,105
Gross profit	354	3,527	5,622	9,246	7,247	13,069
Operating income (loss)	(943)	562	1,241	2,051	2,032	5,250
Income (loss) from continuing operations	—	216	(146)	892	1,105	4,592
Income (loss) per share from continuing operations	\$ —	\$ 0.06	\$ (0.03)	\$ 0.17	\$ 0.21	\$ 0.88
Income (loss)	\$ —	\$ (15,887)	\$ (5,207)	\$ (10,692)	\$ (11,190)	\$ 1,785
Income (loss) per share	\$ —	\$ (4.07)	\$ (1.07)	\$ (2.06)	\$ (2.15)	\$ 0.34
Weighted average shares outstanding(4)	3,900	3,900	4,875	5,200	5,200	5,200
<i>US\$ Equivalent(5)</i>						
Revenues				\$ 10,051		\$13,477
Gross profit				6,883		9,729
Operating income				1,527		3,908
Income from continuing operations				664		3,418
Income per share from continuing operations				\$ 0.13		\$ 0.65
Income (loss)				\$ (7,959)		1,329
Income (loss) per share				\$ (1.53)		\$ 0.25
Weighted average shares outstanding(4)				5,200		5,200
US\$ Equivalent						
September 28, 1996						
	Actual	As Adjusted(6)		Actual	As Adjusted(6)	
Balance Sheet Data:						
Working capital (deficit)	\$ (9,705)	\$13,022		\$ (7,224)	\$ 9,694	
Total assets	16,018	28,718		11,924	21,378	
Bank advances	9,544	—		7,105	—	
Long-term liabilities	100	100		74	74	
Shareholders' equity (deficit)	(4,518)	17,726		(3,363)	13,195	

(1) Based upon the Company's accounting policies, a reconciliation of the summary consolidated financial data with US GAAP produces no differences from the summary consolidated financial data prepared in accordance with Canadian GAAP, except that, under US GAAP, the 1993 income from continuing operations would have been adjusted to a loss from continuing operations of \$(111,000) or \$(0.03) per share and the 1994 loss from continuing operations would increase to \$(518,000) or \$(0.11) per share. The adjustments relate to certain general and administration expenses, which are reflected in discontinued operations under Canadian GAAP and continuing operations under US GAAP, of \$327,000 and \$372,000 in 1993 and 1994, respectively, resulting in general and administration expenses of \$791,000 in 1993 and \$1,814,000 in 1994 under US GAAP. See Note 20 of the Notes to the Consolidated Financial Statements. In the future, additional differences may occur between the Company's application of Canadian GAAP and an application under US GAAP.

(2) The Company underwent a major restructuring in May 1992 and sold its first GPS products in June 1992. The summary consolidated financial data reflect operations from May 29, 1992, the date on which Telexel Holding Limited ("Telexel"), the Company's controlling shareholder, acquired all of the then outstanding shares of the Company. See "The Company."

(3) At the date Telexel acquired the Company, the Company incurred, in connection with the acquisition, certain obligations related to employment levels and facilities. An accrual of \$30,793,000 was established for these obligations. This accrual was subsequently utilized as the related costs were incurred. In the period from May 29, 1992 to December 31, 1992, \$23,971,000 of this accrual was utilized. In the year ended December 31, 1993, the remaining balance of this accrual, \$6,822,000, was utilized.

(4) Weighted average shares outstanding have been determined as though the conversion to 3,000,000 common shares of all previously issued and outstanding common and preferred shares completed on March 28, 1994 and the 1.3-for-1 stock split completed in October 1996, both occurred on May 29, 1992. See Note 8 of the Notes to the Consolidated Financial Statements.

(5) Canadian dollar amounts have been translated into U.S. dollars solely for the convenience of the reader at the rate of US\$.7444 per Cdn\$1.00, which was the exchange rate as of February 3, 1997. These translations are not necessarily representative of the amounts that would have been reported if the Company historically had reported its financial statements in U.S. dollars. In addition, the rates utilized are not necessarily indicative of the rates in effect at any other time. See "Exchange Rate."

(6) Adjusted to reflect the sale by the Company of 2,470,000 Common Shares offered by the Company hereby and the application of the net proceeds therefrom, and the receipt by the Company of approximately \$930,000 from the proceeds from the sale of the Common Shares by the Selling Shareholder. See "Use of Proceeds."

Except as otherwise specified, all information in this Prospectus assumes no exercise of the Underwriters' over-allotment option and gives effect to a 1.3-for-1 stock split completed in October 1996. See "Underwriting."

THE COMPANY

The Company was incorporated in October 1978 under the Canada Business Corporations Act. The Company's principal executive offices are located at 6732 8th Street N.E., Calgary, Alberta, Canada T2E 8M4, and its telephone number is (403) 295-4500. Unless the context otherwise requires, references herein to "NovAtel" or the "Company" refer to NovAtel Inc. and its subsidiaries.

"NovAtel", "Narrow Correlator", "MET" and "MEDLL" are registered trademarks of the Company in Canada. "RT-20", "AG-20", "GISMO", "GIS MOBILE", "GPSDredger", "Hydrographic Surveyor", "Powerpak", "MiLlennium", "GPSStation", "SoftSurv", "ProPak", "RT-2" and "Outrider" are trademarks of the Company. This Prospectus also contains trademarks and tradenames of other companies.

Restructuring and Divestitures

From 1978 until 1992, the Alberta provincial government owned, directly or indirectly, all or part of the Company. Following a period of research and development in cellular communications, in 1983 the Company began manufacturing and marketing cellular systems (base station radio equipment and switching equipment) and subscriber equipment (cellular telephones). Although the Company's revenues increased from approximately \$15 million in 1983 to approximately \$220 million in 1991, the Company incurred losses each year, including losses of approximately \$204 million and \$190 million in 1990 and 1991, respectively.

In May 1992, the Company underwent a major restructuring. The operations and certain assets of the cellular systems business were sold by the Province of Alberta to Northern Telecom Limited ("Northern Telecom"). The shares of the Company, effectively representing the assets and liabilities of the subscriber equipment business and the GPS unit, were sold to Telexel Holding Limited, a Canadian corporation controlled by Horst J. and Barbara Pudwill (the "Pudwills"). The remaining assets of the cellular systems business, loans made by the Company to prospective systems purchasers, long-term accounts receivable, the majority of land and buildings and certain related accounts payable and accrued liabilities were retained by the Province of Alberta.

Following the May 1992 restructuring, the Company operated the remaining subscriber equipment business, together with the GPS business. The GPS division made its first sale in June 1992. In 1993, the Company created the Wireless Access Products ("WAP") division, which sold cellular systems in international markets. Between March 1994 and August 1996, the Company divested all of its remaining non-GPS businesses in a series of transactions. In March 1994, the Company sold its subscriber equipment business to subsidiaries of Japan Radio Co. Ltd. ("JRC"). Following the sale to JRC, the Company created a new business division known as Personal Communications Products ("PCP"), which sold wireless communication products, other than cellular telephones. In November 1995, the WAP division and the manufacturing operation in Calgary were sold to Harris Canada, Inc. ("Harris"). The purchase price is subject to an adjustment based on a post-closing audit of the balance sheet of the divested operations. The purchase price adjustment is currently being calculated by KPMG Peat Marwick pursuant to the agreement with Harris. Any adjustments are to be paid from the US\$1.5 million of the purchase price which was put in escrow. If the purchase price adjustment exceeds US\$1.5 million, the Company would be required to pay the deficiency, which could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, under the agreement with Harris, the representations and warranties and the indemnification provisions survive until November 1997. Lastly, the PCP division was sold in August 1996 to an investor group based in Phoenix, Arizona. Of the PCP purchase price, there is a current balance outstanding of US\$1.0 million pursuant to promissory notes, which are due in November 1997. Until the Company receives the full purchase price, it has a security interest in all of the purchaser's assets, including the assets of the PCP division. Under the agreement, NovAtel is entitled to receive an additional US\$500,000 as a purchase price adjustment if certain events occur prior to August 1999. The representations and warranties and the indemnification provisions expire in August 1997. While there have been no claims made by the purchasers under the representations and warranties and indemnification provisions of the WAP and PCP divestiture agreements, there can be no assurance that no claims will be made under these provisions in the future. In addition, from August 1996 through December 1996, the Company contracted to provide certain corporate services to the purchasers of the PCP division. From 1986 to August 1995, the Company operated a subsidiary in the United Kingdom for the purpose of marketing subscriber equipment. An order was issued by a court in the United Kingdom in January 1996 winding up the business of the subsidiary.

As a result of these divestitures, the Company now focuses exclusively on the GPS business.

RISK FACTORS

This offering involves a high degree of risk. In addition to the other information set forth in this Prospectus, the following risk factors should be considered carefully in evaluating the Company and its business before purchasing any Common Shares offered hereby. This Prospectus contains certain forward-looking statements and intentions. The cautionary statements made in this Prospectus should be read as being applicable to all related forward-looking statements wherever they appear in this Prospectus. The Company's actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this Prospectus.

Limited GPS Operating History; Change in Business Focus

The Company was incorporated in 1978 and focused initially on cellular telephones and systems. These businesses have since been divested. The Company completed the divestitures of its non-GPS businesses in August 1996. The Company's GPS business began in 1989 when it acquired the assets of a GPS company, and the Company first sold GPS products in June 1992. Accordingly, the Company has only a limited GPS operating history upon which an evaluation of its business and prospects can be based. The Company faces several risks, some of which are outside the control of the Company, associated with implementing a new business strategy, including operational inefficiencies, lack of new product development, manufacturing or product introduction delays, the potential lack of sustainable market acceptance of the Company's GPS products, competition in existing or new markets and market segments and difficulties associated with adequately or accurately predicting product development and operational requirements. Although the Company's GPS business has experienced revenue growth in the past, there can be no assurance that the Company can generate future revenue growth, or that any revenue growth that is achieved can be sustained on a quarterly or annual basis, or that such growth will result in a profitable business. The Company has increased, and expects to continue to increase, its operating expenses to develop new distribution channels, fund higher levels of product research and development, increase its sales and marketing efforts, broaden its customer support capabilities and increase its administrative resources to meet the needs of the Company's expanding operations. If the Company's revenues do not increase in proportion to the Company's increase in such expenses, the Company's business, financial condition and results of operations could be materially adversely affected. There can be no assurance that the Company will achieve or sustain profitability. In addition, in view of its recent completion of the divestitures of its non-GPS businesses, its revenue growth, the rapidly evolving nature of its business and markets and its relatively short operating history, the Company believes that period-to-period comparisons of financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. See "The Company."

Fluctuations in Quarterly Results of Operations

The Company's results of operations have fluctuated and can be expected to continue to fluctuate on a quarterly basis as a result of a number of factors which affect revenue, gross margin and operating expenses. Quarterly revenues have fluctuated because of a number of factors, including revenue generated from major contracts, fluctuations in non-recurring engineering ("NRE") fees, seasonality of original equipment manufacturer ("OEM") customer purchase patterns and the timing of industry trade shows. Shipments under a major contract could result in unusually high revenue levels when compared to revenues and income in other periods. For example, during the first nine months of 1996, sales of the Company's products in connection with the United States Federal Aviation Administration's ("FAA") WAAS program accounted for approximately 34% of the Company's total revenues. The Company currently has no commitments for future sales of its products in any further implementation of the WAAS program. There can be no assurance that the Company will sell any of its products in connection with the WAAS program or receive major contracts in the future, and the failure to do so could have a material adverse effect on the Company's business, financial condition and results of operations. The Company realized significant revenues from NRE fees in 1994 and 1995, but these fees have decreased from \$1.5 million in the nine months ended September 30, 1995 to \$426,000 in the nine months ended September 28, 1996 and the Company currently has no significant contracts for NRE services. The Company has historically experienced strong sales in the first quarter of the year when its OEM

customers purchase products for inclusion in their products to be sold later in the year. Also, there is an industry trade show in the third quarter of the year which has adversely affected sales of the Company's products in the third quarter as some customers wait until after the tradeshow to place orders for new products. In the fourth quarter of 1995, the Company's revenues were adversely affected by the divestiture of its manufacturing operations and the resulting problems associated with the transition to using a contract manufacturer. In addition, revenues can be expected to vary significantly as a result of lack of a significant order backlog, fluctuations in demand for existing products, the rate of development of new markets, the degree of market acceptance of new products, increased competition and the general strength of domestic and international economic conditions. Furthermore, if the Company were unable to deliver sufficient quantities of products in a timely manner, due to factors such as parts supply shortages or customs delays, the Company's revenues could be adversely affected. Gross margin varies primarily as a result of product sales mix, changes in materials and contract manufacturing costs and for the years prior to 1996, absorption of fixed manufacturing costs. Historically, the Company's gross margin relating to NRE fees has been somewhat lower than its gross margin relating to product sales. Accordingly, any increase in NRE fees as a percentage of total revenues may have a negative impact on gross margins. As revenues derived from sales of WAAS receivers decrease as a percentage of total revenues, gross margin may be adversely affected as these sales generally have high gross margins. The Company's OEM products typically have higher gross margins than end-user products, which the Company recently began selling. The Company believes the sale of end-user products is an important growth strategy; however, selling end-user products could adversely affect the Company's gross margins. In light of its growing fixed quarterly expense structure based on anticipated revenue, a shortfall from anticipated revenue could adversely affect results of operations and earnings per share. In addition, if the Company were to receive a major contract, it would likely increase its expenditures to support such contract. If revenue from the contract were delayed for any reason, including cancellation or deferral of the contract, the Company's results of operations could be adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Competition; Pricing Pressures

The Company believes that its ability to compete successfully depends on a number of factors, both within and outside of its control, including the performance, quality and price of the Company's and its competitors' products, the timing and success of new product introductions by the Company, its OEM customers and its competitors, the emergence of new GPS technologies and competing technologies, the development of technological innovations, the efficiency of production, the rate at which the Company's OEM customers incorporate the Company's products into their products, the number and nature of the Company's competitors in a given market, the assertion of intellectual property rights and general market and economic conditions. Within each of the markets which the Company serves, the Company has encountered direct competition from other GPS suppliers such as Trimble Navigation Limited, Ashtech, Inc. and Leica AG, and to a lesser extent, Magellan Corporation, Garmin Corporation and Allan Osborne Associates. In addition, the Company faces competition from large, established companies that participate in the GPS markets, including Motorola, Inc. and Rockwell Corporation. The Company expects competition to continue to intensify from various larger domestic and international competitors and new market entrants, some of which may be current Company customers, as they begin to offer products, services or systems which compete with the Company's products. There can be no assurance that the Company's current or future competitors, many of whom, individually or together with their corporate parents, have substantially greater financial resources, research and development resources, greater distribution, marketing and other capabilities than the Company, will not apply these resources and capabilities to compete successfully against the Company. A number of the markets in which the Company sells its products are also served by non-GPS technologies, some of which are currently more widely accepted and less expensive than GPS-based systems. The success of GPS-based systems against these competing technologies depends in part upon whether GPS systems can offer significant improvements in productivity, accuracy and reliability in a cost-effective manner. The Company believes that its ability to compete successfully in the future against existing and additional competitors will depend largely on its ability to combine systems and products with significantly differentiated features compared to currently available products, with a high level of customer support. There can be no assurance that the Company will be able to successfully implement this strategy. The Company also believes that in certain emerging markets its success

will depend on its ability to form and maintain strategic relationships with established systems providers and industry leaders. The Company's failure to form and maintain such relationships, or the preemption of such relationships by the actions of the Company's GPS competitors, could adversely affect the Company's ability to penetrate emerging GPS markets. In addition, prices of certain of the Company's products have declined since their introduction due to competitive pressure. There can be no assurance that competitive pressures will not further result in decreased prices and lower margins for the Company's products. Such price and margin decreases could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business — Competition."

Dependence on New Products

The Company's success will depend to a substantial degree upon its ability to develop and introduce in a timely manner new products and product enhancements to its existing GPS product portfolio that incorporate technological changes and innovations and meet changing customer or regulatory requirements or emerging industry standards in new and existing markets. Although the Company expects to make significant investments in research and development to continue to enhance existing products, develop new products which incorporate new and existing technologies and achieve market acceptance for such products, there can be no assurance that such new products or product enhancements will be successfully developed or, if developed, that any such new products or product enhancements will be developed in time to capture market opportunities or achieve a significant or sustainable level of market acceptance in new and existing markets. The development of new, technologically advanced products and product enhancements is a complex and uncertain process requiring accurate anticipation of technological and market trends. Any inability on the part of the Company to successfully define, develop and introduce new products and product enhancements may materially adversely affect the Company's growth potential and results of operations. In addition, development and manufacturing schedules for technology products are difficult to predict and there can be no assurance that the Company will achieve timely initial customer shipments of new products. The timely availability of these products in the market place and their acceptance by customers are important to the future success of the Company. The Company has previously experienced delays in shipping certain of its products and any future delays, whether due to manufacturing delays, product design and development delays, lack of market acceptance, delays in any required regulatory approval, or otherwise, could adversely affect customer acceptance of the Company's products and have a material adverse effect on the Company's business, financial condition and results of operations. From time to time, the Company or its competitors may announce new products, capabilities or technologies that have the potential to replace or shorten the life cycles of the Company's existing products. No assurance can be given that announcements of currently planned or other new products will not cause customers to defer or stop purchasing the Company's products until the Company's or its competitors' new products become available. In addition, certain of the Company's products are subject to governmental and similar certifications before they can be sold. Any inability or delay in obtaining such certifications could have an adverse effect on the Company's business, financial condition and results of operations. See "Business — Research and Development."

Uncertain Market Development

The Company currently addresses six markets for the application of GPS technology: surveying, GIS, agriculture, aviation, marine and mining and machine control. Although the Company believes that these markets have growth potential for sales of GPS products, there can be no assurance that such markets will continue to develop, particularly given that GPS-based systems are still in an early stage of adoption in some of these markets, or that even if they develop, such markets will develop in a direction beneficial to the Company's products or product positioning or in the time frame in which the Company expects to launch products for these markets. Because the use of GPS technology in the agriculture and mining and machine control markets is new and emerging, there can be no assurance that GPS technology or products will become widely or significantly used by participants in these markets or that competing technologies will not become the industry standard in these markets. Any development of these markets away from GPS technologies used or the GPS products offered by the Company could have a material adverse effect on the Company's growth potential and its business, financial condition and results of operations. The Company also believes that in

certain emerging markets its success will depend on its ability to form and maintain strategic relationships with established systems providers and industry leaders. The Company's failure to form and maintain such relationships, or the preemption of such relationships by the actions of the Company's other GPS competitors, could adversely affect the Company's ability to penetrate emerging GPS markets. In addition, the Company's future growth will depend upon the timely development of the markets in which the Company currently competes, the Company's ability to continue to identify and exploit new markets for its products, and the Company's ability to open new channels of distribution for its existing and future products. Any inability on the part of the Company to effectively and efficiently exploit opportunities in new or emerging markets through successful product marketing, new and timely product introductions and product enhancements and establishing new distribution channels for its products could have a material adverse effect on the Company's growth and business, financial condition and results of operations. Further, to the extent the Company builds inventory in anticipation of potential sales in a new market, the failure of that market to develop could have a material adverse effect on the Company's business, financial condition and results of operations.

Expansion and Development of New Distribution Channels

The Company has historically sold its products principally to OEMs and through strategic relationships. The Company expects to continue to utilize OEMs and strategic relationships with companies that will incorporate the Company's products into their products and services. Accordingly, the success of the Company will be dependent in large part on its ability to continue its existing and develop new OEM and other third party relationships. The Company cannot predict nor control the extent to which its OEMs and strategic partners will be successful in marketing products incorporating the Company's products. A material loss of any of the Company's OEMs or strategic partners, either as a result of competitive products offered by other companies or products developed internally by these OEMs and strategic partners, or their inability to penetrate their respective market segments, could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company can continue to attract OEMs and strategic partners and any inability to do so could materially adversely affect the Company's business, financial condition and results of operations.

The Company recently began selling end-user products. There is significant competition in the end-user market and many of the Company's competitors have substantially more experience in selling and marketing end-user products. In addition, as the Company increases its revenues from sales in this channel as a percentage of total revenues, the Company expects that its gross margins will decrease because of the lower margins associated with integrating third party products with the Company's products and competitive pricing in the end-user market. Accordingly, there can be no assurance that the Company will be successful in distributing its end-user products, or that even if successful, the Company can do so on a profitable basis. In connection with its recent focus on the end-user market, the Company has expanded, and plans to continue expanding, its sales organization and dealer network. There can be no assurance that such expansion will be successfully completed, that the cost of such expansion will not exceed the revenues generated, or that the Company's sales and marketing organization will be able to successfully compete against the more extensive and well-funded sales and marketing operations of many of the Company's current or potential competitors. The Company's inability to distribute its end-user products on a profitable basis or to manage effectively its sales expansion could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business — Sales, Marketing and Distribution."

Management of Growth

The Company has experienced recent growth in the number of its GPS employees and the scope and breadth of its GPS operations. This growth has resulted in the addition of new management, research and development, sales and marketing and other personnel. It has also placed new and increased responsibilities on existing personnel and has placed added pressure on the Company's operating and financial systems. The Company's ability to support the growth of its business and to implement appropriate management information systems will be substantially dependent upon its ability to efficiently and effectively allocate resources to conduct research and development, product implementation, sales activity, financial management

and customer support services. Accordingly, the Company's future results of operations will depend on the continuing ability of its officers and other key employees to conduct business effectively and to improve the Company's operations. The Company will need to train and develop current personnel to handle expanding responsibilities, hire additional management and technical personnel, integrate its new employees into its overall operations and continue to improve its operational, financial and management systems. There can be no assurance that the Company will be able to manage its recent or any future expansion successfully, and any inability to do so would have a material adverse effect on the Company's business, financial condition and results of operations. The Company must successfully manage the transition to higher volume production, including the establishment of adequate facilities, the control of overhead expenses and inventories and the management and training of its employee base. Although the Company has substantially increased the number of its GPS production personnel and significantly expanded its production capacity since 1992, there can be no assurance that the Company will not experience design, production or other delays which could adversely affect the Company's business, financial condition and results of operations. See "Business — Employees," "Business — Operations" and "Management."

Dependence on Key Suppliers and Manufacturers

The Company believes there are a number of qualified vendors for most of the parts and components used in its products. However, several components are purchased from a single source. In many cases, despite the availability of multiple sources, the Company may select a single source in order to maintain quality control. Components for which the Company currently does not have multiple sources include application-specific integrated circuits manufactured to the Company's proprietary design by SGS-Thomson Microelectronics, Inc. and Symbios Logic Inc. and filters supplied by Sawtek Incorporated and Siemens Electric Limited. The Company experienced significant delays in production in the past caused by an insufficient supply of certain components. If the Company is unable to obtain a sufficient supply of its single source components from its current vendors, the Company may be required to obtain such components from alternative sources at higher prices and may experience a delay or interruption in product shipments, which could adversely affect the Company's business, financial condition and results of operations and damage customer relationships. Also, a significant increase in the price of one or more of these components could adversely affect the Company's business, financial condition and results of operations. Although the Company has instituted vendor audit programs, there can be no assurance that the Company will not face problems with the quality of components in the future that could result in delays in supplies, interrupt shipments and require modification of products already sold by the Company, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the Company relies on two subcontractors to manufacture its products. There can be no assurance that such subcontractors will be able to manufacture the Company's products in a timely and reliable manner. The failure by either subcontractor to manufacture the Company's products in a timely and reliable manner could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business — Operations."

Dependence on Key Personnel

The Company's future success depends, in part, on its ability to attract and retain qualified technical, marketing, sales and management personnel. Competition for such personnel is intense and the number of persons with relevant experience, particularly in engineering, is limited. Any inability on the part of the Company to attract and retain additional key employees or the loss of one or more of its current key employees could materially adversely affect the Company's business, financial condition and results of operations. The Company currently has employment contracts with Pascal E. Spothelfer, President and Chief Executive Officer, and Douglas R. Reid, Executive Vice President and Chief Operating Officer. Except as set forth above, the Company currently does not have employment or consultant contracts with any of its executive officers. The Company does not maintain key man life insurance for any of its executive officers. See "Management — Employment Agreements."

Reliance on GPS Satellite Network

The Company's products rely on signals from GPS NAVSTAR satellites. NAVSTAR satellites and their ground support systems are complex electronic systems subject to electronic and mechanical failures and possible sabotage. Some of the 24 satellites have exceeded their design lives of 7.5 years and the satellites are also subject to damage by the hostile space environment in which they operate. The repair of damaged or malfunctioning satellites is nearly impossible. 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 usefulness of the GPS system or the growth of current and additional market opportunities, which, in either case, would adversely affect the Company's business, financial condition and results of operations. Although President Clinton recently confirmed the U.S. Government's commitment to GPS by announcing that the government would continue to provide GPS signals for civil, commercial and scientific uses at no cost to the private sector, there is no assurance that the U.S. Government will remain committed to the operation and maintenance of GPS satellites over a long period of time, nor that the policies of the U.S. Government for the use of GPS without charge will remain unchanged. The accuracy of GPS is reduced by distortion of GPS signals as a result of Selective Availability ("SA"), which is controlled by the U.S. Department of Defense. Selective Availability is a currently activated, intentional system-wide degradation of stand-alone GPS accuracy from approximately 25 meters to approximately 100 meters. The Department of Defense implemented SA in order to deny hostile forces accurate position, time and velocity information supplied by GPS. In certain military applications, classified devices are utilized to decode the SA degradation and return accuracies to their original levels. The Company has to date been able to design products that will reduce the degradation that can be caused by SA. Although the U.S. Government has announced that it will discontinue the use of SA within the next ten years, there can be no assurance that the U.S. Government will not take further actions which would adversely affect the use of GPS. These actions could include alternative methods of degrading the system or even rendering it inoperable. There can be no assurance that the Company would be able to design products to compensate for these further actions. In addition, to protect national security interests, various U.S. Government agencies have indicated their intention to limit or prohibit the use of techniques which compensate for SA and such limitations or prohibitions could have a material adverse effect on the Company's business, financial condition and results of operations. Recently, certain European government organizations have expressed concern regarding the susceptibility of GPS equipment to intentional or inadvertent signal interference. Such concern could translate into reduced demand for GPS products in certain geographic regions.

Risks Associated with Legal Proceedings

The Company is currently subject to several legal and administrative proceedings, including a claim by a former dealer of the Company for breach of contract, a claim by a prospective purchaser of assets of the Company seeking a refund of its deposit and an assessment made by Revenue Canada relating to the Goods and Services Tax payable by the Company. The proceedings involve potential or claimed damages or assessments in the approximate amounts of \$1.0 million, \$200,000 and \$746,000, respectively. The Company believes that it has meritorious defenses and claims with respect to these matters. There can be no assurance, however, that these proceedings can be resolved without the Company paying any damages or assessments. Any resolution of these legal and administrative proceedings which involves a judgment or finding against the Company could have a material adverse effect on the business, financial condition and results of operations of the Company. See "Business — Legal Proceedings."

Risks Associated with Recent Divestitures

In November 1995, the WAP division and the manufacturing operation in Calgary were sold to Harris. The purchase price is subject to an adjustment based on a post-closing audit of the balance sheet of the divested operations and US\$1.5 million of the purchase price was placed in escrow to fund the purchase price adjustment. Harris is currently claiming a purchase price adjustment of approximately US\$2.4 million. The purchase price adjustment is currently being calculated by KPMG Peat Marwick pursuant to the agreement with Harris. If the purchase price adjustment exceeds US\$1.5 million, the Company would be required to pay

the deficiency, which could have a material adverse effect on the Company's business, financial condition and results of operations. Under the agreement with Harris, the representations and warranties and the indemnification provisions survive until 1997. In addition, the Company's PCP division was sold in August 1996 to an investor group based in Phoenix, Arizona. Of the PCP purchase price, there is a current balance outstanding of US\$1.0 million pursuant to promissory notes, which are due in November 1997. Until the Company receives the full purchase price, it has a security interest in all of the purchaser's assets, including the assets of the PCP division. The representations and warranties and the indemnification provisions expire in August 1997. While there have been no claims made by the purchasers under the representations and warranties and indemnification provisions of the WAP and PCP divestiture agreements, there can be no assurance that no claim will be made under these provisions in the future. See "The Company."

Historical Losses; Accumulated Deficit

The Company had losses on a consolidated basis in each of the last four years associated with its non-GPS businesses. The GPS business unit achieved profits in 1993, 1995 and for the first nine months of 1996, computed in accordance with Canadian GAAP. As of December 31, 1995 and September 28, 1996, the Company had a deficit of \$19.8 million and \$18.0 million, respectively, computed in accordance with Canadian GAAP. The Company has yet to achieve profitability for a full year on a consolidated basis taking into consideration losses from discontinued operations. There can be no assurance that the Company will be profitable in the future.

Patents and Proprietary Rights; Patent Litigation

The Company currently holds five U.S. patents and four related foreign patents, which expire at various dates no earlier than November 2010, and has numerous pending U.S. and foreign patent applications. The Company currently licenses certain peripheral aspects of its technology from third parties. Although the Company believes that its patents and trademarks may have value, there can be no assurance that the Company's patents and trademarks, or any additional patents and trademarks that may be obtained in the future, will provide meaningful protection from competition. The Company believes its success will depend primarily upon the experience, creative skills, technical expertise and marketing and sales ability of its personnel. The value of the Company's products relies substantially on the Company's technical innovation in fields in which there are many current patent filings. The Company recognizes that as new patents are issued or are brought to the Company's attention by the holders of such patents, it may be necessary for the Company to withdraw products from the market, negotiate a license from such patent holders, redesign its products or pay damages assessed as a result of litigation. Such events could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the legal costs and engineering time required to safeguard intellectual property or to defend against litigation could become a significant expense of operations. The Company has received written notices from BTG USA Inc. and GeoResearch Inc. alleging patent infringement of their respective patents. No formal claim has been brought by either company. The Company believes that it has valid defenses to these claims should formal proceedings be commenced. In protecting its intellectual property rights the Company periodically sends out letters to third parties regarding potential infringement, requesting that they enter into license agreements with the Company if they wish to continue using certain technologies. In response to one of these letters, a recipient claimed that the Company's Narrow Correlator patents were invalid. Such party subsequently agreed to withdraw its claim and entered into a license agreement for the use of the Company's Narrow Correlator technology. While no intellectual property right of the Company has been invalidated or declared unenforceable, there can be no assurance that such rights will not be invalidated due to the existence of prior art or otherwise held unenforceable. In November 1994, the Company commenced an action against Trimble Navigation Limited ("Trimble") seeking relief and damages for an alleged infringement of the Company's U.S. Patent No. 5,101,416 (the "Narrow Correlator patent"). In March 1995, Trimble commenced an action against the Company seeking relief and damages for an alleged infringement of Trimble's U.S. Patent No. 5,390,207 (the "207 patent"). In January 1996, Trimble filed a complaint with the International Trade Commission in the U.S. seeking to ban imports of the Company's products into the U.S. which allegedly infringed upon the 207 patent. All of these claims were resolved on July 16, 1996 when the Company and Trimble entered into a settlement agreement by cross licensing certain technologies, including a Narrow

Correlator license to Trimble. See “Business — Patents, Trademarks and Licenses” and “— Legal Proceedings.”

Foreign Currency Exchange

Almost all of the Company’s revenues have been, and are likely to continue to be, realized in currencies other than the Canadian dollar, principally the U.S. dollar. A significant portion of the Company’s expenses, however, will be incurred in Canadian dollars. Accordingly, fluctuations in the exchange rates between the U.S. dollar and the Canadian dollar could have a material effect on the Company’s results of operations. If the Canadian dollar increases in value relative to the U.S. dollar, the Company’s reported Canadian dollar revenues and net income may be materially and adversely affected. The Company has not engaged in exchange rate hedging activities. If the Company implements hedging techniques in the future for its foreign currency transactions, there can be no assurance that the Company will be successful in such hedging activities.

Risks Associated with International Sales

Revenues derived from sales outside of Canada and the United States have not accounted for a material portion of the Company’s total revenues. The Company has increased and plans to continue to increase its international sales and marketing efforts and expects that revenues derived from international sales will continue to grow as a percentage of its revenues. There are a number of risks inherent in the Company’s international business activities, including unexpected changes in Canadian, United States or other government policies concerning the import and export of goods, services and technology and other regulatory requirements, tariffs and other trade barriers, costs and risks of localizing products for foreign countries, longer accounts receivable payment cycles, potentially adverse tax consequences, limits on repatriation of earnings and the burdens of complying with a wide variety of foreign laws. Fluctuations in currency exchange rates could materially adversely affect sales denominated in currencies other than the Canadian dollar and cause a reduction in revenues derived from sales in a particular country. The financial stability of foreign markets could also affect the Company’s international sales. There can be no assurance that such factors will not materially adversely affect the revenues from the Company’s future international sales and, consequently, the Company’s results of operations. In addition, revenues of the Company earned abroad may be subject to taxation by more than one jurisdiction, which could materially adversely affect the Company’s earnings. Furthermore, in certain foreign markets, there may be a reluctance to purchase products based on GPS technology, given the control of GPS by the U.S. Government. Each of these factors could have an adverse effect on the Company’s business, financial condition and results of operations. See “Business — Sales, Marketing and Distribution.”

Concentration of Stock Ownership

Upon completion of this offering, the Pudwills, through a wholly-owned company, will beneficially own 46.2%, and Jenoptik AG and its affiliate will beneficially own 20.3%, of the outstanding Common Shares of the Company, assuming no exercise of the Underwriters’ over-allotment option. As a result, the Pudwills and Jenoptik AG each may be able to exercise significant influence, and, if acting together, would be able to exert significant influence, over all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may also have the effect of delaying or preventing a change in control of the Company. See “Principal and Selling Shareholders” and “Description of Capital Stock.”

No Prior Public Market; Possible Volatility of Stock Price

Prior to this offering, there has been no public market for the Company’s Common Shares, and there can be no assurance that an active public market for the Common Shares will develop or be sustained after this offering. The initial public offering price was determined by negotiations between the Company, the Selling Shareholder and the Representatives of the Underwriters based upon several factors. See “Underwriting” for a

discussion of the factors considered in determining the initial public offering price. The market price of the Common Shares may be subject to wide fluctuations in response to quarterly variations in operating results, changes in financial estimates by securities analysts, announcements of technological innovations or new products by the Company or its competitors, developments in the Company's relationships with its suppliers or customers or other events or factors. In addition, the financial markets have experienced significant price and trading volume fluctuations that have particularly affected the market prices of equity securities of many high technology companies and that often have been unrelated to the operating performance of such companies or have resulted from the failure of the operating results of such companies to meet market expectations in a particular quarter. Broad market fluctuations or any failure of the Company's operating results in a particular quarter to meet market expectations may adversely affect the market price of the Common Shares. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such a company. Such litigation could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Shares Eligible for Future Sale

Sales of substantial numbers of Common Shares in the public market could adversely affect the market price of the Common Shares and make it more difficult for the Company to raise funds through equity offerings in the future. Upon completion of this offering, the Company will have outstanding 7,670,000 Common Shares, assuming no exercise of any options to purchase Common Shares, including the Underwriters' over-allotment option. Of these shares, all 2,570,000 Common Shares sold in this offering will be freely transferable by persons other than affiliates of the Company without restriction under the Securities Act of 1933, as amended (the "Securities Act"). All of the 5,200,000 Common Shares outstanding prior to this offering were sold by the Company in reliance upon Regulation S under the Securities Act to persons outside the United States, all of which are held by persons who the Company believes are affiliates of the Company. Common Shares sold outside the United States in reliance upon Regulation S may, under certain circumstances, be resold in the United States by persons other than affiliates of the Company without registration under the Securities Act, in some cases immediately after the date of this Prospectus. Common Shares sold outside the United States may, under certain circumstances, be resold in the United States by affiliates of the Company commencing 90 days after the date of the Prospectus subject to compliance with volume and manner of sale, but not the holding period, requirements of Rule 144. All of the Common Shares issued in reliance upon Regulation S, are subject to 180 day lock-up agreements with the Underwriters. See "Shares Eligible for Future Sale" and "Underwriting."

The Company intends to register up to 851,000 Common Shares reserved for issuance under the Company's Stock Option Plan and Directors Stock Option Plan. All of the Common Shares issuable upon exercise of outstanding options to be registered will thereafter be eligible for sale in the public market. See "Management — Stock Plans," "Shares Eligible for Future Sale" and "Description of Capital Stock."

Effect of Certain Charter and By-law Provisions; Canada Business Corporations Act

The authorized capital of the Company consists of an unlimited number of Common Shares and an unlimited number of First Preference Shares (the "Preference Shares"), issuable in one or more series. The Board of Directors has the authority to issue Preference Shares and determine the price, designation, rights, preferences, privileges, restrictions and conditions, including voting and dividend rights, of these shares without any further vote or action by the shareholders. The rights of the holders of Common Shares will be subject to, and may be adversely affected by, the rights of holders of any Preference Shares that may be issued in the future. The issuance of Preference Shares, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could make it more difficult for a third party to acquire a majority of the outstanding voting stock of the Company. The Company has no present plans to issue any Preference Shares. As a result of the provisions of the CBCA and the Company's By-laws, it is possible for the rights of the holders of Common Shares of the Company to be modified otherwise than by an affirmative vote of the holders of a majority of the then-issued and outstanding Common Shares. See "Description of Capital Stock."

Immediate and Substantial Dilution

Investors purchasing Common Shares in this offering will suffer immediate and substantial dilution of \$8.04 (US\$5.98 at February 3, 1997) in the pro forma net tangible book value per share from the assumed initial public offering price. See "Dilution." To the extent outstanding options to purchase Common Shares are exercised, there will be further dilution to new investors in this offering.

EXCHANGE RATE

The following table sets forth, for each period presented, the high and low exchange rates, the average of the exchange rates on the last day of each month during the indicated period and the exchange rates at the end of the indicated period for one Canadian dollar, expressed in U.S. dollars, based on the noon buying rate in New York City for cable transfers payable in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York:

	U.S. Dollars Per Canadian Dollar					
	Period from May 29 to December 31,	Year Ended December 31,			Nine Months Ended September 30,	Nine Months Ended September 28,
	1992	1993	1994	1995	1995	1996
Average	\$.8119	\$.7729	\$.7300	\$.7301	\$.7257	\$.7309
High .....	.8451	.8041	.7635	.7523	.7478	.7391
Low .....	.7754	.7437	.7107	.7016	.7023	.7235
Period end .....	.7867	.7553	.7129	.7332	.7438	.7336

On February 3, 1997, the exchange rate was US\$.7444 per Cdn\$1.00.

ENFORCEMENT OF CIVIL LIABILITIES

The enforcement by investors of civil liabilities under the federal securities laws of the United States may be affected adversely by the fact that the Company is incorporated or organized under the laws of Canada, that some or all of its directors and officers may be residents of Canada, that some or all of the experts named in the registration statement may be residents of Canada and that all or a substantial portion of the assets of the Company and said persons are located outside the United States. As a result, it may be difficult for holders of the Common Shares to effect service of process within the United States upon directors and officers of the Company who are not residents of the United States or experts named in the registration statement who are not residents of the United States or to realize in the United States upon judgments of courts of the United States predicated upon civil liabilities under the federal securities laws of the United States. The Company has been advised by Randy R. Mabbott, General Counsel for the Company, that there is doubt as to the enforceability in Canada against any of these persons, in original actions or in actions for enforcement of judgments of United States courts, of liabilities predicated solely on the United States federal securities laws.

The Company has appointed CT Corporation System, at 1633 Broadway, New York, New York 10019, as its agent for service of process in the United States in respect of any investigation or administrative proceeding conducted by the Securities and Exchange Commission and any civil suit or action brought against or involving the Company in a United States court arising out of or related to or concerning the offering of securities under this Prospectus.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 2,470,000 Common Shares offered by the Company hereby (after deducting the underwriting discount and estimated offering expenses payable by the Company) are estimated to be approximately US\$16.6 million (US\$17.4 million if the Underwriters' over-allotment option is exercised in full). Approximately \$930,000 of the proceeds from the sale of the Common Shares by the Selling Shareholder will be paid to the Company to pay certain outstanding obligations. Except as set forth above, the Company will not receive any of the proceeds from the sale of the Common Shares by the Selling Shareholder.

The Company estimates it will use approximately \$9.3 million to repay the amounts expected to be outstanding on the Company's lines of credit. Such lines of credit bear interest at rates ranging from the lender's prime (4.75% at February 3, 1997) to prime plus 1% on various components of the Canadian dollar advances and at the U.S. Base Rate (8.75% at February 3, 1997) for U.S. dollar advances. Approximately \$500,000 of the net proceeds will be used to repay amounts outstanding under a demand facility, secured by the land acquired in connection with a new corporate facility, which bears interest at the lender's prime rate plus 1.25% (6.0% at February 3, 1997). Approximately \$500,000 of the net proceeds will be used to repay amounts outstanding pursuant to promissory notes to Horst Pudwill, which bear interest at the rate of 6.0%, the proceeds of which were used to finance certain costs associated with the new building. Approximately \$4.7 million of the net proceeds will be used to finance a portion of the construction and other costs for the new corporate facility. The balance of the net proceeds will be used for general corporate purposes, including additions to working capital, and any future acquisitions. The Company has no present plans, agreements or commitments, and is not currently engaged in any negotiations with respect to acquisitions. Pending their application, the Company will invest the net proceeds from this offering in short-term, interest- or dividend-bearing investment grade securities. See Note 6 of Notes to Consolidated Financial Statements. See "Certain Transactions."

DIVIDEND POLICY

The Company has not paid any cash dividends on its Common Shares in the last three years. The Company currently intends to retain future earnings, if any, for use in its business and does not currently anticipate paying cash dividends. In addition, the Company's current credit facility limits payment of dividends.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of September 28, 1996 and as adjusted to reflect the issuance and sale by the Company of 2,470,000 Common Shares offered hereby at the initial public offering price of US\$7.50 (Cdn\$10.08 at February 3, 1997) per share and the application of the estimated net proceeds therefrom. See “Use of Proceeds.”

	September 28, 1996	
	Actual	As Adjusted
	(In thousands)	
Short-term obligations:		
Bank advances	\$ 9,544	\$ —
Current portion of long-term liabilities	50	50
Total short-term obligations	9,594	50
Long-term liabilities, less current portion	100	100
Shareholders' equity:		
Common shares, unlimited shares authorized; 5,200,000 shares outstanding, actual; 7,670,000 shares outstanding, as adjusted(1)	13,501	35,745
Deficit	(18,019)	(18,019)
Total shareholders' equity (deficit)	(4,518)	17,726
Total capitalization	\$ 5,176	\$ 17,876

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- (1) Excludes 740,000 shares reserved for future issuance under the Company's Stock Option Plan, of which options to purchase approximately 592,000 Common Shares at the initial public offering price will be granted upon consummation of this offering, and 111,000 shares reserved for future issuance under the Company's Directors Stock Option Plan, of which options to purchase approximately 7,400 at the initial public offering price will be granted upon consummation of this offering. See “Management — Stock Plans.”

DILUTION

The net tangible book value (deficit) of the Company at September 28, 1996 was approximately \$(6,583,000), or approximately \$(1.27) per share. Net tangible book value (deficit) per share is determined by dividing the number of Common Shares outstanding into the net tangible book value (deficit) of the Company (total net tangible assets less total liabilities). After giving effect to the sale of 2,470,000 Common Shares by the Company in the offering and the receipt by the Company of the net proceeds therefrom (at the initial public offering price of US\$7.50 (Cdn\$10.08 at February 3, 1997) per share and after deducting the underwriting discount and estimated offering expenses), the pro forma net tangible book value of the Company at September 28, 1996 would have been \$15,661,000, or \$2.04 per share. This represents an immediate increase in net tangible book value of \$17,212,000 to the existing shareholders and an immediate dilution in net tangible book value of US\$5.98 (Cdn\$8.04 at February 3, 1997) per share at September 28, 1996 to new investors purchasing shares in the offering. The following table illustrates this per share dilution:

Initial public offering price per share.....		\$ 10.08
Net tangible book value (deficit) per share as of September 28, 1996..	(1.27)	
Increase per share attributable to new investors.....	3.31	
Pro forma net tangible book value per share after this offering		<u>2.04</u>
Dilution per share to new investors		<u>\$ 8.04</u>

The following table summarizes, on a pro forma basis, as of September 28, 1996, the number of Common Shares purchased from the Company, the total consideration paid to the Company and the average price per share paid by existing shareholders and by the investors purchasing Common Shares in the offering (at the initial public offering price of US\$7.50 (Cdn\$10.08 at February 3, 1997) per share) and before deducting the underwriting discount and estimated offering expenses):

	<u>Shares Purchased</u>		<u>Total Consideration</u>		<u>Average Price Per Share</u>
	<u>Number</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	
Existing shareholders(1)	5,200,000	67.8%	\$13,501,000	35.2%	\$ 2.60
New investors	<u>2,470,000</u>	<u>32.2</u>	<u>24,886,000</u>	<u>64.8%</u>	\$10.08
Total	<u>7,670,000</u>	<u>100.0%</u>	<u>\$38,387,000</u>	<u>100.0%</u>	

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- (1) Sales by the Selling Shareholder in this offering will reduce the number of shares held by existing shareholders to 5,100,000 Common Shares, or approximately 66.5% of the total number of Common Shares to be outstanding after this offering, and will increase the number of shares held by new investors to 2,570,000 Common Shares, or approximately 33.5% of the total number of Common Shares to be outstanding after this offering.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected financial data of the Company for the periods indicated. The selected financial data for the years ended December 31, 1993, 1994 and 1995 and for the nine months ended September 28, 1996 have been derived from the Company's audited financial statements, which appear elsewhere in this Prospectus. The selected financial data for the period from May 29, 1992 to December 31, 1992 has been derived from the Company's audited financial statements, not included in this Prospectus. The selected financial data of the Company for the nine month period ended September 30, 1995 are derived from unaudited financial statements which appear elsewhere in this prospectus. The unaudited financial statements, in the opinion of management, have been prepared on the same basis as the audited financial statements and contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial condition and results of operations for such periods. The table sets forth, in Canadian dollars and U.S. dollars, the selected financial data as prepared in accordance with Canadian GAAP. The financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of the Company and Notes thereto included elsewhere in this Prospectus.

	Period From May 29 to December 31, 1992(2) (3)	Year Ended December 31,			Nine Months Ended September 30, 1995	Nine Months Ended September 28, 1996
		1993(1) (3)	1994(1)	1995		
(in thousands, except per share data)						
Statement of Operations Data(1):						
<i>(Canadian \$)</i>						
Revenues:						
Product sales	\$ 456	\$ 4,892	\$ 7,198	\$ 11,239	\$ 8,501	\$17,679
NRE fees	—	—	1,388	2,263	1,495	426
Total revenues	456	4,892	8,586	13,502	9,996	18,105
Cost of product sales	102	1,365	2,371	3,227	2,126	4,737
Cost of NRE fees	—	—	593	1,029	623	299
Total cost of sales	102	1,365	2,964	4,256	2,749	5,036
Gross profit	354	3,527	5,622	9,246	7,247	13,069
Operating expenses:						
Research and development	642	1,150	1,661	3,312	2,424	4,223
Selling and marketing	423	1,351	1,278	1,651	1,147	1,983
General and administration	232	464	1,442	2,232	1,644	1,613
Total operating expenses	1,297	2,965	4,381	7,195	5,215	7,819
Operating income (loss)	(943)	562	1,241	2,051	2,032	5,250
Interest expense	(443)	(590)	(811)	(780)	(585)	(695)
Other income (expense)	1,386	244	(576)	(379)	(342)	37
Income (loss) from continuing operations	—	216	(146)	892	1,105	4,592
Loss from discontinued operations	—	(16,103)	(5,061)	(11,584)	(12,295)	(2,807)
Income (loss)	\$ —	\$ (15,887)	\$ (5,207)	\$ (10,692)	\$ (11,190)	\$ 1,785
Income (loss) per share:						
Continuing operations	\$ —	\$ 0.06	\$ (0.03)	\$ 0.17	\$ 0.21	\$ 0.88
Discontinued operations	—	(4.13)	(1.04)	(2.23)	(2.36)	(0.54)
Income (loss) per share	\$ —	\$ (4.07)	\$ (1.07)	\$ (2.06)	\$ (2.15)	\$ 0.34
Weighted average shares outstanding(4)	3,900	3,900	4,875	5,200	5,200	5,200

Footnotes appear on page 20.

	Year Ended December 31, 1995	Nine Months Ended September 28, 1996
	(in thousands, except per share data)	
<i>(US\$ equivalent) (5)</i>		
Revenues:		
Product sales	\$ 8,366	\$13,160
NRE fees	1,685	317
Total revenues	<u>10,051</u>	<u>13,477</u>
Cost of product sales	2,402	3,526
Cost of NRE fees	766	222
Total cost of sales	<u>3,168</u>	<u>3,748</u>
Gross profit	<u>6,883</u>	<u>9,729</u>
Operating expenses:		
Research and development	2,465	3,144
Selling and marketing	1,229	1,476
General and administration	1,662	1,201
Total operating expenses	<u>5,356</u>	<u>5,821</u>
Operating income	1,527	3,908
Interest expense	(581)	(517)
Other income (expense)	(282)	27
Income from continuing operations	664	3,418
Loss from discontinued operations	(8,623)	(2,089)
Income (loss)	<u>\$ (7,959)</u>	<u>\$ 1,329</u>
Income (loss) per share:		
Continuing operations	\$ 0.13	\$ 0.65
Discontinued operations	(1.66)	(0.40)
Income (loss) per share	<u>\$ (1.53)</u>	<u>\$ 0.25</u>
Weighted average shares outstanding(4)	<u>5,200</u>	<u>5,200</u>

	December 31,				September 28,	US\$ Equivalent September 28, 1996(5)
	1992	1993	1994	1995	1996	
	(in thousands)					
Balance Sheet Data(1):						
<i>(Canadian \$)</i>						
Working capital (deficit)	\$(3,768)	\$(14,801)	\$(6,330)	\$(9,121)	\$(9,705)	\$(7,224)
Total assets	70,199	65,893	41,280	13,094	16,018	11,924
Bank advances	15,850	17,090	19,754	7,774	9,544	7,105
Long-term liabilities	—	—	92	207	100	74
Total shareholders' equity (deficit)	17,983	2,096	4,389	(6,303)	(4,518)	(3,363)

- (1) Based upon the Company's accounting policies, a reconciliation of the selected consolidated financial data with US GAAP produces no differences from the selected consolidated financial data prepared in accordance with Canadian GAAP, except that, under US GAAP, the 1993 income from continuing operations would have been adjusted to a loss from continuing operations of \$(111,000) or \$(0.03) per share and the 1994 loss from continuing operations would increase to \$(518,000) or \$(0.11) per share. In addition, under US GAAP, the 1993 loss from discontinued operations would decrease to \$(15,776,000) or \$(4.05) per share and the 1994 loss from discontinued operations would decrease to \$(4,689,000) or \$(0.96) per share. The adjustments relate to certain general and administration expenses which are reflected in discontinued operations under Canadian GAAP and continuing operations under US GAAP of \$327,000 and \$372,000 in 1993 and 1994, respectively, resulting in general and administration expenses of \$791,000 in 1993 and \$1,814,000 in 1994, under US GAAP. See Note 20 of the Notes to the Consolidated Financial Statements. In the future, additional differences may occur between the Company's application of Canadian GAAP and an application under US GAAP.
- (2) The Company underwent a major restructuring in May 1992 and sold its first GPS products in June 1992. The selected financial data reflect operations from May 29, 1992, the date on which Telexel Holding Limited ("Telexel"), the Company's controlling shareholder, acquired all of the then outstanding shares of the Company. See "The Company."
- (3) At the date Telexel acquired the Company, the Company incurred, in connection with the acquisition, certain obligations related to employment levels and facilities. An accrual of \$30,793,000 was established for these obligations. This accrual was subsequently utilized as the related costs were incurred. In the period from May 29, 1992 to December 31, 1992, \$23,971,000 of this accrual was utilized. In the year ended December 31, 1993 the remaining balance of this accrual, \$6,822,000, was utilized.
- (4) Weighted average shares outstanding have been determined as though the conversion to 3,000,000 common shares of all previously issued and outstanding common and preferred shares completed on March 28, 1994 and the 1.3-for-1 stock split approved by the Company in October 1996, both occurred on May 29, 1992. See Note 8 of the Notes to the Consolidated Financial Statements.
- (5) Canadian dollar amounts have been translated into U.S. dollars solely for the convenience of the reader at the rate of US\$1.7444 per Cdn\$1.00, which was the exchange rate as of February 3, 1997. These translations are not necessarily representative of the amounts that would have been reported if the Company historically had reported its financial statements in U.S. dollars. In addition, the rates utilized are not necessarily indicative of the rates in effect at any other time. See "Exchange Rate."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

NovAtel designs, markets and supports a broad range of products which determine precise geographic locations using GPS. NovAtel's GPS products are used principally for applications in high-end markets such as surveying, GIS, agriculture, aviation, marine and mining and machine control markets, rather than for applications in low-end markets consisting of the vehicle navigation and consumer/cellular markets.

The Company was incorporated in 1978 and since that time has been engaged in several communications businesses. In 1992, the Company was reorganized with certain assets sold to third parties, certain assets retained by the Province of Alberta and the cellular telephone business, along with the small division working on GPS technology, transferred with the shares of the Company to Telexel Holding Limited. The Company divested all of its non-GPS businesses in a series of transactions beginning in March 1994 and ending in August 1996. As a result of these divestitures, the Company now focuses exclusively on the GPS business.

The various divested and discontinued businesses of the Company are accounted for as discontinued operations. Accordingly, the operating results of these discontinued businesses have been segregated from the operating results of the GPS business and reported as loss from discontinued operations in the Consolidated Financial Statements included elsewhere in this Prospectus. Financial results for the periods presented herein have been reclassified to conform to this presentation.

The Company's various business units shared certain corporate resources, including corporate management, the lines of credit, the Company's offices and other facilities. The costs associated with these shared resources generally were allocated in the accompanying financial statements between the GPS business and discontinued operations to reflect the approximate level of support required by each business. As a result of the estimates inherent in these allocations, period-to-period results may not be strictly comparable, and the level of allocated costs recorded may differ from those that would have been recorded had the GPS business operated as a stand-alone enterprise.

Including the results of the discontinued operations, the Company has incurred losses in each of its last three fiscal years, computed in accordance with Canadian GAAP, and at September 28, 1996 had a deficit of \$18.0 million, computed in accordance with Canadian GAAP. Despite these losses on a consolidated basis, the GPS unit has increased its sales since the introduction of its first products from \$456,000 in 1992, \$4.9 million in 1993, \$8.6 million in 1994 and \$13.5 million in 1995 to \$18.1 million in the first nine months of 1996 and had profits in 1993, 1995 and the first nine months of 1996. There can be no assurance that the Company will be able to achieve or sustain profitability.

The Company's quarterly results of operations have fluctuated and are expected to continue to fluctuate as a result of a number of factors, including revenue generated from major contracts, fluctuations in non-recurring engineering fees, seasonality of OEM customer purchase patterns and the timing of industry trade shows. Shipments under a major contract could result in unusually high revenue levels when compared to revenues and income in other periods. For example, during the first nine months of 1996, sales of the Company's products in connection with the FAA WAAS program accounted for approximately 34% of the Company's total revenues. The Company currently has no commitments for future sales of its products in further implementations of the WAAS program. The Company realized significant non-recurring engineering ("NRE") fees in 1994 and 1995, but these fees have decreased from \$1.5 million in the nine months ended September 30, 1995 to \$426,000 in the nine months ended September 28, 1996 and the Company currently has no significant contracts for NRE services. Pursuant to the Company's recent appointment of Nikon, Inc. ("Nikon") as the exclusive distributor of certain of the Company's end-user products in the United States and Central and South America, Nikon agreed to purchase a minimum of approximately US\$1.5 million of the Company's products during 1997.

Gross margin varies primarily as a result of product sales mix, changes in materials and contract manufacturing costs and absorption of fixed manufacturing costs. As revenues derived from sales of WAAS receivers decrease as a percentage of total revenues, gross margin may be adversely affected as these sales have high gross margins. Historically, the Company's gross margin relating to NRE fees has been somewhat

lower than its gross margin relating to product sales. Accordingly, any increase in NRE fees as a percentage of total revenues may have a negative impact on gross margins. In addition, the Company's OEM products typically have higher gross margins than end-user products, which the Company recently began selling. The Company has historically sold its GPS products principally to OEMs and through strategic relationships. As the Company increases its revenues from sales of end-user products as a percentage of total revenues, it expects that its gross margins will decrease because of the lower margins associated with integrating third party products with the Company's products and competitive pricing in the end-user market. The Company believes the sale of end-user products is an important growth strategy; however selling end-user products could adversely affect the Company's gross margins.

The Company faces competition from a variety of competitors. Prices of certain of the Company's products have declined since their introduction due to competitive pressures. The Company expects competition to increase and there can be no assurance that competitive pressures will not further result in decreased prices and lower gross margins for the Company's products. In addition, the Company's success will depend to a substantial degree upon its ability to develop and introduce in a timely manner new products and product enhancements to its existing GPS product portfolio. The Company expects to make significant investments in research and development to continue to enhance existing products, develop new products which incorporate new and existing technologies, and achieve market acceptance for such products. There can be no assurance that the Company will be successful in such efforts. In connection with this recent focus on the end-user market, the Company has expanded and plans to continue expanding its sales organization and dealer network. See "Risk Factors."

The Company's revenues are derived principally from two sources: (i) revenues from product sales and (ii) NRE fees. Revenues from product sales are recognized upon shipment. Revenues from NRE fees are recognized at the time services are rendered. The Company generally ships its products promptly after acceptance of a purchase order. Accordingly, the Company does not maintain product backlog, nor does the Company consider backlog to be a significant indicator of future revenues.

Recent Developments

The Company believes that its revenues for the three months and the year ended December 31, 1996 will be approximately \$4.5 million and \$22.6 million, respectively.

Results of Operations

The various divested and discontinued businesses are accounted for as discontinued operations. The following table sets forth the percentage of total revenues represented by certain items in the Company's statement of operations for the periods indicated:

	Year Ended December 31,			Nine Months Ended	Nine Months Ended
	1993	1994	1995	September 30, 1995	September 28, 1996
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Product sales	100.0	83.8	83.2	85.0	97.6
NRE fees	—	16.2	16.8	15.0	2.4
Gross profit	72.1	65.5	68.5	72.5	72.2
Operating expenses:					
Research and development	23.5	19.3	24.5	24.2	23.3
Selling and marketing	27.6	14.9	12.2	11.5	11.0
General and administration	9.5	16.8	16.5	16.4	8.9
Total operating expenses	<u>60.6</u>	<u>51.0</u>	<u>53.3</u>	<u>52.2</u>	<u>43.2</u>
Operating income	11.5	14.5	15.2	20.3	29.0
Interest expense	(12.1)	(9.4)	(5.8)	(5.9)	(3.8)
Other income (expense)	5.0	(6.7)	(2.8)	(3.4)	0.2
Income (loss) from continuing operations	<u>4.4%</u>	<u>(1.7)%</u>	<u>6.6%</u>	<u>11.1%</u>	<u>25.4%</u>

Nine Months Ended September 28, 1996 Compared to Nine Months Ended September 30, 1995

Revenues. Total revenues include product sales and NRE fees. Product sales revenues consist primarily of sales of OEM boards, end-user products, software, software upgrades, and for the nine months ended September 28, 1996, sales of WAAS receivers. NRE fees consist of revenues from development contracts. Total revenues increased 81.1% from \$10.0 million in the nine months ended September 30, 1995 to \$18.1 million in the nine months ended September 28, 1996. Revenues from product sales increased 108.0% from \$8.5 million in the nine months ended September 30, 1995 to \$17.7 million in the nine months ended September 28, 1996. The increase in product sales revenues was primarily due to \$6.2 million in sales of WAAS receivers. Sales of WAAS receivers accounted for 34.3% of the Company's total revenues in the nine months ended September 28, 1996 as compared to no shipments in the nine months ended September 30, 1995. The Company currently has no commitments for future sales of its WAAS receivers in any further implementations of the WAAS program. NRE revenues decreased 71.5% from \$1.5 million in the nine months ended September 30, 1995 to \$426,000 in the nine months ended September 28, 1996. The decrease in NRE fees was due to the completion of certain projects and the transition of the WAAS program from the development stage to actual deliveries. While the Company has realized significant NRE fees in the past, the Company does not expect to generate significant NRE fees in the future.

Gross profit. Gross profit as a percentage of total revenues decreased from 72.5% in the nine months ended September 30, 1995 to 72.2% in the nine months ended September 28, 1996. The decrease was due to lower prices for the Company's single frequency product line offset by sales of the Company's WAAS receivers and by increased sales of dual frequency products, both of which have high gross margins, and by a decrease in NRE fees, which have lower gross margins. The Company believes that the increasing percentage of revenues derived from sales of end-user products and competitive price pressure on the single frequency products will adversely affect gross margins.

Research and development. Research and development expenses consist primarily of engineering personnel expenses, contracted research and development expenses, facilities and equipment cost. Research and development expenses increased 74.2% from \$2.4 million in the nine months ended September 30, 1995 to \$4.2 million in the nine months ended September 28, 1996 and decreased as a percentage of total revenues from 24.2% in the nine months ended September 30, 1995 to 23.3% in the nine months ended September 28, 1996. The dollar increase in research and development expenses is due to an increase in engineering personnel from 36 at September 30, 1995 to 45 at September 28, 1996, and increased contracted research and development expenses related to software development. The Company currently charges to operations all research and development costs as incurred. The Company believes that significant investments in research and development are required to maintain its technological leadership and compete in its business.

Selling and marketing. Selling and marketing expenses consist primarily of compensation of sales and marketing personnel as well as expenses for advertising and promotion, trade shows, facilities and other expenses related to the sales of the Company's products. Selling and marketing expenses increased 72.9% from \$1.1 million in the nine months ended September 30, 1995 to \$2.0 million in the nine months ended September 28, 1996 and decreased as a percentage of total revenues from 11.5% in the nine months ended September 30, 1995 to 11.0% in the nine months ended September 28, 1996. The dollar increase was due principally to expenses associated with an increase in the number of sales and marketing personnel, as well as increases in advertising, promotions, trade shows and marketing materials. The Company believes that selling and marketing expenses will grow in dollars to support the Company's increased sales and marketing efforts primarily in connection with sales of end-user products.

General and administration. General and administration expenses consist primarily of salaries of administrative personnel, related overhead and facilities expenses. General and administration expenses stayed relatively constant and were \$1.6 million in the nine months ended September 30, 1995 and the nine months ended September 28, 1996, but decreased as a percentage of total revenues from 16.4% in the nine months ended September 30, 1995 to 8.9% in the nine months ended September 28, 1996. The Company anticipates that general and administration costs will increase in dollars as the Company hires additional personnel.

Interest expense. Interest expense has been incurred by the Company principally under its bank line of credit. Interest expense increased from \$585,000 in the nine months ended September 30, 1995 to \$695,000 in the nine months ended September 28, 1996. The increase was a result of an increase in the amount borrowed by the Company under its credit facility partially offset by a decrease in the interest rate charged to the Company under its credit facility. The Company anticipates using part of the net proceeds of this offering to pay off its existing credit facility. Accordingly, interest expense is expected to decrease significantly.

Other income (expense). Other income (expense) consists primarily of foreign currency exchange gains or losses. Other expense was \$342,000 in the nine months ended September 30, 1995 and other income was \$37,000 in the nine months ended September 28, 1996.

1995 Compared to 1994

Revenues. Total revenues increased 57.3% from \$8.6 million in 1994 to \$13.5 million in 1995. Revenues from product sales increased 56.1% from \$7.2 million in 1994 to \$11.2 million in 1995. The increase in product sales revenues was primarily due to an expansion of the Company's customer base, increased sales to existing customers and the introduction of new products. Revenues from NRE fees increased 63.0% from \$1.4 million in 1994 to \$2.3 million in 1995. In 1994, one customer accounted for 28.8% of total revenues. In 1995, this percentage decreased to 10.7%.

Gross profit. Gross profit as a percentage of total revenues increased from 65.5% in 1994 to 68.5% in 1995. The increased gross margin is primarily due to an increase in revenues from new products (containing software enhancements to existing products), which increased the Company's average sales price without a corresponding increase in the cost of sales.

Research and development. Research and development expenses increased 99.4% from \$1.7 million in 1994 to \$3.3 million in 1995 and increased as a percentage of total revenues from 19.3% in 1994 to 24.5% in 1995. The increase was a result of the development efforts related to the dual frequency product, including the development of a new proprietary integrated circuit.

Selling and marketing. Selling and marketing expenses increased 29.2% from \$1.3 million in 1994 to \$1.7 million in 1995 and decreased as a percentage of total revenues from 14.9% in 1994 to 12.2% in 1995. The dollar increase was primarily due to expenses associated with an increase in the number of sales and marketing personnel, and related compensation and expenses related to advertising, promotion and trade shows. The decrease as a percentage of total revenues was primarily a result of increased revenues and a higher average sales price.

General and administration. General and administration expenses increased 54.8% from \$1.4 million in 1994 to \$2.2 million in 1995 and decreased slightly as a percentage of total revenues from 16.8% in 1994 to 16.5% in 1995. The dollar increase was primarily due to an increase in the number of management and administrative personnel.

Interest expense. Interest expense was incurred by the Company principally under its bank line of credit. Interest expense decreased 4.0% from \$811,000 in 1994 to \$780,000 in 1995. The decrease was primarily a result of a decrease in the interest rate charged to the Company under its credit facility.

Other income (expense). Other income (expense) consisted primarily of foreign currency exchange losses. Other expense was \$576,000 in 1994 and \$379,000 in 1995.

1994 Compared to 1993

Revenues. Revenues increased 75.5% from \$4.9 million in 1993 to \$8.6 million in 1994. Revenues from product sales increased 47.1% from \$4.9 million in 1993 to \$7.2 million in 1994. The increase in product sales revenues was attributable primarily to the introduction of a new single frequency product in early 1994 and the expansion of the Company's customer base. In addition, total revenues increased in part because the Company realized revenues from NRE fees in 1994 in the amount of \$1.4 million, whereas no such revenue was realized

in 1993. A single customer accounted for 25.4% of total revenues in fiscal 1993 compared to 28.8% in fiscal 1994.

Gross profit. Gross profit as a percentage of total revenues decreased from 72.1% in 1993 to 65.5% in 1994. The decrease in gross margin was primarily due to higher manufacturing costs related to the introduction of the new single frequency product.

Research and development. Research and development expenses increased 44.4% from \$1.2 million in 1993 to \$1.7 million in 1994 and decreased as a percentage of total revenues from 23.5% in 1993 to 19.3% in 1994. The dollar increase was primarily due to an increase in personnel while the percentage decrease represents cost controls implemented by the Company in 1994.

Selling and marketing. Selling and marketing expenses decreased 5.4% from \$1.4 million in 1993 to \$1.3 million in 1994 and decreased as a percentage of total revenues from 27.6% in 1993 to 14.9% in 1994. The decrease was primarily due to cost control measures implemented in 1994.

General and administration. General and administration expenses increased 210.7% from \$464,000 in 1993 to \$1.4 million in 1994 and increased as a percentage of total revenues from 9.5% in 1993 to 16.8% in 1994. The increase is due to the growth of the GPS business to a level which required significantly more general and administration support.

Interest expense. Interest expense was incurred by the Company principally under its bank line of credit. Interest expense increased 37.5% from \$590,000 in 1993 to \$811,000 in 1994. The increase was primarily a result of an increase in the interest rate charged to the Company under its credit facility.

Other income (expense). Other income was \$244,000 in 1993 as a result of foreign currency exchange gains. Other expense was \$576,000 in 1994 primarily as a result of foreign currency exchange losses.

Quarterly Results of Operations

The following tables present certain unaudited statement of operations data for each of the Company's last seven fiscal quarters and the percentage relationship of certain items to total revenues for the respective periods. This unaudited data has been prepared on the same basis as the audited financial statements and, in the opinion of management, contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of such data.

	Quarter Ended						
	1995				1996		
	April 1	July 1	September 30	December 31	March 30	June 30	September 28
	(in thousands)						
Revenues:							
Product sales	\$3,271	\$2,977	\$2,253	\$2,738	\$5,880	\$6,232	\$5,567
NRE fees	421	456	618	768	348	78	—
Total revenues	<u>3,692</u>	<u>3,433</u>	<u>2,871</u>	<u>3,506</u>	<u>6,228</u>	<u>6,310</u>	<u>5,567</u>
Cost of product sales	747	727	652	1,101	1,540	1,549	1,648
Cost of NRE fees	179	221	223	406	249	50	—
Total cost of sales	<u>926</u>	<u>948</u>	<u>875</u>	<u>1,507</u>	<u>1,789</u>	<u>1,599</u>	<u>1,648</u>
Gross profit	<u>2766</u>	<u>2,485</u>	<u>1,996</u>	<u>1,999</u>	<u>4,439</u>	<u>4,711</u>	<u>3,919</u>
Operating expenses:							
Research and development	710	848	866	888	1,323	1,483	1,417
Selling and marketing	344	401	402	504	616	625	742
General and administration	503	461	680	588	591	587	435
Total operating expenses	<u>1,557</u>	<u>1,710</u>	<u>1,948</u>	<u>1,980</u>	<u>2,530</u>	<u>2,695</u>	<u>2,594</u>
Operating income	1,209	775	48	19	1,909	2,016	1,325
Interest expense	(195)	(195)	(195)	(195)	(179)	(260)	(256)
Other income (expense)	(88)	(91)	(163)	(37)	28	55	(46)
Income (loss) from continuing operations	<u>\$ 926</u>	<u>\$ 489</u>	<u>\$ (310)</u>	<u>\$ (213)</u>	<u>\$1,758</u>	<u>\$1,811</u>	<u>\$1,023</u>

	Quarter Ended						
	1995				1996		
	April 1	July 1	September 30	December 31	March 30	June 30	September 28
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Product sales	88.6	86.7	78.5	78.1	94.4	98.8	100.0
NRE fees	11.4	13.3	21.5	21.9	5.6	1.2	—
Gross profit	74.9	72.4	69.5	57.0	71.3	74.7	70.4
Operating expenses:							
Research and development	19.2	24.7	30.2	25.3	21.2	23.5	25.5
Selling and marketing	9.3	11.7	14.0	14.4	9.9	9.9	13.3
General and administration	13.6	13.4	23.7	16.8	9.5	9.3	7.8
Total operating expenses	<u>42.2</u>	<u>49.8</u>	<u>67.9</u>	<u>56.5</u>	<u>40.6</u>	<u>42.7</u>	<u>46.6</u>
Operating income	32.7	22.6	1.7	0.5	30.7	31.9	23.8
Interest expense	(5.3)	(5.7)	(6.8)	(5.6)	(2.9)	(4.1)	(4.6)
Other income (expense)	(2.4)	(2.7)	(5.7)	(1.1)	0.4	0.9	(0.8)
Income (loss) from continuing operations	<u>25.1%</u>	<u>14.2%</u>	<u>(10.8)%</u>	<u>(6.1)%</u>	<u>28.2%</u>	<u>28.7%</u>	<u>18.4%</u>

The following table sets forth revenues from sales of the Company's products excluding WAAS receivers, sales of WAAS receivers and NRE fees for the last seven quarters.

	Quarter Ended						
	1995				1996		
	April 1	July 1	September 30	December 31	March 30	June 30	September 28
	(in thousands)						
Product sales revenues:							
Products excluding							
WAAS	\$3,271	\$2,977	\$2,253	\$2,738	\$3,828	\$3,659	\$3,991
WAAS receivers	—	—	—	—	2,052	2,573	1,576
Total product sales							
revenues	3,271	2,977	2,253	2,738	5,880	6,232	5,567
NRE fees	421	456	618	768	348	78	—
Total revenues	<u>\$3,692</u>	<u>\$3,433</u>	<u>\$2,871</u>	<u>\$3,506</u>	<u>\$6,228</u>	<u>\$6,310</u>	<u>\$5,567</u>

The Company's quarterly result of operations have fluctuated and are expected to continue to fluctuate because of a number of factors, including revenue generated from major contracts, fluctuations in NRE fees, seasonality of OEM customer purchase patterns and the timing of industry trade shows.

For example, during the first three quarters of 1996, sales of the Company's WAAS receivers accounted for 32.9%, 40.8% and 28.3% of the Company's total revenues, respectively. The Company currently has no commitments for future sales of its products in further implementations of the WAAS program. There can be no assurance that the Company will receive major contracts in the future, and the failure to do so could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company realized significant NRE fees in 1994 and 1995, but these fees have decreased from \$1.5 million in the nine months ended September 30, 1995 to \$426,000 in the nine months ended September 28, 1996. The Company does not expect to generate significant NRE fees in the future.

The Company has historically experienced strong sales in the first quarter of the year as its OEM customers purchase products for inclusion in their products to be sold later in the year. Also, there is an industry trade show in the third quarter of the year which has affected sales of the Company's products as customers wait until after the trade show to place orders for new products. In the fourth quarter of 1995, the Company's revenues were adversely affected by the divestiture of its manufacturing operations and the resulting problems associated with the transition to using a contract manufacturer.

In addition, revenues can be expected to vary significantly as a result of lack of a significant order backlog, fluctuations in demand for existing products, the rate of development of new markets, the degree of market acceptance of new products, increased competition and the general strength of domestic and international economic conditions. Furthermore, if the Company were unable to deliver sufficient quantities of products in a timely manner, due to factors such as parts supply shortages or customs delays, the Company's revenues could be adversely affected.

Operating expenses increased during each quarter of 1995 and the first two quarters of 1996 as the Company continued to make significant investments to support anticipated revenue growth. In light of its growing fixed quarterly expense structure based on anticipated revenues, a shortfall from anticipated revenues could adversely affect results of operations and earnings per share. In addition, if the Company were to receive a major contract, it would likely increase its expenditures to support such contract. If recognition of the revenues from the contract was delayed for any reason, including cancellation or deferral of the contract, the Company's results of operations could be adversely affected as it attempted to adjust its expenditures downward.

Taxes

The Company has not recorded a provision for income taxes due to previously incurred losses, credits and costs. As of December 31, 1995, losses, which are available for Canadian income tax purposes to be carried forward, investment tax credits, depreciation and research and development costs may be used to reduce future taxable income. The ultimate availability and amount of these losses, credits and costs is dependent upon the final resolution of ongoing and future Revenue Canada, Taxation audits. See Note 11 of Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

Historically, the Company's cash flow has been insufficient to satisfy the Company's cash requirements. The Company has financed its cash needs primarily through product sales, bank borrowings, divestitures, loans from shareholders and private placements of securities. At September 28, 1996, the Company had current assets of \$10.2 million and current liabilities of \$20.0 million. The Company has lines of credit with the Hongkong Bank of Canada with an aggregate limit of \$9.7 million of which \$9.5 million was outstanding at September 28, 1996. These lines of credit are due on demand and bear interest at the lender's prime rate or the lender's prime rate plus 1% on various components of the Canadian dollar advances and at the U.S. Base Rate for U.S. dollar advances. The lines of credit are secured by all of the Company's assets and guarantees from its two principal shareholders. The Company will pay off these lines of credit from the proceeds of this offering.

For the nine months ended September 28, 1996, cash provided by operations was \$1.3 million as compared to cash used in operations of \$2.8 million in the comparable period in 1995 and cash used in investing activities for the nine month period ended September 28, 1996 was \$2.0 million. During 1993, 1994 and 1995 the cash used in operations was \$2.5 million, \$6.5 million and \$7.1 million, respectively, and cash (used in) provided by investing activities was \$(1.2) million, \$(5.2) million and \$18.4 million, respectively.

The Company's cash flow has been adversely affected in the past because it had to fund the operations of its discontinued businesses. Various matters relating to the divestitures of the discontinued businesses may have an adverse impact on the Company's cash flow and liquidity.

In November 1995, the WAP division and the manufacturing operation in Calgary were sold to Harris Canada, Inc. ("Harris"). The purchase price is subject to an adjustment based on a post-closing audit of the balance sheet of the divested operations and US\$1.5 million of the purchase price was placed in escrow to fund this purchase price adjustment. Harris is currently claiming a purchase price adjustment of approximately US\$2.4 million. The purchase price adjustment is currently being calculated by KPMG Peat Marwick pursuant to the agreement with Harris. If the purchase price adjustment exceeds US\$1.5 million, the Company would be required to pay the deficiency, which could have a material adverse effect on the Company's business, financial condition and results of operations. See Note 16 of the Notes to Consolidated Financial Statements.

In June 1996, the Company settled an outstanding dispute with JRC and its related companies resulting in the payment by the Company to JRC of \$1.2 million. This amount represented settlement of all issues relating to all payables and receivables between the Company and JRC. Accordingly, the settlement was recorded as a reduction in the accounts receivable and payable owing from and to JRC, and did not have a negative impact on net income of the Company.

In September 1996, the Company purchased certain land to begin construction of a new building. The cost of the land purchase was \$1.1 million and the building is expected to cost approximately \$5.3 million.

In December 1996, Horst Pudwill loaned the Company \$250,000 pursuant to a demand promissory note, the proceeds of which were used to finance certain of the costs associated with the new building. In January 1997, Mr. Pudwill loaned the Company an additional \$250,000 pursuant to a second demand promissory note to be used to finance certain of the costs associated with the new building. The Company will pay off these loans from the proceeds of this offering.

Management believes that the net proceeds from this offering combined with existing cash, cash equivalents, the existing credit line which the Company anticipates renegotiating and anticipated cash flow from operations will be sufficient to meet the Company's anticipated cash needs for at least the next twelve months.

Effects of Foreign Currency Exchange Rates and Inflation

Almost all of the Company's revenues (87.6% in 1994 and 87.1% in 1995) have been earned in currencies other than the Canadian dollar, principally the U.S. dollar. A substantial portion of the Company's expenses, however, has been and will continue to be incurred in Canadian dollars. Accordingly, fluctuations in exchange rates between the U.S. dollar and other foreign currencies and the Canadian dollar could materially affect the Company's results of operations. In 1993, the Company recognized foreign exchange gain in the amount of \$244,000. In 1994, 1995 and the first nine months of 1996, the Company recognized foreign exchange losses of \$468,000, \$313,000 and \$3,000, respectively. The Company has not engaged in exchange rate hedging activities. To the extent the Company implements hedging activities in the future with respect to foreign currency transactions there can be no assurance that the Company will be successful in such hedging activities.

While the Company believes that inflation has not had a material effect on its results of operations, there can be no assurance that inflation will not have a material effect on the Company's results of operations in the future.

BUSINESS

NovAtel designs, markets and supports a broad range of products which determine precise geographic locations using the Global Positioning System (“GPS”). NovAtel’s GPS products are used principally for applications in high-end markets such as the surveying, geographic information systems (“GIS”), agriculture, aviation, marine and mining and machine control markets rather than for applications in low-end markets such as the vehicle navigation and consumer/cellular markets. The Company focuses on these high-end GPS markets where users require higher performance, accuracy and reliability. NovAtel’s advanced technology provides accuracy to the sub-centimeter level while showing a high degree of integrity in dynamic environments. An innovative receiver design allows the Company to use a limited number of hardware platforms to offer a variety of GPS products, which serve multiple markets, through software enhancements. This design facilitates shorter product development and production times, reduced manufacturing complexities and lower product costs.

Industry Background

Precise determination of locations is a fundamental requirement for many human activities. GPS is used for a variety of purposes, including navigating, tracking, mapping, conducting geographical surveys and monitoring crop yield. With GPS technology, one receiver can provide all relevant positioning data 24 hours a day worldwide, which offers many advantages over traditional positioning systems. GPS is the most widely accepted and commercialized satellite navigation system in the world. It is based on signals provided by 24 orbiting NAVSTAR satellites launched, funded and controlled by the U.S. Department of Defense. GLONASS, a similar system established by the former Soviet Union, is controlled and operated by the Russian Government. Other satellite navigation systems may be launched in the future by government bodies, organizations such as the European Union or private corporations.

According to data from the U.S. GPS Industry Council, the worldwide civilian market for GPS receiver systems was an estimated US\$1.2 billion in sales revenue in 1995 and is expected to grow to over US\$8 billion in sales revenue by the year 2000. The major markets for GPS receiver systems include surveying, GIS, agriculture, aviation, marine, mining and machine control, vehicle navigation and tracking and consumer/cellular applications markets, such as GPS-equipped mobile phones and personal computers. The vehicle navigation and consumer/cellular applications markets, which the Company refers to as the “low-end” markets, are characterized by high volume sales and competition among large consumer electronics companies. These low-end markets are expected to account for approximately US\$5.2 billion in sales revenue by the year 2000. The remaining markets, which the Company refers to as the “high-end” markets, historically have been served by a limited number of smaller specialized GPS companies and require products with higher performance and accuracy and more advanced technology. According to data from the U.S. GPS Industry Council, these markets are expected to grow from US\$700 million in sales revenue in 1995 to approximately US\$3 billion in sales revenue by the year 2000, representing a projected compound annual growth rate of more than 30%.

GPS positioning is based on a triangulation technique that precisely measures the distance from a GPS receiver to satellites which continuously transmit precisely timed radio signals. The GPS receivers calculate the distance by measuring the travel time of the satellite signal. Four satellites are required to compute the three dimensional position of the receiver. At any point in time, there are likely to be six to eight satellites in sight of a receiver. With more satellites in sight, a receiver can collect more data, thus making the calculations faster and more accurate.

The NAVSTAR satellites continuously transmit two signals on different frequencies, L1 and L2, from a distance of 16,000 miles above the earth. These signals are considerably weaker than an FM radio signal. The L1 signal carries a non-encrypted code and is freely available to all GPS receivers. It provides an accuracy of approximately 25 meters. However, to deny precise positioning to hostile forces, the U.S. Department of Defense intentionally deteriorates the L1 signal with a measure called Selective Availability (“SA”), which reduces the positional accuracy for users of the non-encrypted L1 signal to approximately 100 meters. The L2 signal has an encrypted code, which is only accessible with a military decryption device that is controlled by the U.S. Department of Defense, and provides accuracies of about 15 meters. Accuracy is also limited by

factors which influence the transmitted signal such as ionospheric conditions, multipath effects caused by reflecting objects, timing errors and other distortions. Some of these effects can be reduced by using the L2 signal with dual frequency receivers. Dual frequency receivers utilize the L1 and L2 signals from each satellite to estimate and virtually eliminate these distortions.

Many users of GPS applications require much higher levels of accuracy than the system was originally designed to provide. To reach position accuracies between five meters and a few centimeters, a technique called differential GPS (“DGPS”) is used. One or more receivers are placed at a known location and continuously compare their calculated location coordinates with the known location coordinates to measure the GPS errors. The measurements done by these fixed base stations can either be transmitted to remote receivers in real-time or recorded over time and integrated later with the data collected by the mobile receivers.

Accuracy is just one of the important factors to the users of GPS products. Other factors include time to first fix, reacquisition time, resistance to multipath effects, receiver sensitivity, jamming resistance, data integrity and the rate at which positioning information is output. Chipsets and design kits are commercially available for companies to design and manufacture their own GPS receivers providing basic positioning data within five to ten meters. Only a few, highly specialized GPS companies have the capabilities to develop and produce receivers that provide accuracies from one meter to the sub-centimeter level and show high levels of integrity in dynamic environments. Many applications in the surveying, GIS, agriculture, aviation, marine and mining and machine control markets require this level of performance and accuracy, as compared with the vehicle navigation and consumer/cellular applications.

Furthermore, new GPS applications and increasingly complex GPS systems are emerging, which will continue to require a high degree of accuracy combined with higher product performance by GPS receivers. In addition to these technological challenges, users of GPS receivers will continue to demand high reliability, ease of use, flexible integration and significant customer support.

The NovAtel Solution

NovAtel addresses the needs of the high-end GPS markets by offering advanced GPS products which are small in size, provide significant computational power, maintain a high degree of reliability in dynamic environments, are easy to use and integrate and which can provide sub-centimeter level accuracy. The Company provides all of these features on one board while its competitors typically require multiple boards. This is achieved through a unique combination of RF, VLSI and DSP design. The RF section provides very clean signal reception and filtering which reduces the effects of interference and noise on GPS signals. NovAtel’s high density, proprietary VLSI chip, together with the DSP section, processes these signals and computes ranges and positions in real time with a high degree of speed and reliability. The Company’s innovative receiver design also allows the Company to use a limited number of hardware platforms to offer a variety of GPS products, which serve multiple markets, through software enhancements. This design facilitates shorter product development and production times, reduced manufacturing complexities and lower product costs. The Company also benefits from a strong reputation for providing quality products and superior customer support.

Strategy

The Company’s objective is to strengthen its technological leadership and become a market leader in the high-end GPS markets by continuing to introduce products that address market needs and maintaining responsive and flexible customer support. Key elements of the Company’s strategy include:

Focus on High-End GPS Markets. The Company focuses on high-end GPS receiver markets where users require high performance, accuracy and reliability. The Company believes that its technological leadership combined with its commitment to research and development, position the Company well to compete in the economically attractive high-end GPS markets. The Company has spent an average of approximately 22% of its total revenues on research and development in the last three years. The Company believes the technology it has developed such as Narrow Correlator, which is incorporated into most of the Company’s GPS products, has established the Company as a technological leader. The

Company's technological strengths have also been driven, and will continue to be driven, in part by the demands of its OEM customers. The Company's research and development efforts are directed toward faster, lower cost and smaller high-end GPS receivers that will be able to operate accurately under adverse conditions, such as dense foliage and highly dynamic environments.

Capitalize on Strength of OEM Business. The Company has a large customer base of more than 200 OEM customers. The innovative design of the Company's products is ideally suited for the OEM market because of the ease of integration into other products and the ability to provide product differentiation solely through software upgrades without hardware reconfiguration. Furthermore, the highly integrated board design provides cost efficiencies. In addition, a large OEM customer base provides the Company with access to a wide range of GPS applications and allows the Company to participate in new product developments as these applications emerge and evolve. The Company provides its OEM customers full access to its latest GPS technology and provides a highly qualified technical customer support staff to advise the system integration efforts of these customers. The Company believes that its combination of OEM technology and responsiveness to the customer gives it a competitive edge in the OEM business.

Broaden Business Base. Although the Company's revenues to date have been generated primarily by sales to OEM customers, the Company is broadening its business base through the sale of end-user products and through strategic relationships. In 1996, the Company began selling end-user products into selected markets, such as surveying and GIS. Additional opportunities are currently being evaluated for agriculture, marine and mining and machine control applications. The Company markets its end-user products through a network of dealers. In connection with its expansion into the end-user market, the Company recently entered into an agreement with Nikon whereby the Company appointed Nikon as the exclusive distributor of the Company's GISMO and Outrider products in the United States and Central and South America. The Company seeks to enter into strategic relationships to penetrate end-user markets, for technological cooperation or for integrated product development. The scope of the strategic relationships will be well defined either in terms of markets (geographically and/or by specific application), technology or by targeted customers.

Provide Superior Customer Support. The Company benefits from a strong reputation for providing quality products and superior customer support. NovAtel provides quick turnaround time when addressing customer concerns, and provides software upgrades and application consulting in order to assist its customers in the systems integration process. The Company is able to achieve this high level of service by employing qualified engineers and technicians who advise and provide support to the Company's customers. Because of their frequent interaction with the customer base, these engineers and technicians are an effective marketing tool. They also provide the Company with valuable customer input relating to product improvements and enhancements and opportunities for new products.

Expand International Presence. In the first nine months of 1996, the Company derived approximately 22% of its total revenues from the sale of its products to countries outside the United States and Canada. The Company has increased, and plans to continue to increase, its international sales and marketing effort and believes that a significant opportunity for expansion exists in many of these regions, particularly Europe and Asia. The Company currently has dealers serving approximately 30 countries worldwide. The Company intends to continue to expand its international dealer network, and once the Company has established a significant presence in these regions, it intends to set up regional customer service support centers to enhance its sales efforts.

Markets

NovAtel currently targets the surveying, GIS, agriculture, aviation, marine and mining and machine control GPS applications markets.

Surveying

Surveying involves the establishment of precise points and boundaries consisting of the collection and processing of position information. Applications which the Company addresses in the surveying market include control surveying, construction and engineering surveys, route surveying and geodetic research. Compared with traditional survey methods, GPS offers many advantages such as not requiring line of sight between land based reference points. The primary need of the surveying market is the highest level of accuracy that can be achieved with dual frequency GPS technology (sub-centimeter level). There is a growing requirement to be able to meet the accuracy needs in real time with high reliability and low latency (time delay in performing position computation). In addition to the accuracy requirement, the survey market demands ease of use not only in the field equipment but also in any PC based pre- and post-processing software. The equipment must also be useable in a variety of different applications and physical environments.

GIS (Geographic Information Systems)

GIS applications include large scale mapping of geographic and man-made features, data collecting for GIS databases, natural resource management, ground contour mapping and utility infrastructure. Large amounts of position and attribute data such as size, variety, condition and color must be obtained. GIS databases are used by federal, state, county and city governments and by utility companies for a variety of applications requiring accurate information on the location of natural resources and municipal infrastructure such as utilities and transportation networks. Traditionally, large scale mapping has been accomplished by photogrammetric analysis of aerial photographs, a technique which is expensive and subject to weather and seasonal restrictions. The GIS market requires positional accuracies ranging from 20 centimeters to 1 meter. Also, the ability to provide attribute information for the measured points must be flexible, efficient and user definable to satisfy the varied needs of this market. The equipment must be easy to learn and operate as many users do not have mapping or GPS experience. This market seeks to reduce the cost of map production and the cost of constructing and augmenting GIS databases, while increasing their accuracy.

Agriculture

Agriculture is an emerging market for the use of GPS technology. GPS technology can be used in agriculture for crop dusting, yield monitoring, terrain analysis, soil sampling, variable rate technology and precise guidance. Precision farming or "farming by the foot" is gaining increased acceptance as a result of cost savings, increased yields and reduced environmental impact resulting from effective and efficient applications of chemicals, fertilizers and seed. Positional accuracies of one to three meters are required for crop dusting, soil sampling and yield monitoring. Crop dusting requires that GPS receivers function in high dynamic situations (turns and loops). Higher accuracy is necessary for terrain analysis, variable rate technology and precise guidance. In these cases, the agriculture user requires real time positioning at the 20 centimeter level with fast update rates. The operating environment in agriculture is often severe with heavy vibration and shock as well as dust and rain. GPS equipment must be robust and reliable to stand up to the demands of this market.

Aviation

GPS technology is ideally suited for 24 hour worldwide enroute navigation and precision approach and landing of aircraft. Historically, a number of different types of vintage ground based navigational aids have formed the backbone of a complex system used by aircraft to navigate over land and sea. The aircraft fly a network of indirect, fixed "airways" to pick up signals from these ground navigational systems. These navigational aid systems are labor intensive, and integration and maintenance of these systems is expensive as compared to the more flexible lower cost GPS technology. GPS technology allows for global "direct routing" and since aircraft will broadcast their position, there is no need for ground based navigational aids, thus reducing costs. In addition, aircraft have to transition from enroute navigational aids to final approach and landing guidance systems. GPS technology obviates the need for this complex transition and thus further reduces ground installation costs. Civil aviation authorities in various countries are currently implementing GPS as their primary navigation systems. In particular, the Radio Navigation Plans as adopted by the FAA in

the United States and the equivalent regulatory agencies in Canada and Mexico are based on GPS technology for primary navigation. The positional accuracy requirements for aviation applications range from 100 meters for enroute navigation to less than 1 meter for precision landing. While these accuracies are easily achievable with GPS, the integrity of the computed position is critical. There must be a high degree of certainty of these positions especially when dealing with passenger aircraft. Therefore, much effort goes into designing the GPS system in order to reduce the effects of signal jamming and multipath on these systems, while incorporating design redundancy.

Marine

The marine market consists primarily of the navigation and positioning of recreational, commercial and research vessels. These vessels require information regarding position (latitude and longitude), time, course and speed. This market in general does not require high accuracy positioning. However, applications such as dredging operations, seismic surveys and oceanographic mapping demand accuracies of one meter or better as well as real time capabilities. The key factors in these applications are reliability, repeatability and ease of use. Because of the high costs associated with operating marine vessels, customers are very concerned about down time caused by equipment failures, erroneous measurements or time delays in determining a user's position.

Mining and Machine Control

Mining and machine control is an emerging market for the use of GPS technology. Safety and efficiency are very important in the movement of earth and mined materials. As the construction and mining industries have moved towards higher automation and robotics to improve safety and efficiency, these industries have focused on GPS technology as a way to ensure accurate positioning. A dual frequency receiver is necessary to provide the high positioning accuracy required by the mining and construction industries (typically less than two centimeters) as well as providing this accurate position in real time. Due to the working environment, the equipment used also must be very robust (operate during heavy vibration) and provide rapid positional updates to ensure reliable and precise guidance.

Products

NovAtel offers a broad range of GPS products that are easy to use and integrate, highly reliable and provide a high degree of accuracy. The Company uses a unique combination of RF, VLSI and DSP design to provide many features on one receiver board. These receiver boards are sold to OEM customers for integration into their own products. These same boards also provide the basis for the Company's end-user products. The innovative receiver design enables the Company to differentiate product features, using software which is embedded in the receiver, thereby reducing the need for a variety of hardware platforms. This design facilitates shorter product development and production times, reduced manufacturing complexities and lower product costs. In addition, in connection with its end-user products, the Company offers PC-based software packages which are used for pre- and post-processing of GPS data.

OEM Products

The Company's OEM products, which range in list price from approximately US\$2,500 to US\$15,000, include:

Standard and Performance Series Receivers. The Standard Series single frequency GPS receivers were introduced in 1993 and are available in Eurocard or PC-ISA bus compatible formats for embedded applications or as a stand-alone unit. The Performance Series GPS receivers were also introduced in 1993 and are single frequency GPS receivers featuring the patented Narrow Correlator technology which provide sub-meter positioning accuracy while reducing the effects of multipath. Performance Series receivers are available in Eurocard or PC-ISA bus compatible formats for embedded applications or as a stand-alone unit. In 1994, Multipath Elimination Technology ("MET") was introduced as a software option for Performance Series GPS receivers, further enhancing the multipath rejection capabilities. Introduced in 1995, RT-20 consists of software which is loaded onto a Performance Series single frequency board and provides real time accuracy of 20 centimeters or less. High update rates, positioning accuracy, multipath rejection, and ease of integration,

have made the Standard and Performance Series GPS receivers ideal for high dynamic navigation and positioning applications.

MiLLennium. The MiLLennium receiver was introduced in 1996 as the Company's first dual frequency receiver. MiLLennium features patented Narrow Correlator and P-Code Delayed Correlation techniques for superior positioning performance. Available in a Eurocard format for embedded applications or as a stand-alone unit, the MiLLennium GPS receiver provides sub-centimeter level positioning accuracy. Introduced in 1996, RT-2 consists of software which is loaded onto a MiLLennium dual frequency board and provides real time accuracy of two centimeters or less. High update rates and ease of integration have made the MiLLennium receiver ideal for navigation, positioning and surveying applications.

MEDLL Receiver. The MEDLL receiver was introduced in 1995 and features the Multipath Estimating Delay Lock Loop technology, which provides superior GPS performance in high multipath environments. Utilizing multiple Performance Series boards, this stand-alone unit offers code and carrier multipath rejection improvement of 90% over Narrow Correlator technology.

Other Products

The following is a list of the Company's other principal products, which range in list price from approximately US\$4,500 to US\$84,000, organized by targeted markets:

Surveying Products

Outrider. Outrider, which was introduced in 1996 and is based on the MiLLennium receiver, is a survey grade GPS system capable of sub-centimeter level positioning accuracy. A complete Outrider system combines two or more dual frequency GPS receivers, GPS antennas and a handheld survey controller. The Outrider may include the RT-2 real time kinematic software option for stake out applications. Outrider is noted for its small size, portability, flexible operation and low latency in providing real time positions.

SoftSurv. SoftSurv is a full featured GPS dual frequency data processing software package. This Windows-based software supports all phases of survey operation, from project planning and baseline and coordinate computations to database management and network adjustments. A wide variety of display and plotting routines are available within SoftSurv. Output data is compatible with most industry standard mapping and GIS packages. SoftSurv is very easy to learn and use while providing a wide range of features and flexibility.

GIS Products

GISMO. The GIS MOBILE ("GISMO") series, which was introduced in 1995 and is based on the Performance Series receivers, is a portable position data collection system for the mapping and GIS markets. GISMO consists of a single frequency L1 GPS receiver and a data collection device for navigation, attribute and position data storage. GISMO may optionally include real time differential GPS capability. Collected data may be downloaded to a personal computer to generate geographic information. Output data is compatible with most GIS databases or can be processed by NovAtel's Positag software which allows the user to perform a wide variety of display, analysis and plotting routines.

Positag. Positag is a full featured GPS/GIS single frequency data processing software package. This Windows-based software supports all phases of field operation, from project planning and baseline and coordinate computations to database management. A wide variety of display and plotting routines are available with Positag. Output data is compatible with most industry standard mapping and GIS packages.

Agricultural Products

AG-20. The AG-20, which was introduced in 1995, is a real time differential GPS system for agricultural applications. It consists of a Performance Series receiver in a rugged casing, including the RT-20 real time kinematic software option. The AG-20 meets the environmental requirements of the agriculture market.

Positioning data is output in an industry standard format which is compatible with most agricultural survey software for soil sampling, variable rate chemical application and yield monitoring.

Aviation Products

WAAS Reference Receiver. The WAAS GPS Reference Receiver is a safety critical system designed to meet FAA navigation performance requirements for domestic enroute, terminal, non-precision approach and precision approach phases of flight. The WAAS Reference Receiver combines the NovAtel MEDLL receiver, along with the MiLLennium and GEO processing receivers packaged in a rack mountable enclosure. The Company believes that its product is the leader for WAAS reference stations in providing the highest level of performance and integrity.

Marine Products

Hydrographic Surveyor and GPS Dredger. The Company introduced two marine products in 1995, Hydrographic Surveyor and GPS Dredger. Both products are based on the Performance Series receivers and are used as real time, highly reliable differential GPS systems for marine survey applications. GPS Dredger incorporates the RT-20 real time kinematic software option to provide accuracies better than 20 centimeters.

Technology

NovAtel established itself as a technological leader in the GPS industry through the introduction of its patented Narrow Correlator technology in 1992. Narrow Correlator allowed NovAtel to provide sub-meter positioning accuracy with a single frequency receiver while reducing the effects of multipath. Historically, GPS receivers used a 1.0 code chip correlator spacing in the implementation of delay lock loops (DLL) for tracking the L1 code. Narrow Correlator technology enables the receiver to narrow as well as selectively vary the correlator spacing from 0.1 to 1.0 code chips. This provides a significant reduction of tracking errors in the presence of both noise and multipath. To implement this technique, the Company has been able to draw upon its previous experience in cellular communications to assist in the development of a unique combination of RF, VLSI and DSP design. The NovAtel RF section provides very clean signal reception and filtering which reduces the effects of interference and noise on the GPS signals. The high density VLSI chip, together with the DSP section, processes these signals and computes ranges and positions in real time with a high degree of accuracy, speed and reliability. Using technology developed for its former cellular communications business, the Company conducts on-board circuit testing, thus eliminating the need for expensive test stations.

The Company continued its technology advancements with the introduction in 1994 of Multipath Elimination Technology (“MET”). MET expanded upon the Narrow Correlator technology by adding two additional correlators to remove 25% to 50% of the residual multipath. MET is a software option that can be added to Performance Series receivers. In 1995, the Company introduced Multipath Estimating Delay Lock Loop (“MEDLL”) technology. MEDLL offers a more rigorous approach to the reduction of multipath effects using hardware and software. MEDLL further extends the MET concept by adding multiple correlators which estimate and eliminate the multipath effects by up to 90%. MEDLL is implemented by using multiple Performance Series receivers linked to a common RF deck. The Company also introduced RT-20, a real-time kinematic (“RTK”) technique which enables single frequency receivers to achieve real time positioning accuracy of 20 centimeters or less. RTK positioning utilizes the phase measurement of the transmitted GPS frequencies and attempts to calculate the number of cycles between the satellite and the receiver (ambiguity resolution). This provides a very accurate distance which can achieve positional accuracies of a few centimeters. Ambiguity resolution is most easily and reliably accomplished with a dual frequency receiver. Single frequency receivers are susceptible to incorrect ambiguity resolution, due to factors such as ionospheric effects, which could provide positional errors of a few meters. RT-20 uses a floating ambiguity resolution algorithm. This floating algorithm does not achieve the same accuracy as a fixed solution, however, it ensures stable and reliable 20 centimeter or less positioning accuracy in static as well as dynamic environments. RT-20 is a software option that can be added to Performance Series receivers.

Continuing to advance its technological leadership, the Company introduced the MiLLennium dual frequency receiver and RT-2. MiLLennium is based upon a new custom design ASIC chip combined with Narrow Correlator and P-code delayed correlation technology. MiLLennium has 24 configurable tracking channels and can independently track Narrow Correlator C/A code on L1, track P-code on L2 and provides full wavelength phase observations on L1 and L2. MiLLennium enables users to achieve the highest accuracy capabilities of GPS (sub-centimeter). RT-2 is RTK software which allows a MiLLennium receiver to achieve real time positioning accuracy of 2 centimeters or less. RT-2 uses a fixed ambiguity resolution algorithm which takes full advantage of the L2 frequency received by the MiLLennium and provides stable and reliable results to the user. RT-2 is a software option that can be added to the MiLLennium receiver.

Research and Development

The Company's technological leadership position is the result, in large part, of its strong commitment to research and development. The Company has invested heavily in developing GPS technology, including the design of proprietary software and integrated circuits for GPS receivers. The Company has spent \$1.2 million, \$1.7 million, \$3.3 million and \$4.2 million in 1993, 1994, 1995 and the first nine months of 1996, respectively, representing approximately 24%, 19%, 25% and 23% of total revenues, respectively, on research and development, all of which was charged to operations as incurred.

Often a new product is initially developed for an individual OEM customer or strategic partner who is willing to purchase development stage products. The Company has used feedback from such initial customers as a source of information in designing and refining its products, and in defining, with greater precision, customer needs in emerging market areas. The Company expects that a significant portion of future revenue will continue to be derived from sales of newly introduced products. The Company has previously experienced delays in shipping certain of its products and any future delays, whether due to production delays, product design and development delays, lack of market acceptance, delays in any required regulatory approval or otherwise, could have a material adverse effect on the Company's results of operations. The Company's future success depends on its ability to develop and produce new competitive products.

Advances in product technology will require continued substantial investment in research and development to maintain the Company's market position. For example, a limitation of GPS positioning is the need to have direct line of sight between the satellite and the GPS receiver. Any obstructions such as buildings or land/rock formations will reduce the positional accuracy and performance of GPS technology. One method of improving GPS performance in areas which exhibit poor satellite visibility (such as urban areas, open pit mines) is the use of "Pseudolites". A Pseudolite is a ground based unit which simulates the same signal transmission as an earth orbiting GPS satellite. The Company believes that Pseudolites represent an opportunity for the Company to distinguish further its GPS products from its competitors on the basis of technological advances. However, this technology is still in the early stages of development, and there can be no assurance that it will be successfully developed or that even if developed, it will be accepted in the market.

Development and production schedules for technology products are difficult to predict, and there can be no assurance that the Company will achieve timely initial customer shipments of new products. The timely availability of these products in volume and their acceptance by customers are important to the future success of the Company. A number of the markets in which the Company sells its products are also served by non-GPS technologies, some of which are currently more widely accepted and less expensive than GPS-based systems. The success of GPS-based systems against these competing technologies depends, in part, upon whether GPS systems can offer significant improvements in productivity, accuracy and reliability in a cost-effective manner. In addition, from time to time, the Company or its competitors may announce new products, capabilities or technologies that have the potential to replace or shorten the life cycles of the Company's existing products. No assurance can be given that announcements of currently planned or other new products will not cause customers to defer or stop purchasing the Company's products until the Company's or its competitors' new products become available. Certain of the Company's products are also subject to governmental and similar certifications before they can be sold. An inability or delay in obtaining such certification could have an adverse effect on the Company's business, financial condition and results of operations.

Customers

Since January 1, 1995, the Company has sold its products to over 300 customers worldwide, primarily in the OEM market. Set forth below is a representative list of the Company's customers:

Aerodata Flugmesstechnik GmbH	GPSAT Systems Australia Pty. Ltd.	Pulsesearch Navigation Systems Inc.
Applied Analytics Corporation	Hughes Information Systems Company	Satloc, Inc.
Beijing Mag C&N System Co. Ltd.	Litton Systems, Inc.-Aero Products	Sentel Corporation
Carl Zeiss Jena GmbH	Division	Sierra Technologies, Inc.
Caterpillar, Inc.	Oceonics (UK) Ltd.-Advanced	Stanford Telecommunications, Inc.
Cubic Defense Systems Inc.	Systems Division	VIASAT Geo-TECHNOLOGIE Inc.
Del Norte Technology Inc.	Pelagos Corp.	WAG Corporation
DX Trading Co. Ltd.	PHM Survey Center	Wilcox Electric, Inc.
GPS Silicon Valley	Picodas Group Inc.	

Sales to Wilcox Electric, Inc. and Satloc, Inc. accounted for 12% and 11%, respectively, of the Company's total revenues in 1995 and sales to Wilcox Electric, Inc. and Hughes Information System Company accounted for 19% and 16%, respectively, of the Company's total revenues in the first nine months of 1996. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The following section presents examples of the ways in which the Company's products can address specific customer needs:

Carl Zeiss Jena GmbH

NovAtel has developed a strategic relationship with Carl Zeiss Jena GmbH ("Zeiss") in Germany for the European survey market. Zeiss has selected the Company as their supplier of L1 and L1/L2 GPS receivers and has incorporated such receivers into two survey products which Zeiss markets along with its own post-processing software suite. Zeiss chose NovAtel's products on the basis of their ease of integration into Zeiss' products and their high performance characteristics. In addition, the two companies coordinate development activities to ensure that product features match current market requirements.

Cubic Defense Systems Inc.

NovAtel has worked for a number of years with Cubic Defense Systems Inc. ("Cubic") in San Diego, California on developing receiver performance enhancements for U.S. Navy and Air Force weapons training pod applications. In the process of proving and developing these weapons training pods, NovAtel receivers have flown on A-10, F-14, F-15, F-16 and F-18 military aircraft. The weapon training pods are attached to the aircraft and contain electronic systems which enable weapons training exercises to be conducted over instrumented ranges. Cubic selected NovAtel for its ability to provide technical enhancements and receiver modifications. Cubic uses NovAtel's commercial GPS receiver to provide position and velocity tracking under extreme dynamic conditions while obtaining very high accuracy.

Aerodata Flugmesstechnik GmbH

Aerodata Flugmesstechnik GmbH ("Aerodata") is located in Germany and has developed and sold a large scale container tracking system in cooperation with Rohde & Schwarz to the Hamburg, Germany Port Authority. This system uses an embedded OEM NovAtel GPS receiver as a position sensor and is mounted in large lift trucks. When a container is stacked in a large container storage area, the exact position is then recorded in a container location database. Aerodata selected the NovAtel receiver because of the ease of integration and the technical guidance and support that was required to incorporate GPS into this unique application. The Company believes this system will aid the Hamburg Port Authority in the control and tracking of freight through its facility.

Sales, Marketing and Distribution

The Company's strategy is to achieve broad market penetration by employing multiple distribution channels, including OEMs, strategic relationships and a network of dealers. Although the Company has

historically only sold GPS products to OEMs and through strategic relationships, the Company entered the end-user market in 1996 selling GIS and survey products through a network of dealers. The Company recognizes the importance of sales, marketing and product distribution as critical to its future success. In 1996, the Company strengthened its sales and marketing resources by adding six new employees to the sales and marketing staff. The Company also added three new dealers in the United States. The Company currently has dealers serving approximately 30 countries worldwide. The Company intends to continue to expand its international dealer network, and once the Company has established a significant presence in these regions, it intends to set up regional customer service support centers to enhance its sales efforts.

In connection with its expansion into the end-user market, the Company recently entered into an agreement with Nikon, Inc. (“Nikon”) whereby the Company appointed Nikon as the exclusive distributor of the Company’s GISMO and Outrider products in the United States and Central and South America. The initial term of the agreement terminates in December 1997 and the agreement may be renewed for successive six month terms after that, assuming certain minimum purchase commitments have been met. Nikon will market the products under the “NovAtel” name through its established network of GPS survey product dealers.

The Company has developed its sales and marketing capabilities to anticipate and respond to customer needs as they arise in its multiple markets. The in-house sales and marketing efforts are focused on product management, distribution management and promotions. Each market requires specific attention to the needs of its sales and distribution channels, which are rapidly changing. The Company must continue to manage its future growth effectively, otherwise customer acceptance and results of operations may be adversely affected.

In addition to the general sales and marketing organization, the Company has created a corporate account management position that deals directly with customers which have a significant importance to the Company for revenue and/or strategic development. Strategic relationships help the Company to access markets either geographically or technologically. The Director, Corporate Accounts’ role is to provide a single point of contact for these key customers and partners, to anticipate their needs and coordinate the resources within the Company to provide efficient and qualified service.

Customer support is essential not only for optimal service to customers in support of their system integration effort, but also to guarantee quick turn-around time with regard to customer concerns and problems when dealing with products. The Company’s customer support staff also provides software upgrades and application consulting to assist its customers in the systems integration process. The Company is able to achieve a high level of customer support by employing qualified engineers and technicians who advise and provide support to the Company’s customers. Because of their frequent interaction with the customer base, these engineers and technicians are an effective marketing tool. They are also able to provide the Company with valuable customer input relating to product improvements and enhancements and opportunities for new products.

The Company derived approximately 89%, 80% and 78% of its total revenues in 1994, 1995 and the first nine months of 1996, respectively, from sales to customers in Canada and the United States. Accordingly, revenues derived from sales outside of Canada and the United States to date have not accounted for a material portion of the Company’s total revenues. The Company has increased, and plans to continue to increase, its international sales and marketing efforts and expects that revenues derived from international sales will continue to grow as a percentage of total revenues. There are a number of risks inherent in the Company’s international business activities, including unexpected changes in Canadian, United States or other government policies concerning the import and export of goods, services and technology and other regulatory requirements, tariffs and other trade barriers, costs and risks of localizing products for foreign countries, longer accounts receivable payment cycles, potentially adverse tax consequences, limits on repatriation of earnings and the burdens of complying with a wide variety of foreign laws. Fluctuations in currency exchange rates could materially adversely affect sales denominated in currencies other than the Canadian dollar and cause a reduction in revenues derived from sales in a particular country. The financial stability of foreign markets could also affect the Company’s international sales. There can be no assurance that such factors will not materially adversely affect the revenues from the Company’s future international sales and, consequently, the Company’s results of operations. In addition, revenues of the Company earned abroad may be subject to

taxation by more than one jurisdiction, which could materially adversely affect the Company's earnings. Furthermore, in certain foreign markets, there may be a reluctance to purchase products based on GPS technology, given the control of GPS by the U.S. Government. Each of these factors could have an adverse effect on the Company's business, financial condition and results of operations.

Competition

The Company believes that its ability to compete successfully depends on a number of factors, both within and outside of its control, including the performance, quality and price of the Company's and its competitors' products, the timing and success of new product introductions by the Company, its OEM customers and its competitors, the emergence of new GPS technologies and competing technologies, the development of technological innovations, the efficiency of production, the rate at which the Company's OEM customers incorporate the Company's products into their products, the number and nature of the Company's competitors in a given market, the assertion of intellectual property rights and general market and economic conditions. Within each of the markets which the Company serves, the Company has encountered direct competition from other GPS suppliers such as Trimble Navigation Limited, Ashtech, Inc. and Leica AG, and to a lesser extent, Magellan Corporation, Garmin Corporation and Allan Osborne Associates. In addition, the Company faces competition from large, established companies that participate in the GPS markets, including Motorola, Inc. and Rockwell Corporation. The Company expects competition to continue to intensify from various larger domestic and international competitors and new market entrants, some of which may be current Company customers, as they begin to offer products, services or systems which compete with the Company's products. There can be no assurance that the Company's current or future competitors, many of whom, individually or together with their corporate parents, have substantially greater financial resources, research and development resources, greater distribution, marketing and other capabilities than the Company, will not apply those resources and capabilities to compete successfully against the Company. A number of the markets in which the Company sells its products are also served by non-GPS technologies, some of which are currently more widely accepted and less expensive than GPS-based systems. The success of GPS-based systems against these competing technologies depends in part upon whether GPS systems can offer significant improvements in productivity, accuracy and reliability in a cost-effective manner. The Company believes that its ability to compete successfully in the future against existing and additional competitors will depend largely on its ability to combine systems and products with significantly differentiated features compared to currently available products, with a high level of customer support. There can be no assurances that the Company will be able to successfully implement this strategy. The Company also believes that in certain emerging markets its success will depend on its ability to form and maintain strategic relationships with established systems providers and industry leaders. The Company's failure to form and maintain such relationships, or the preemption of such relationships by the actions of the Company's other GPS competitors, could adversely affect the Company's ability to penetrate emerging GPS markets. In addition, prices of certain of the Company's products have declined since their introduction due to competitive pressure. There can be no assurance that competitive pressures will not further result in decreased prices and lower margins for the Company's products. Such price and margin decreases could have a material adverse effect on the Company's business financial condition and results of operations.

Operations

The Company subcontracts the manufacturing of its GPS receivers at the board level while configuring and assembling the receivers in-house. The number of basic board-level products is limited because the Company achieves product differentiation by loading different software packages on a common hardware platform. The Company receives pre-tested boards, configures the boards by loading the appropriate software and mounts the boards in different encasings. For the end-user products, the Company then assembles the products by adding periphery such as backpack, antenna, cabling and controller. The configurability of the receivers by software load allows the Company to maintain a low inventory level of semi-finished goods and provide quick order turnaround.

The Company currently uses two subcontractors for the board manufacturing, Harris Canada, Inc. of Calgary, Alberta and Raven Industries Inc. of Sioux Falls, South Dakota. Subcontracting the manufacturing

process requires little capital equipment and consequently allows growth without large capital investments. It also provides high flexibility in the choice of manufacturing processes.

The Company believes there are a number of qualified vendors for most of the parts and components used in its products. However, several components are purchased from a single source. In many cases, despite the availability of multiple sources, the Company may select a single source in order to maintain quality control. Components for which the Company currently does not have multiple sources include application-specific integrated circuits manufactured to the Company's proprietary design by SGS-Thomson Microelectronics, Inc. and Symbios Logic Inc. and filters supplied by Sawtek Incorporated and Siemens Electric Limited. The Company has experienced significant delays in production in the past caused by an insufficient supply of certain components. If the Company is unable to obtain a sufficient supply of its single source components from its current vendors, the Company may be required to obtain such components from alternative sources at higher prices and may experience a delay or interruption in product shipments, which could adversely affect the Company's business, financial condition and results of operations and damage customer relationships until an alternative source could be obtained. Also, a significant increase in the price of one or more of these components could adversely affect the Company's business, financial condition and results of operations. Although the Company has instituted vendor audit programs, there can be no assurance that the Company will not face problems with the quality of components in the future that could result in delays in supplies, interrupt shipments and require modification of products already sold by the Company, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the Company has historically relied on one subcontractor to manufacture its products, although it has recently developed a relationship with a second subcontractor. There can be no assurance that such companies will be able to manufacture the Company's products in a timely and reliable manner. The failure by either subcontractor to manufacture the Company's products in a timely and reliable manner could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company recently purchased new software which provides corporate and management information services across all of the Company's main processes, particularly operations and finance. The system was chosen with an emphasis on maximizing the efficiency of operations. The Company expects the implementation of such system to be completed by the first quarter of 1997. The Company is also building a new facility that is designed to include processes and expandability to facilitate the anticipated growth of the Company's business.

Patents, Trademarks and Licenses

The Company currently holds five U.S. patents and four related foreign patents which expire at various dates no earlier than November 28, 2010. There are also numerous pending U.S. and foreign patent applications. The Company currently licenses certain peripheral aspects of its technology from third parties.

The Company currently has numerous trademarks worldwide, including the NovAtel trademark, which is registered or pending in 32 countries.

The Company has copyrights and intellectual property rights to its proprietary software and custom integrated circuit designs. The Company licenses Positag software for its GISMO product. Positag is a full-featured GPS/GIS single frequency data post-processing software package. The Company has jointly developed and jointly owns its SoftSurv software, which is a full-featured GPS dual frequency data post-processing package for surveying applications.

Although the Company believes that its patents and trademarks have value, there can be no assurance that the Company's patents and trademarks, or any additional patents and trademarks that may be obtained in the future, will provide meaningful protection from competition. The Company believes that its success will depend primarily upon the experience, creative skills, technical expertise, management skills and marketing and sales ability of its personnel. The value of the Company's products relies substantially on the Company's technical innovation in fields in which there are many current patent filings. The Company recognizes that as new patents are issued or are brought to the Company's attention by the holders of such patents, it may be necessary for the Company to withdraw products from the market, negotiate a license from such patent

holders, redesign its products or pay damages assessed as a result of litigation. Such events could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the legal costs and engineering time required to safeguard intellectual property or to defend against litigation could become a significant expense of operations. The Company has received written notices from BTG USA Inc. and GeoResearch Inc. alleging patent infringement of their respective patents. No formal claim has been brought by either company. The Company believes that it has valid defenses to these claims should formal proceedings be commenced. In protecting its intellectual property rights the Company periodically sends out letters to third parties regarding potential infringements, requesting that they enter into license agreements with the Company if they wish to continue using certain technologies. In response to one of these letters, a recipient claimed that the Company's Narrow Correlator patents were invalid. Such party subsequently agreed to withdraw its claim and entered into a license agreement for the use of the Company's Narrow Correlator technology. While no intellectual property right of the Company has been invalidated or declared unenforceable, there can be no assurance that such rights will not be invalidated due to the existence of prior art or otherwise held unenforceable.

In November 1994, the Company commenced an action against Trimble Navigation Limited ("Trimble") seeking relief and damages for an alleged infringement of the Company's U.S. Patent No. 5,101,416 (the "Narrow Correlator patent"). In March 1995, Trimble commenced an action against the Company seeking relief and damages for an alleged infringement of Trimble's U.S. Patent No. 5,390,207 (the "207 patent"). In January 1996, Trimble filed a complaint with the International Trade Commission in the U.S. seeking to ban imports of the Company's products into the U.S. which allegedly infringed upon the 207 patent. All of these claims were resolved on July 16, 1996 when the Company and Trimble entered into a settlement agreement by cross licensing certain technologies, including a Narrow Correlator license to Trimble.

Employees

As of December 31, 1996 the Company employed 99 persons, including 45 in research and product development, 16 in sales and marketing, 16 in operations and 22 in administration and finance. The Company also currently employs temporary and contract personnel. Competition in recruiting personnel is intense, and the number of persons with relevant experience, particularly in engineering, is limited. The Company believes that its future success depends, in part, on its ability to attract and retain qualified technical, marketing, sales and management personnel. Any inability by the Company to attract and retain additional key employees or the loss of one or more of its current key employees could materially adversely affect the Company's business, financial condition and results of operations. None of the Company's employees is represented by a labor union, and the Company has not experienced any work stoppages.

Facilities

The Company currently leases approximately 25,000 square feet for all of its operations in Calgary, Alberta, Canada. This lease expires April 30, 1997 although the Company has the option to extend it to June 30, 1997 if the landlord has not arranged for another tenant to occupy the space. The Company has commenced construction of an approximately 46,000 square foot facility for all of its operations in Calgary, Alberta, Canada which is expected to be completed by April 30, 1997. The Company believes that the new facility will be adequate to support its operations for the next five years. The new facility will be capable of expansion if required.

Legal Proceedings

The Company filed a notice of objection on August 21, 1996 with respect to an assessment made by Revenue Canada on May 29, 1996 relating to the Goods and Services Tax ("GST") payable by the Company for the years 1991 and 1992. The amount of the assessment is approximately \$501,000, plus penalties and interest in the amount of approximately \$245,000. The assessment relates to the alleged failure to pay GST in connection with the sale of product and upon the divestiture of certain businesses. The notice of objection is with respect to \$486,000 of the amount of the assessment, and \$237,000 of the amount of penalties and interest. There can be no assurance that this matter will be resolved in favor of the Company, and if the

Company is required to pay any or all of the assessment, it may have a material adverse effect on the Company's business, financial condition and results of operations.

A claim was made in the Court of Queen's Bench of Alberta, Judicial District of Calgary, in July 1995, by a former dealer of the Company, Premier GPS Inc. ("Premier"), arising, in part, out of the Company's refusal to renew its dealer agreement with Premier. Premier is alleging breach of contract by the Company and seeking damages in the amount of \$500,000, special damages in an amount to be ascertained at trial, and an additional \$500,000 in punitive or exemplary damages, plus interest and costs. The Company filed a Statement of Defense and Counterclaim on September 14, 1995 seeking judgment for approximately \$74,000 (unpaid invoices), damages for conspiracy, breach of trust and breach of fiduciary duty, and an Order for return of certain beta test equipment or damages, interest and costs. A claim was filed in the Court of Queen's Bench of Alberta, Judicial District of Calgary, on May 10, 1996 by Intek Diversified Corporation ("Intek") claiming for return of a \$200,000 deposit, interest and costs, in connection with terminated negotiations to purchase the WAP and PCP divisions of the Company, which were subsequently divested. On June 4, 1996, a Statement of Defense and Counterclaim were filed for a declaration that the deposit has been forfeited to the Company. On August 31, 1990, a lawsuit was filed in Superior Court in the District of Montreal, Province of Quebec claiming damages related to an alleged breach of a distributor contract. The claim is for approximately \$1.5 million plus interest and costs by 2548-5848 Quebec Inc. (Le Car Stereo) in Montreal, Quebec. The trial was held in June 1996, and all of the claims were dismissed. The plaintiff has filed an appeal. On September 27, 1991, a lawsuit was filed in Court of Queen's Bench of Alberta, Judicial District of Lethbridge/Macleod and is a claim for wrongful dismissal and seeking coverage under a disability insurance policy. A former employee is seeking a judgment for \$35,000 for lost wages, \$10,000 for punitive damages and \$1,000,000 for breach of contract. This lawsuit is still in the discovery stages. The Company believes that it has meritorious defenses and claims with respect to each of these lawsuits. The Company believes that it has established adequate provisions for these matters and therefore believes that the ultimate liability with respect to the resolution of these matters will not have a material adverse effect on the Company's business, financial condition or results of operations. There can be no assurance, however, that the Company will prevail in the outstanding or pending litigation, and an adverse outcome could have a material adverse effect on the Company's business, financial condition and results of operations.

MANAGEMENT

Executive Officers, Directors and Key Employees

The following table sets forth certain information, as of December 31, 1996, regarding the executive officers, directors and certain key employees of the Company:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Directors and Executive Officers		
Horst J. Pudwill	52	Chairman of the Board
Pascal E. Spothelfer	36	Chief Executive Officer, President and Director
Douglas R. Reid	42	Executive Vice President, Chief Operating Officer and Director
Werner Gartner	40	Executive Vice President, Chief Financial Officer and Director
Randy R. Mabbott	34	General Counsel and Corporate Secretary
Richard D. Orman	48	Director
Alexander von Witzleben	33	Director
Key Employees		
Patrick C. Fenton	38	Director, Research and Development
Stephen A. Duncombe	41	Director, Sales and Marketing
Anthony J. Murfin	49	Director, Corporate Accounts
Graham C. Purves	34	Director, Business Operations

Horst J. Pudwill has served as Chairman of the Board of Directors of the Company since May 1992 and served as Chief Executive Officer of the Company from May 1992 until October 1996. Mr. Pudwill and his wife, Barbara A. Pudwill, own controlling interest in the Company. Since May 1985, Mr. Pudwill has been Chairman of the Board of Directors and major shareholder of TechTronic Industries Co. Ltd., a public company listed on the Hong Kong stock exchange.

Pascal E. Spothelfer has served as Chief Executive Officer of the Company since October 1996, Director of the Company since March 1995 and President since September 1994. From April 1994 to October 1996, Mr. Spothelfer served as Chief Operating Officer of the Company. From April 1992 to March 1994, Mr. Spothelfer was Vice President of Business Development for Jenoptik GmbH in Germany and from March 1990 to April 1992, Mr. Spothelfer was a management consultant with The Boston Consulting Group in Munich, Germany.

Douglas R. Reid has served as Executive Vice President and Chief Operating Officer of the Company since October 1996, and as a Director of the Company since November 1996. From July 1995 to October 1996, Mr. Reid served as Vice President and General Manager of the Company's GPS business unit. From 1986 to July 1995, Mr. Reid was employed by Leica Inc. in a variety of positions, including Marketing Manager at Leica's headquarters in Switzerland and most recently as Vice President for Leica's North American survey products group.

Werner Gartner has served as Executive Vice President and Chief Financial Officer of the Company since October 1996 and as Director of the Company since November 1995. From August 1990 to October 1996, Mr. Gartner served in a variety of financial positions at the Company including Vice President, Finance and Corporate Controller. Mr. Gartner is a Certified Management Accountant.

Randy R. Mabbott has served as General Counsel and Assistant Corporate Secretary since January 1994 and Corporate Secretary since July 1994. From 1989 to 1994, Mr. Mabbott practiced law at a Calgary law firm where he was a partner from February 1992 until July 1994.

Richard D. Orman has served as a Director of the Company since January 1994. Mr. Orman currently serves as Chairman and Chief Executive Officer of Kappa Energy Company Inc. in Calgary, Canada, which he founded in August 1995. From May 1986 to December 1992, Mr. Orman served as a member of the Alberta legislature and as Minister of Employment from May 1986 to September 1988, Minister of Labour from September 1988 to April 1989 and Minister of Energy from April 1989 to December 1992.

Alexander von Witzleben has served as a Director since May 1996. Mr. von Witzleben has been Vice President, Jenoptik AG since January 1996 and has held various other positions in Jenoptik AG since October 1993. From 1990 to October 1993, Mr. von Witzleben served as Auditor at KPMG Deutsche Treuhand-Gesellschaft.

Patrick C. Fenton has served as Director, Research and Development for the Company's GPS business unit since February 1995 and was Chief Engineer for the GPS business unit from November 1993 to February 1995. Mr. Fenton joined the Company in July 1989 when the Company purchased the assets of Norstar Instruments, a division of Nortech Surveys (a spin off company from Shell Canada Resources) and served the Company in various capacities.

Stephen A. Duncombe has served as Director, Sales and Marketing for the Company since May 1996. From February 1994 to May 1996, Mr. Duncombe served as Marketing Manager at Leica Inc. From April 1991 to February 1994 Mr. Duncombe served as Sales Manager, Pacific Rim in the GPS group at Magnavox Advanced Products and Systems Company and has been involved in the satellite positioning industry in various capacities since 1978.

Anthony J. Murfin has served as Director, Corporate Accounts for the Company since May 1996 and was Director of Sales from April 1994 to May 1996. From January 1980 to April 1994, Mr. Murfin served in various capacities including Business Development Manager in the Avionics Division of Canadian Marconi Company. From September 1977 until January 1980 Mr. Murfin was employed at CAE Electronics.

Graham C. Purves has served as Director, Business Operations for the Company's GPS business unit since August 1994. From August 1988 to August 1994 Mr. Purves has served in various capacities at the Company including Manager, VLSI Design Group.

The Company intends to add three independent directors to its Board of Directors within 90 days of the date of this Prospectus. It may be necessary for the Company to appoint these directors within the 90 day time period in order to maintain its Nasdaq National Market listing. Failure to appoint such directors may result in delisting of the Common Shares from the Nasdaq National Market.

Directors are elected annually and serve until the next annual meeting of shareholders or until their successors have been elected and qualified.

Board Committees

The Company's Board of Directors has recently established an Audit Committee and a Compensation Committee. The Audit Committee, among other things, will recommend independent accountants to the Company to audit the Company's financial statements, discuss the scope and results of the audit with the independent accountants, review with the Company's executive officers and the independent accountants the Company's interim and year-end operating results and the non-audit services to be performed by the independent accountants and consider the adequacy of the internal accounting controls and audit procedures of the Company. The Compensation Committee will review and recommend the compensation arrangements for the executive officers of the Company and administer the Company's stock option plans. The members of each of these committees will be appointed within 90 days of the date of this Prospectus. The Company anticipates that two independent directors along with an employee director will serve on the Audit Committee and Compensation Committee.

Compensation and Indemnification of Directors

After consummation of the offering, directors who are not employees of the Company will each receive \$10,000 per year for services provided in their capacity as directors plus \$1,000 for each Board of Directors meeting such director attends, except for the Chairman of the Board of Directors who will receive \$20,000 per year and \$2,000 for each meeting he attends. In addition, all directors may be reimbursed for expenses incurred by them in their capacity as directors. Other than with respect to reimbursement of expenses, directors who are employees of the Company do not receive additional compensation for service as a director. The Company currently maintains directors' and officers' liability insurance for its directors and plans to continue such insurance.

The By-laws of the Company provide that, subject to Section 124 of the CBCA, the Company shall indemnify a director or officer of the Company, a former director or officer of the Company or a person who acts or acted at the Company's request as a director or officer of a body corporate of which the Company is or was a shareholder or creditor, and his/her heirs and legal representatives, against all costs, charges and expenses reasonably incurred by him/her in respect of certain actions or proceedings to which he/she is made a party by reason of his/her office, if he/she met certain specified standards of conduct, and the Company shall also indemnify any such person in such other circumstances as the CBCA or law permits or requires.

The Company plans to enter into indemnification agreements with each of its directors and executive officers which will provide indemnification under certain circumstances for acts and omissions which may not be covered by directors' and officers' liability insurance.

In October 1996, the Company adopted the Directors Stock Option Plan, which provides for the granting of options to purchase an aggregate of 111,000 Common Shares to non-employee directors of the Company, 7,400 of which will be granted to non-employee directors upon consummation of this offering at the initial public offering price. Currently, no directors have been granted options to purchase Common Shares under the Directors Stock Option Plan. See "— Stock Plans."

Compensation Committee Interlocks and Insider Participation

In 1996, the Company did not have a Compensation Committee, and Horst J. Pudwill performed equivalent functions. No interlocking relationship exists between the Company's Board of Directors or Compensation Committee and the Board of Directors or compensation committee of any other Company, nor did any such interlocking relationship exist during the past fiscal year.

Due to the closely-held nature of the Company, it has engaged in a number of transactions with its officers, directors, shareholders and affiliates. All future transactions, if any, between the Company and its officers, directors, principal shareholders and affiliates will be approved by a majority of the Company's independent directors and will be on terms no less favorable to the Company than can be obtained from unaffiliated third parties. See "Certain Transactions."

Executive Compensation

The following Summary Compensation Table sets forth the compensation paid by the Company during the year ended December 31, 1996 to the Company's President, the Company's other current executive officers whose salary and bonus for services in all capacities to the Company exceeded US\$100,000 during such year (collectively, the "Named Executive Officers"), and all directors and executive officers as a group:

Summary Compensation Table

<u>Name and Principal Position</u>	<u>Annual Compensation</u>		
	<u>Salary</u>	<u>Bonus</u>	<u>Other Annual Compensation</u>
Pascal E. Spothelfer Chief Executive Officer and President	\$238,270	\$30,000(1)	\$47,627(2)
Douglas R. Reid Executive Vice President and Chief Operating Officer	\$194,250	\$30,000(1)	\$ —
Werner Gartner Executive Vice President and Chief Financial Officer	\$128,425	(1)	\$ —
All directors and executive officers as a group (seven persons)	\$680,945	\$60,000(1)	\$47,627(2)

(1) The Board of Directors has not yet determined the bonuses for the executive officers and directors of the Company for the year ended December 31, 1996. The amounts indicated, if any, represent the minimum bonuses that are due pursuant to employment agreements.

(2) Includes \$33,395 for housing expenses, \$8,911 for automobile expenses, and \$5,321 for travel expenses for Mr. Spothelfer's spouse and family.

Employment Agreements

The Company currently has employment contracts with Pascal E. Spothelfer and Douglas R. Reid.

The Company entered into an employment agreement with Pascal E. Spothelfer on April 1, 1994, which provides for an annual salary of at least \$220,000 and an annual bonus of at least \$30,000. Mr. Spothelfer is also provided an automobile and housing and travel allowances. The agreement terminates on March 31, 1997, unless terminated earlier for his dismissal with cause, death or extended disability.

The Company entered into an employment agreement with Douglas R. Reid on June 19, 1995, which provides for an annual salary of at least \$185,000 and an annual bonus of at least \$30,000. Mr. Reid is also provided an automobile allowance. The agreement is terminable upon his dismissal with cause, death or extended disability.

Stock Plans

In October 1996, the Company adopted the Stock Option Plan (the "Option Plan") and the Directors Stock Option Plan (the "Directors Plan").

The Stock Option Plan. The Option Plan provides for the granting of options to eligible directors, officers, employees and consultants of the Company to purchase an aggregate of 740,000 Common Shares. The Option Plan is administered by either the Board or a committee designated by the Board (the "Plan Administrator"). The vesting schedule for each option shall be specified by the Plan Administrator at the time of grant of the option. Under the Option Plan, options are exercisable for a period of up to ten years from the grant date. Vested options terminate 90 days after an optionee's termination for any reason other than death or disability. Unvested options terminate immediately upon the termination of an optionee's employment or service to the Company. As of the date of this Prospectus, no options have been granted and no shares had been issued under the Option Plan. Upon consummation of the offering, the Company intends to grant to its employees options to purchase approximately 592,000 Common Shares, a portion of which will be allocated to executive officers. All of the options to purchase 592,000 Common Shares will vest at the rate of 40% in the first year, 30% in the second year and 30% in the third year.

The Directors Stock Option Plan. The Directors Plan provides for the granting of options to purchase an aggregate of 111,000 Common Shares to eligible non-employee directors of the Company. As of the date of this Prospectus, no options have been granted under the Directors Plan. The Directors Plan may be administered by either the Board or a committee designated by the Board (the "Plan Administrator"). Currently, the Compensation Committee is acting as the Plan Administrator. In accordance with the Directors Plan, the Plan Administrator determines the non-employee directors of the Company to whom

options are granted, the number of Common Shares subject to each option, the exercise price and vesting schedule of each option. Under the Directors Plan, options are exercisable for a period of ten years from the date of grant. Vested options terminate ninety days after an optionee ceases to be a member of the board of directors of the Company for any reason other than death or disability.

CERTAIN TRANSACTIONS

Due to the closely-held nature of the Company, it has engaged in a number of transactions with its officers, directors, shareholders and affiliates. All future transactions, if any, between the Company and its officers, directors, principal shareholders and affiliates will be approved by a majority of the Company's independent directors and will be on terms no less favorable to the Company than can be obtained from unaffiliated third parties.

The Company sold products and provided certain technical services to a number of affiliated companies including NovAtel Communications (Far East) Limited ("NovAtel Far East"), a company affiliated with Horst Pudwill, and Communique Industrial International Limited ("Communique"), a company affiliated with Horst Pudwill, in the amounts of \$1.9 million, \$1.4 million and \$1.9 million in 1993, 1994 and 1995, respectively. The Company purchased raw material inventory in 1993, 1994 and 1995 from a number of affiliated companies including NovAtel Far East, Communique and Dual-Voltage Co. Ltd ("Dual-Voltage"), a company affiliated with Horst Pudwill, in the amounts of \$14.4 million, \$8.3 million and \$4.3 million, respectively.

Digicom Cellular International Co. Ltd ("Digicom"), a company affiliated with Horst Pudwill, paid interest and bank fees on behalf of the Company in the amounts of \$589,000 in 1994, \$334,000 in 1995 and \$77,000 in the first nine months of 1996.

During 1994 and the first ten months of 1995, the Company leased a facility from Telexel. Payments with respect to this lease totaled \$263,000 in 1994 and \$495,000 in 1995. In exchange for performing certain administrative services, the Company charged Telexel management fees of \$109,000 and \$204,000 in 1994 and 1995, respectively.

In addition, in 1994, 1995, and the first nine months of 1996, NovAtel Far East charged the Company management fees in the amounts of \$230,000, \$151,000 and \$63,000, respectively. Furthermore, NovAtel Far East charged the Company \$334,000 in 1994 and \$409,000 in 1995 related to providing office space and support services to the WAP division. In the first nine months of 1996, the Company recorded a refund of \$32,000 from the previously charged amount. In connection with the divestiture of the WAP division, a fee was earned by Digicom in the amount of \$655,000.

As a result of the discontinuation of the Company's CPG operations in the United States and the winding down of the Company's subsidiary in the United Kingdom, the Company wrote off \$397,000 of the net balance owed to certain of its subsidiaries by certain other related companies.

In 1993, 1994 and 1995, the Company advanced cash to, and received cash from, affiliated companies to fund the operations of its and its affiliated companies' operations. The net cash advances owing from (to) affiliated companies at the end of each of these years is \$(76,000), \$4.8 million and \$3.3 million, respectively.

In May 1996, the Company settled an outstanding dispute with JRC Canada Inc. and Japan Radio Co. Ltd. (collectively, "JRC"). As a result of the settlement the Company paid JRC approximately \$979,000 on behalf of NovAtel Far East. The Company also guaranteed a US\$3.75 million loan from Hongkong and Shanghai Banking Corporation Ltd. to NovAtel Far East, which guaranty has subsequently been cancelled.

In 1996, the Company received a cash advance of \$610,000 from TechTronic Industries Co., Ltd. ("TTI"), a Hong Kong-based public company of which Horst Pudwill is the Chairman and a major shareholder.

As of September 28, 1996, NovAtel Far East and Dual-Voltage owed the Company \$2.2 million and \$579,000, respectively, and the Company owed Digicom and TTI \$1.8 million and \$610,000, respectively.

As of October 1996, all of the related party balances described above have been satisfied with NovAtel Far East, Digicom, Dual Voltage and TTI, resulting in a net payment of \$381,000 to the Company.

In March 1994, the Company underwent a recapitalization reducing the shareholders' equity and the net deficit. All outstanding common and preferred shares were converted to Common Shares. In addition, the paid up capital was reduced by distributing \$6.0 million to Telexel as return of capital. On August 21, 1996, the Company sold the assets of its PCP division to NovAtel Wireless, Inc. As part of the divestiture, the Company acquired a 15% equity interest in NovAtel Wireless, Inc. which will be divested to Telexel upon consummation of the offering. As of September 28, 1996, Telexel owed the Company approximately \$445,000. In addition, Telexel will pay an additional approximately \$483,425 for the 15% equity interest in NovAtel Wireless, Inc. The Company will receive approximately \$930,000 of the proceeds from the sale of the Common Shares by the Selling Shareholder to satisfy these obligations.

On March 28, 1994 Jenotad Verwaltungs GmbH ("Jenotad") acquired 1,300,000 Common Shares from the Company for \$13.5 million. At the same time, Jenotad and the Company entered into a joint venture, NovAtel Communications (Europe) GmbH ("NovAtel Europe"), with the Company owning 49% and Jenotad owning 51% of NovAtel Europe. On August 17, 1995, Jenoptik AG ("Jenoptik") acquired 260,000 Common Shares from Telexel. On February 28, 1996, the Company sold its interest in NovAtel Europe to Jenotad for \$1.

The Company's two principal shareholders are guarantors of a portion of the Company's credit facility with Hongkong Bank of Canada. Mr. Pudwill has guaranteed \$5.5 million and Jenotad has guaranteed \$3.75 million of the facility.

In connection with the purchase by Telexel of the Company's Common Shares from the Province of Alberta (the "Province"), the Company guaranteed the \$6.0 million remaining amount of the purchase price owed by Telexel to the Province. The Company becomes obligated under the guaranty only if the Company is in default of its covenants to the Province. Accordingly, even if Telexel defaults on its obligations under the agreement with the Province, the Company will not have to pay under the guaranty unless it in turn is also in default of its covenants. These covenants include an obligation to employ a certain number of persons in Alberta and to provide financial statements to the Province. The Company does not believe it is presently in default of, or will have any difficulty in the future complying with, any of these covenants.

In 1994, consulting fees of \$230,000 were paid to a company owned by Mr. Richard Orman, a member of NovAtel's Board of Directors. In addition, capital assets (condominium and contents) of \$298,000 were purchased from Mr. Orman. Mr. Orman's company received an additional \$60,000 in consulting fees in 1995. The consulting agreement with Mr. Orman's company was not renewed after 1995.

The Company entered into a consulting agreement with Michael Nacson, former Vice Chairman of the Company's Board of Directors, pursuant to which he receives \$10,000 per month in exchange for consulting services. In addition, Mr. Nacson will receive a lump sum payment of \$300,000 upon termination of the contract.

In December 1996, Horst Pudwill loaned the Company \$250,000 pursuant to a demand promissory note, the proceeds of which were used to finance certain of the costs associated with the new building. In January 1997, Mr. Pudwill loaned the Company an additional \$250,000 pursuant to a second demand promissory note to be used to finance certain of the costs associated with the new building. The Company will pay off these loans from the proceeds of this offering. In addition, in connection with the financing of the construction and other costs of the new building, the Company has obtained a commitment from Horst Pudwill to loan an additional \$2.8 million, secured by the land and the building, at an interest rate of 9.0%, to pay such costs. If the offering is completed, the Company does not expect to borrow any money under this commitment.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Shares as of December 31, 1996 and as adjusted to reflect the sale by the Company and the Selling Shareholder of the 2,570,000 Common Shares offered hereby by (i) each person who is known by the Company to own beneficially more than 5% of the outstanding Common Shares, (ii) each of the Company's directors and each of the executive officers named in the Summary Compensation Table, (iii) all directors and executive officers as a group, and (iv) the Selling Shareholder. Except as otherwise indicated, the Company believes that the beneficial owners of the securities listed below, based on information furnished by such owners, have sole investment and voting power with respect to all of the Common Shares shown as being beneficially owned by them.

<u>Name</u>	<u>Shares Beneficially Owned Prior to Offering</u>		<u>Common Shares Offered</u>	<u>Shares Beneficially Owned After Offering</u>	
	<u>Shares</u>	<u>Percent</u>		<u>Shares</u>	<u>Percent</u>
Horst J. Pudwill(1)	3,640,000	70.0%	100,000(2)	3,540,000	46.2%
Barbara Pudwill(1)	3,640,000	70.0%	100,000(2)	3,540,000	46.2%
Telexel Holding Limited(3)	3,640,000	70.0%	100,000(2)	3,540,000	46.2%
Jenotad Verwaltungs GmbH(4)	1,300,000	25.0%	—	1,300,000	16.9%
Jenoptik AG(4)	260,000	5.0%	—	260,000	3.4%
Pascal E. Spothelfer	—	—	—	—	—
Douglas R. Reid	—	—	—	—	—
Werner Gartner	—	—	—	—	—
Randy R. Mabbott	—	—	—	—	—
Richard D. Orman	—	—	—	—	—
Alexander von Witzleben(5)	—	—	—	—	—
All directors and executive officers as a group (seven persons)	3,640,000	70.0%	100,000(2)	3,540,000	46.2%

- (1) The address of Mr. and Mrs. Pudwill is 6732 8th Street N.E., Calgary, Alberta, Canada T2E 8M4. Mr. and Mrs. Pudwill may each be deemed to be a "control person" of the Company within the meaning of the rules and regulations of the Securities and Exchange Commission by reason of their respective stock ownership of Telexel Holding Limited and positions with the Company.
- (2) If the Underwriters' over-allotment option is exercised in full, the Selling Shareholder will sell an additional 270,000 Common Shares. The number of Common Shares owned after the offering will be 3,270,000 and the percent of Common Shares owned after the offering will be 42.6%.
- (3) The address of Telexel Holding Limited is 6732 8th Street N.E. Calgary, Alberta, Canada T2E 8M4.
- (4) The address of Jenotad Verwaltungs GmbH and Jenoptik AG is D-07739, Jena, Germany.
- (5) Does not include 1,300,000 Common Shares and 260,000 Common Shares shares held by Jenotad Verwaltungs GmbH and Jenoptik AG, respectively, with whom Mr. von Witzleben is affiliated.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of an unlimited number of Common Shares and an unlimited number of Preferred Shares.

Common Shares

As of December 31, 1996, the Company had an aggregate of 5,200,000 Common Shares issued and outstanding held by three holders. Holders of the Common Shares are entitled to cast one vote for each Common Share held of record on all matters acted upon at any shareholders' meeting and to dividends, if any, when declared by the Board, at its discretion, out of funds legally available therefor. There are no cumulative voting rights. In the event of any liquidation, dissolution or winding up of the Company, the holders of Common Shares will be entitled to receive ratably the assets of the Company remaining after payment of debts and liabilities, subject to any preferences that might be applicable to any Preferred Shares issued in the future. Holders of the Common Shares have no preemptive, subscription, redemption or conversion rights. All outstanding Common Shares are, and the Common Shares offered hereby when issued and paid for will be, fully paid and non-assessable.

Preference Shares

The Board is authorized to issue an unlimited number of Preference Shares in one or more series, to fix the number of Preference Shares and determine the designations, rights (including voting and dividend rights), privileges, restrictions and conditions attaching to the shares of each such series, without further vote or action by the shareholders. Because the terms of the Preference Shares may be fixed by the Company's Board of Directors without shareholder action, the Preference Shares could, subject to regulatory policies, be issued quickly, with terms calculated to defeat a takeover of the Company or to make the removal of the Company's directors and executive officers more difficult. Under certain circumstances, this could have the effect of decreasing the market value of the Common Shares. The Preference Shares may have voting rights superior to the Common Shares and may rank senior to the Common Shares as to dividends and as to the distribution of assets in the event of liquidation, dissolution or winding-up of the Company. The Company has no present plans to issue any series of Preference Shares.

Certain Rights of Shareholders

In accordance with the provisions of the Canada Business Corporations Act ("CBCA"), the amendment of certain rights of holders of a class of shares, including Common Shares, requires the approval of not less than two-thirds of the votes cast by the holders of such shares voting at a special meeting of such holders. Pursuant to the Company's By-laws, a quorum for a meeting of the holders of Common Shares occurs when persons not being less than two in number and holding or representing by proxy not less than 33⅓% of the issued and outstanding Common Shares entitled to vote at such meetings are present, unless a higher number is designated by the Board. In circumstances where the rights of Common Shares may be amended, however, holders of Common Shares have the right under the CBCA to dissent from such amendment and require the Company to pay them the then fair value of the Common Shares.

Exchange Controls and Other Limitations Affecting Holders of Common Shares

Investment Canada Act

Canada has no system of exchange controls. There is no law, government decree or regulation in Canada restricting the export or import of capital or affecting the remittance of dividends, interest or other payments to a non-resident holder of Common Shares, other than withholding tax requirements. See "Certain Tax Considerations — Certain Canadian Federal Income Tax Considerations."

There is no limitation imposed by Canadian law or by the articles or other charter documents of the Company on the right of a non-resident to hold or vote Common Shares or Preferred Shares of the Company with voting rights (collectively, "Voting Shares"), other than as provided in the Investment Canada Act (the

“Investment Act”), as amended by the World Trade Organization Agreement Implementation Act (the “WTOA Act”). The Investment Act generally prohibits implementation of a reviewable investment by an individual, government or agency thereof, corporation, partnership, trust or joint venture that is not a “Canadian,” as defined in the Investment Act (a “non-Canadian”), unless, after review, the minister responsible for the Investment Act is satisfied that the investment is likely to be of net benefit to Canada. An investment in Voting Shares of the Company by a non-Canadian (other than a “WTO Investor,” as defined below) would be reviewable under the Investment Act if it were an investment to acquire control of the Company and the Company was not, immediately prior to the implementation of the investment, controlled by a WTO Investor, and the value of the assets of the Company were \$5.0 million or more. An investment in Voting Shares of the Company by a WTO Investor would be reviewable under the Investment Act if it were an investment to acquire direct control of the Company, and the value of the assets of the Company equalled or exceeded \$168 million. A non-Canadian, whether a WTO Investor or otherwise, would acquire control of the Company for purposes of the Investment Act if he or she acquired a majority of the Voting Shares of the Company. The acquisition of less than a majority, but at least one-third of the Voting Shares of the Company, would be presumed to be an acquisition of control of the Company, unless it could be established that the Company was not controlled in fact by the acquirer through the ownership of Voting Shares. In general, an individual is a WTO Investor if he or she is a “national” of a country (other than Canada) that is a member of the World Trade Organization (“WTO Member”) or has a right of permanent residence in a WTO Member other than Canada. A corporation or other entity will be a WTO investor if it is a “WTO investor-controlled entity” pursuant to detailed rules set out in the Investment Act. The United States is a WTO Member.

Certain transactions involving Voting Shares of the Company would be exempt from the Investment Act, including: (a) an acquisition of Voting Shares of the Company if the acquisition were made in connection with the person’s business as a trader or dealer in securities; (b) an acquisition of control of the Company in connection with the realization of a security interest granted for a loan or other financial assistance and not for any purpose related to the provisions of the Investment Act; and (c) an acquisition of control of the Company by reason of an amalgamation, merger, consolidation or corporate reorganization, following which the ultimate direct or indirect control in fact of the Company, through the ownership of voting interests, remains unchanged.

Transfer Agent and Registrar

ChaseMellon Shareholder Services LLC has been appointed as the transfer agent and registrar for the Company’s Common Shares.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, the Company will have 7,670,000 Common Shares outstanding, assuming no exercise of the Underwriters' over-allotment option and no exercise of outstanding options. Of the Common Shares outstanding upon completion of this offering, all of the 2,570,000 Common Shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except for any shares purchased by "affiliates" of the Company, as that term is defined under the Securities Act and the Regulations promulgated thereunder (an "Affiliate"). The remaining 5,100,000 Common Shares outstanding prior to this offering were issued and sold without registration under the Securities Act and public sale thereof in the United States will be restricted except to the extent such shares are registered under the Securities Act or sold in accordance with an applicable exemption from registration.

All of the 5,200,000 Common Shares outstanding prior to this offering (the "Non-U.S. Shares") were sold by the Company in reliance upon Regulation S under the Securities Act to persons who the Company believes were outside the United States at the time of sale of the Non-US Shares. All of the Non-US Shares are held by persons the Company believes to be Affiliates (the "Non-US Affiliate Shares"). Common Shares sold outside the United States in reliance upon Regulation S may, under certain circumstances, be resold in the United States by persons other than Affiliates of the Company without registration under the Securities Act. Common Shares sold outside the United States in reliance upon Regulation S may, under certain circumstances, be resold in the United States by Affiliates of the Company beginning as soon as 90 days after the date of this Prospectus, subject to the volume and manner of sale requirements of Rule 144 under the Securities Act but not the holding period requirements of Rule 144. All of the Non-US Affiliate Shares are subject to the lock-up agreements described below.

All of the Common Shares held by existing shareholders are subject to lock-up agreements with the Underwriters and may not be sold or otherwise transferred until 180 days after the date of this Prospectus without the consent of Montgomery Securities, on behalf of the Underwriters. Montgomery Securities, on behalf of the Underwriters, may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to these lock-up agreements.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated), including an Affiliate, who has beneficially owned restricted securities for a period of at least two years from the later of the date such restricted securities were acquired from the Company or the date they were acquired from an Affiliate, is entitled to sell, within any three-month period commencing 90 days after the date of this Prospectus, a number of shares that does not exceed the greater of 1% of the then outstanding Common Shares (approximately 76,700 shares immediately after this offering) or the average weekly trading volume in the Common Shares during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to certain provisions relating to the number of shares, notice of sale and the availability of current public information about the Company. Further, under Rule 144(k), if a period of at least three years has elapsed between the later of the date restricted securities were acquired from the Company and the date they were acquired from an Affiliate of the Company, a holder of such restricted securities who is not an Affiliate at the time of the sale and has not been an Affiliate for at least three months prior to the sale would be entitled to sell the shares immediately, without regard to the volume and manner of sale limitations described above.

The Securities and Exchange Commission has recently proposed amendments to Rule 144 and 144(k) that would permit resales of Restricted Shares under Rule 144 under a one-year, rather than a two-year holding period, subject to compliance with the other provisions of Rule 144, and would permit resale of Restricted Shares by non-Affiliates under Rule 144(k) after a two-year, rather than a three-year holding period. Adoption of such amendments could result in resales of Restricted Shares sooner than would be the case under Rule 144 and 144(k) as currently in effect.

The Company intends to register up to an aggregate of 851,000 Common Shares reserved for issuance pursuant to its Option Plan and Directors Plan following the closing of this offering. Shares issued under these plans after the effective date of a registration statement covering such shares generally may be sold immediately in the public market, subject to vesting requirements and the lock-up agreements described above. See "Management — Stock Plans." Effective upon the completion of this offering, directors, officers,

employees and consultants will have outstanding options to purchase an aggregate of approximately 599,400 Common Shares.

Prior to this offering, there has been no public market for the Common Shares of the Company, and any sale of substantial amounts of Common Shares in the open market, or the availability of shares for sale, may adversely affect the market price of the Common Shares and the ability of the Company to raise funds through equity offerings in the future.

CERTAIN TAX CONSIDERATIONS

The Company has received an opinion from Orrick, Herrington & Sutcliffe LLP with respect to United States federal income tax law and from Felesky Flynn, Barristers and Solicitors with respect to Canadian tax law regarding certain income tax considerations of an investment in the Common Shares. The following discussion is intended to be a general description of the Canadian federal and U.S. federal income tax considerations material to an investment in the Common Shares and is not intended to be, nor should it be construed to be, legal or tax advice to any prospective investors, and no opinion or representation with respect to the income tax consequences to any such prospective investor is made. It does not take into account the individual circumstances of any particular investor and does not address consequences peculiar to any investor subject to special provisions of Canadian or U.S. income tax law. Therefore, prospective investors are urged to consult their own tax advisers regarding the tax consequences to them of an investment in the Common Shares.

Certain United States Federal Income Tax Considerations

The following discussion summarizes certain tax considerations relevant to an investment in the Common Shares pursuant to this offering by individuals and corporations who, for income tax purposes, are resident in the U.S. and not in Canada, hold Common Shares as capital assets, do not use or hold the Common Shares in carrying on a business through a permanent establishment or in connection with a fixed base in Canada and, in the case of individual investors, are also U.S. citizens (collectively, shareholders who have these characteristics are referred to hereinafter as “U.S. Shareholders”). The description does not apply to certain holders that may be subject to special rules for U.S. federal income tax purposes (including, but not limited to, insurance companies, financial institutions, persons that own, or are deemed to own, 10% or more of the voting shares of the Company, persons subject to the alternative minimum tax and broker-dealers). In addition, the tax consequences of an investment in the Common Shares by investors who are not U.S. Shareholders may be expected to differ substantially from the tax consequences discussed herein. The discussion is based upon the provisions of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), the Convention between Canada and the United States of America with respect to Taxes on Income and on Capital (the “Convention”), the administrative practices published by the U.S. Internal Revenue Service, and judicial decisions, all of which are subject to change. This discussion does not consider the potential effects of any proposed legislation which, if enacted, could be applied, possibly on a retroactive basis, at any time. The discussion does not take into account the tax laws of the various state and local jurisdictions of the U.S.

U.S. Shareholders generally will treat the gross amount of dividends paid by the Company, without reduction for the Canadian withholding tax, as dividend income for U.S. federal income tax purposes to the extent of the Company’s current or accumulated earnings and profits. However, the amount of Canadian tax withheld generally will give rise to a foreign tax credit or deduction for U.S. federal income tax purposes. Investors should be aware that dividends paid by the Company generally will constitute “passive income” for purposes of the foreign tax credit, which could reduce the amount of foreign tax credit available to a U.S. shareholder. The Code applies various limitations on the amount of foreign tax credit that may be available to a U.S. taxpayer. Prospective investors should consult their own tax advisers with respect to the potential consequences of those limitations. Dividends paid on the Common Shares will not generally be eligible for the dividends received deduction. To the extent that distributions exceed current or accumulated earnings and profits of the Company, they will be treated first as a return of capital up to the investor’s adjusted basis in Common Shares, and thereafter as gain from the sale or exchange of the Common Shares.

The sale of Common Shares generally will result in the recognition of gain or loss to the holder in an amount equal to the difference between the amount realized and the holder's adjusted basis in the Common Shares. Gain or loss upon the sale of Common Shares will be long-term or short-term capital gain or loss, depending on whether the shares have been held for more than one year. Preferential tax rates (currently 28%) for net capital gains are applicable to a U.S. Shareholder that is an individual, estate or trust. There are currently no preferential tax rates for long-term capital gains for a U.S. Shareholder that is a corporation. Short-term capital gains, however, are taxed at ordinary income rates.

Personal Holding Company

A corporation, whether a U.S. corporation or non-U.S. corporation, may be classified as a personal holding company (a "PHC") for U.S. federal income tax purposes if both of the following tests are satisfied: (i) at any time during the last half of the Company's taxable year, five or fewer individuals (without regard to their citizenship or residency) own or are deemed to own under certain attribution rules more than 50% of the stock of the corporation by value (the "PHC Ownership Test") and (ii) such non-U.S. corporation receives 60% or more of its U.S. related gross income, as specifically adjusted, from certain passive sources (the "PHC Income Test"). Such a corporation is taxed (currently at a rate of 39.6%) on certain of its undistributed U.S. source income (including certain types of foreign source income which are effectively connected with the conduct of a U.S. trade or business) to an extent at least equal to which such income is not distributed to shareholders.

Prior to and after this offering, five or fewer individuals likely will own or be deemed to own more than 50% of the Common Shares. As a result, the PHC Ownership Test likely will be satisfied after this offering. However, the Company does not believe that it currently satisfies the PHC Income Test and intends to manage its affairs so as to avoid becoming a PHC, to the extent consistent with its goals.

Foreign Personal Holding Company

A non-U.S. corporation may be classified as a foreign personal holding company (a "FPHC") for U.S. federal income tax purposes if both of the following tests are satisfied: (i) at any time during the Company's taxable year, five or fewer individuals who are U.S. citizens or residents own or are deemed to own (under certain attribution rules) more than 50% of all classes of the corporation's stock measured by voting power or value (the "FPHC Ownership Test") and (ii) the corporation receives at least 60% (50% in some situations) of its gross income (regardless of source), as specifically adjusted, from certain passive sources (the "FPHC Income Test").

The Company does not believe that it satisfies either the FPHC Ownership Test or the FPHC Income Test. If the Company were to be classified as an FPHC, a portion of its "undistributed foreign personal holding company income" (as defined for U.S. federal income tax purposes) would be imputed to all of its shareholders who are U.S. holders of Common Shares on the last day of the Company's taxable year, or, if earlier, the last day on which it is classified as an FPHC. Such income would be taxable as a dividend, even if no cash dividend is actually paid.

Passive Foreign Investment Company

A non-U.S. corporation will be classified as a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes if it satisfies either of the following two tests: (i) 75% or more of its gross income for the taxable year is passive income or (ii) on average for the taxable year (by value or, if the Company so elects, by adjusted basis), 50% or more of its assets produce or are held for the production of passive income.

The Company does not believe that it satisfies either of the tests for PFIC status, and it is not anticipated that the additional passive assets it will hold as a result of the sale of Common Shares will cause it to become a PFIC. If the Company were to be a PFIC for any taxable year, the U.S. federal income tax consequences to a U.S. Shareholder of purchasing, owning, disposing or deemed disposition of Common Shares will change significantly from the consequences set forth above. For example, U.S. investors would be required to either (i) pay an interest charge together with tax calculated at maximum ordinary income rates on certain "excess

distributions” (defined to include gain on a sale or other disposition of Common Shares), or (ii) if a Qualified Electing Fund (“QEF”) election is made, to include in their taxable income certain undistributed amounts of the Company’s income. Neither the Company nor its advisers have a duty to or will undertake to inform U.S. Shareholders of changes in circumstances that would cause the Company to become a PFIC. U.S. Shareholders should consult their own tax advisers concerning the status of the Company as a PFIC at any point in time after the date of this Prospectus.

Controlled Foreign Corporation

If more than 50% of the voting power of all classes of stock or the total value of the stock of the Company is owned, directly or indirectly, by citizens of the U.S., U.S. domestic partnerships and corporations or estates or trusts other than foreign estates or trusts, each of whom owns or is deemed to own under certain attribution rules 10% or more of the total combined voting power of all classes of stock of the Company (“10% Shareholder”), the Company could be treated as a “controlled foreign corporation” (a “CFC”) under Subpart F of the Code.

The Company does not believe that it is a CFC, and it is not anticipated that the Company will become a CFC as a result of this offering. If the Company becomes a CFC, the U.S. federal income tax consequences to a 10% Shareholder of purchasing, owning or disposing of Common Shares will change significantly from the consequences set forth above, and many complexities would result. For example, 10% Shareholders would be required to include in income their pro rata shares of “Subpart F income” (as specifically defined by the Code) of the Company, and under Section 1248 of the Code, gain from the sale or exchange of Common Shares by a holder who is or was a 10% Shareholder at any time during the five-year period ending with such sale or exchange would be treated as dividend income to the extent of earnings and profits of the Company attributable to the stock sold or exchanged. Neither the Company nor its advisers have a duty to or will undertake to inform U.S. Shareholders of changes in circumstances that would cause the Company to become a CFC. U.S. Shareholders should consult their own tax advisers concerning the status of the Company as a CFC at any point in time after the date of this Prospectus.

Certain Canadian Federal Income Tax Considerations

This summary of the primary income tax considerations takes into account the current provisions of the *Income Tax Act* (Canada) (the “Tax Act”), the regulations thereunder, all specific proposals to amend the Tax Act publicly announced prior to the date of this offering, and the current published administrative practices and policies of Revenue Canada, as understood by Felesky Flynn, Barristers and Solicitors. It assumes that all proposals to amend the Tax Act will be enacted in their present form and otherwise does not take into account or anticipate changes in the law, whether by way of judicial decision or legislative action nor does it take into account provincial, territorial or foreign tax legislation or considerations. This summary is generally applicable to persons who acquire Common Shares pursuant to this offering who (i) throughout the period during which the purchaser owns the Common Shares, is not resident in Canada for the purposes of the Tax Act and is a resident of the United States for the purposes of the Convention, (ii) holds Common Shares as capital property, (iii) deals at arm’s length with the Company, (iv) does not use or hold, and is not deemed to use or hold, such Common Shares in, or in the course of, carrying on a business or providing independent personal services in Canada, and (v) does not own, or is not treated as owning, 10% or more of the outstanding voting shares of the Company (a “U.S. Holder”).

This summary is not exhaustive of all potential Canadian income tax consequences to a U.S. Holder of acquiring, holding or disposing of Common Shares. The Common Shares will generally be considered to be capital property to a U.S. Holder unless either the U.S. Holder holds those shares in the course of carrying on a business or the U.S. Holder has acquired those shares in one or more transactions considered to be an adventure in the nature of trade.

Dividends paid or credited, or deemed to be paid or credited by the Company to a U.S. Holder are subject to Canadian withholding tax at the rate of 15% (reduced from 25% by the Convention) for U.S. Holders who beneficially own the dividends.

A U.S. Holder will not be subject to tax under the Tax Act on any gain in respect of the disposition or deemed disposition of Common Shares unless those Common Shares constitute “taxable Canadian property” as defined in the Tax Act. The Common Shares generally will not constitute taxable Canadian property to a U.S. Holder unless the U.S. Holder, persons with whom the U.S. Holder does not deal at arm’s length, or the U.S. Holder together with those persons, owns, or has at any time within the five year period immediately prior to the disposition owned, 25% or more of the issued shares of any class or series of the Company, including rights to acquire shares. Even if the Common Shares are taxable Canadian property to a U.S. Holder, under the Convention, gains derived by a U.S. Holder from the disposition of Common Shares would generally not be taxable in Canada unless the value of the Common Shares is derived principally from real property situated in Canada.

THE FOREGOING DISCUSSION OF UNITED STATES TAXATION AND CANADIAN TAXATION IS OF A GENERAL AND SUMMARY NATURE ONLY AND IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSIDERED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR SHAREHOLDER. ACCORDINGLY, PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX CONSEQUENCES OF HOLDING COMMON SHARES OF THE COMPANY, RECEIVING DIVIDENDS FROM THE COMPANY OR DISPOSING OF COMMON SHARES.

UNDERWRITING

The Underwriters named below, represented by Montgomery Securities and Prudential Securities Incorporated (the “Representatives”), have severally agreed, subject to the terms and conditions set forth in the Underwriting Agreement, to purchase from the Company and the Selling Shareholder the number of Common Shares indicated below opposite their respective names at the initial public offering price less the underwriting discount set forth on the cover page of this Prospectus. The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters are committed to purchase all of the shares if they purchase any.

<u>Underwriter</u>	<u>Number of Shares</u>
Montgomery Securities	855,000
Prudential Securities Incorporated	855,000
Cowen & Company	90,000
Deutsche Morgan Grenfell Inc.	90,000
Oppenheimer & Co., Inc.	90,000
Robertson, Stephens & Company LLC	90,000
Salomon Brothers Inc	90,000
UBS Securities LLC	90,000
Cruttenden Roth Incorporated	40,000
Needham & Company, Inc.	40,000
Nutmeg Securities, Ltd.	40,000
Brad Peery Inc.	40,000
Rauscher Pierce Refsnes, Inc.	40,000
Soundview Financial Group	40,000
Unterberg Harris	40,000
H.C. Wainwright & Co., Inc.	40,000
Total	2,570,000

The Representatives have advised the Company and the Selling Shareholder that the Underwriters initially propose to offer the Common Shares to the public on the terms set forth on the cover page of this Prospectus. The Underwriters may allow to selected dealers a concession of not more than US\$0.29 per share, and the Underwriters may allow, and such dealers may reallow, a concession of not more than US\$0.10 per share to certain other dealers. After the initial public offering, the offering price and other selling terms may be changed by the Representatives. No change in such terms shall change the amount of proceeds to be received by the Company as set forth on the cover page of this Prospectus. The Common Shares are offered subject to receipt and acceptance by the Underwriters, and to certain other conditions, including the right to reject orders in whole or in part.

The Company and the Selling Shareholder have granted an option to the Underwriters, exercisable during the 30-day period after the date of this Prospectus, to purchase up to a maximum of 385,500 additional Common Shares to cover over-allotments, if any, at the same price per share as the initial 2,570,000 Common Shares to be purchased by the Underwriters. To the extent that the Underwriters exercise this option, each of the Underwriters will be committed to purchase such additional shares in approximately the same proportion as set forth in the above table. The Underwriters may purchase such shares only to cover over-allotments made in connection with this offering.

The Underwriting Agreement provides that the Company and the Selling Shareholder will indemnify the Underwriters against certain liabilities, including civil liabilities under the Securities Act, or will contribute to payments the Underwriters may be required to make in respect thereof.

The Common Shares have not been and will not be qualified for distribution under the securities legislation of any of the provinces of Canada. Accordingly, the Common Shares may not be distributed in

Canada, except pursuant to a prospectus exemption under applicable securities legislation. Each Underwriter has agreed that it will not distribute Common Shares in Canada, except in accordance with a prospectus exemption under applicable securities legislation.

The Company's officers, directors and all other shareholders have agreed, subject to certain limited exceptions, not to sell or offer to sell or otherwise dispose of 5,200,000 Common Shares currently held by them, any options or warrants to purchase any Common Shares or any securities convertible into or exchangeable for any Common Shares for a period ending 180 days after the date of this Prospectus without the prior written consent of Montgomery Securities. Montgomery Securities may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to these lock-up agreements. In addition, the Company has agreed that, for a period of 180 days after the date of this Prospectus, it will not, without the consent of Montgomery Securities, issue, offer, sell or grant options to purchase or otherwise dispose of any equity securities or securities convertible into or exchangeable for equity securities, except for (i) the Common Shares offered hereby, (ii) Common Shares issued pursuant to the exercise of outstanding options and (iii) options to purchase Common Shares granted pursuant to the Option Plan and the Directors Plan and Common Shares issued pursuant to the exercise of such options. See "Management — Stock Plans" and "Shares Eligible for Future Sale."

Prior to this offering, there has been no public market for the Common Shares of the Company. Consequently, the initial public offering price was determined by negotiations between the Company, the Selling Shareholder and the Representatives. Among the factors considered in such negotiations were the history of, and prospects for, the Company and the industry in which it competes, an assessment of the Company's management, its past and present operations and financial performance, the prospects for future earnings of the Company, the present state of the Company's development, the general condition of the securities markets at the time of the offering, the market prices of and demand for publicly traded common stocks of companies in recent periods and other factors deemed relevant.

The Representatives have informed the Company that the Underwriters do not expect to make sales in excess of 5% of the number of Common Shares offered hereby to accounts over which they exercise discretionary authority.

LEGAL MATTERS

Certain matters of Canadian law relating to the legality of the issuance of the Common Shares offered by this Prospectus will be passed upon for the Company by Randy R. Mabbott, General Counsel for the Company, Felesky Flynn, Calgary, Alberta and Conner and Conner, Canmore, Alberta. In connection with matters of United States law, the Company is being represented by Orrick, Herrington & Sutcliffe LLP, San Francisco, California. The Underwriters are being represented by Brobeck, Phleger & Harrison LLP, Palo Alto, California with respect to matters of United States law and Stikeman, Elliott, Toronto, Ontario, with respect to certain matters of Canadian law.

EXPERTS

The consolidated financial statements and schedule of the Company as of December 31, 1993, December 31, 1994, December 31, 1995 and September 28, 1996 and for the periods then ended included in this Prospectus and elsewhere in this Registration Statement have been audited by Arthur Andersen & Co., independent chartered accountants, to the extent and for the periods indicated in their reports and are included in this Prospectus and elsewhere in this Registration Statement in reliance upon the authority of said firm as experts in giving said reports.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the “Commission”) a Registration Statement under the Securities Act on Form F-1 (together with all amendments and exhibits thereto) with respect to the Shares of Common Shares offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto, certain parts of which have been omitted in accordance with the rules and regulations of the Commission. For further information with respect to the Company and the Common Shares offered hereby, reference is made to the Registration Statement and the exhibits and schedules thereto. Statements contained in this Prospectus regarding the contents of any contract or other document are not necessarily complete and in each instance reference is hereby made to the copy of such contract or document filed as an exhibit to the Registration Statement. Copies of the Registration Statement and the exhibits and schedules thereto may be inspected, without charge, at the principal office of the Commission located at 450 Fifth Street, N.W., Washington, D.C. 20549, the New York Regional Office located at 7 World Trade Center, Suite 1300, New York, New York 10048 and the Chicago Regional Office located at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511, or obtained upon payment of prescribed rates from the Public Reference Section of the Commission at its principal office.

The Company intends to furnish its shareholders annual reports containing consolidated financial statements audited by an independent public accounting firm and quarterly reports for each of the first three quarters of each fiscal year containing interim unaudited financial information. Such annual and quarterly reports shall contain a reconciliation of the financial information contained in such reports with US GAAP.

GLOSSARY

Set forth below are definitions of certain capitalized terms, abbreviations and GPS industry terms used in this Prospectus.

Analog — A form of transmission employing a continuous electrical signal (rather than a pulsed or digital system) that varies in frequency and amplitude.

Carrier Phase — GPS measurements based on the L1 or L2 carrier signal.

Channel — A path along which a communications or satellite signal is transmitted.

Coarse Acquisition (C/A) Code — a spread spectrum direct sequence code that is used primarily by commercial GPS receivers to determine the range to the transmitting GPS satellite.

Code Chip — The minimum time interval of either a zero or a one in a binary pulse code.

CPG — NovAtel's former Consumer Products Group which sold cellular telephones.

Delay Lock Loop (DLL) — The technique whereby the received code (generated by the satellite) is compared with the internal code (generated by the receiver) and the later is shifted in time until the two codes match.

Differential GPS (DGPS) — a technique to improve GPS accuracy that uses pseudorange errors measured at a known location to improve the measurements made by other GPS receivers within the same general geographic area.

Digital — The representation of information as discrete values (i.e. 1's and 0's). These digital values can be processed, manipulated, exchanged or stored by electronic systems.

DSP — Digital-Signal Processing — a method of altering, enhancing or filtering of continuous (analog) signals through mathematical manipulation of the discrete-time digital data that represents those signals.

FAA — United States Federal Aviation Administration.

GIS (Geographic Information Systems) — a computer based system that is capable of collecting, managing and analyzing geographic spatial data. This capability includes storing and utilizing maps, displaying the results of data queries and conducting spatial analysis.

GLONASS (GLObal Navigation Satellite System) — is the Russian counterpart to GPS. GLONASS was formally put into operation in September 1993 by the Order of the President of the Russian Federation. As of the end of 1995, 22 satellites were operational. The satellite constellation was completed in early 1996 and consists of 24 satellites in 3 orbital planes.

GPS (Global Positioning System) — a space based radio positioning system which provides suitably equipped users with accurate position, velocity and time data. GPS consists of 24 orbiting NAVSTAR satellites controlled by the U.S. Department of Defense.

L1 frequency — 1575.42 MHz GPS carrier frequency which contains the coarse acquisition (C/A) code, as well as encrypted P-code, and navigation messages used by commercial GPS receivers.

L2 frequency — a secondary 1227.60 MHz GPS carrier frequency which contains only encrypted P-code, used primarily to calculate signal delays caused by the ionosphere.

MET (Multipath Elimination Technology) — software which provides up to 50% reduction in multipath effects.

MEDLL (Multipath Estimating Delay Lock Loop) — advanced multipath mitigation technology offering code and carrier multipath reduction improvement of 90% over Narrow Correlator technology.

Multipath — interference caused by reflected GPS signals arriving at the receiver, typically as a result of nearby structures or other reflective surfaces.

Narrow Correlator — technology that provides sub-meter positioning accuracy with a single frequency receiver while reducing the effects of multipath.

OEM — original equipment manufacturer.

P-Code (precise or protected) — a spread spectrum direct sequence code that is used primarily by military GPS receivers to determine the range to the transmitting GPS satellite.

PCP — NovAtel's former Personal Communications Products group which sold wireless communications products.

Pseudolite — an Earth-based transmitter, designed to mimic a satellite, that may be used to transmit differential corrections.

Pseudorange — the calculated range from the GPS receiver to the satellite determined by taking the difference between the measured satellite transmit time and the receiver time of measurement, and multiplying by the speed of light. This measurement generally contains a large receiver clock offset error.

Real-Time Kinematic (RTK) — the DGPS procedure whereby carrier-phase corrections are transmitted in real time from a reference station to the user's roving receiver.

RF — radio frequency.

RT-20 — NovAtel's double differencing technology for real-time kinematic (RTK) carrier phase floating ambiguity resolution.

Selective Availability (SA) — the method used by the United States Department of Defense to control access to the full accuracy achievable by civilian GPS equipment (generally by introducing timing and ephemeris errors).

WAAS — Wide Area Augmentation System — is a FAA funded system of equipment and software that augments GPS. The WAAS provides a satellite signal for WAAS users to support en-route and precision approach aircraft navigation.

WAP — NovAtel's former Wireless Access Products group which sold cellular systems.

VLSI — Very Large Scale Integration — Integrated circuits that contain 100,000 or more transistors but less than 100 million transistors.

NOVATEL INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT CHARTERED ACCOUNTANTS

To the Board of Directors of NovAtel Inc.:

We have audited the consolidated balance sheets of NovAtel Inc. as at December 31, 1994 and 1995 and at September 28, 1996, and the consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1995 and for the period from January 1, 1996 to September 28, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1995 and at September 28, 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995 and for the period from January 1, 1996 to September 28, 1996, in accordance with generally accepted accounting principles in Canada.

Calgary, Alberta
November 22, 1996

ARTHUR ANDERSEN & CO.
Chartered Accountants

NOVATEL INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	December 31,		September 28,
	1994	1995	1996
ASSETS			
(Notes 1, 6 and 18)			
Current assets:			
Cash	\$ 555	\$ 22	\$ 1,006
Accounts receivable (Notes 3 and 9)	7,748	3,942	6,225
Related party receivables and advances (Note 12)	8,613	4,315	826
Inventories (Note 4)	13,242	1,536	2,096
Prepaid expenses and deposits	311	254	95
Total current assets	30,469	10,069	10,248
Capital assets (Note 5)	10,283	2,528	3,222
Intangible assets (Note 5)	528	497	2,065
Equity investment in NovAtel Wireless, Inc. (Note 17)	—	—	483
Total assets	\$41,280	\$13,094	\$16,018
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
(Notes 1 and 18)			
Current liabilities:			
Bank advances (Note 6)	\$19,754	\$ 7,774	\$ 9,544
Accounts payable and accrued liabilities	10,237	7,510	10,099
Customer deposits	753	219	219
Related party payables (Note 12)	5,807	3,537	—
Provision for future warranty costs	244	35	41
Mortgage payable	4	4	4
Capital lease obligation	—	111	46
Total current liabilities	36,799	19,190	19,953
Mortgage payable (Note 6)	92	88	85
Capital lease obligation	—	119	15
Deferred gain (Note 17)	—	—	483
Total liabilities	36,891	19,397	20,536
Shareholders' equity (deficit) (Note 8):			
Capital stock (5,200 common shares issued and outstanding)	13,501	13,501	13,501
Deficit	(9,112)	(19,804)	(18,019)
Total shareholders' equity (deficit)	4,389	(6,303)	(4,518)
Total liabilities and shareholders' equity (deficit) ..	\$41,280	\$13,094	\$16,018

The accompanying notes are an integral part of these consolidated financial statements.

NOVATEL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>Period from January 1, 1995 to September 30, 1995</u>	<u>Period from January 1, 1996 to September 28, 1996</u>
Revenues (Notes 9 and 12)					
Product sales	\$ 4,892	\$ 7,198	\$ 11,239	\$ 8,501	\$17,679
NRE fees	<u>—</u>	<u>1,388</u>	<u>2,263</u>	<u>1,495</u>	<u>426</u>
Total revenues	<u>4,892</u>	<u>8,586</u>	<u>13,502</u>	<u>9,996</u>	<u>18,105</u>
Cost of product sales	1,365	2,371	3,227	2,126	4,737
Cost of NRE fees	<u>—</u>	<u>593</u>	<u>1,029</u>	<u>623</u>	<u>299</u>
Total cost of sales (Note 12)	<u>1,365</u>	<u>2,964</u>	<u>4,256</u>	<u>2,749</u>	<u>5,036</u>
Gross profit	<u>3,527</u>	<u>5,622</u>	<u>9,246</u>	<u>7,247</u>	<u>13,069</u>
Operating expenses:					
Research and development	1,150	1,661	3,312	2,424	4,223
Selling and marketing	1,351	1,278	1,651	1,147	1,983
General and administration	<u>464</u>	<u>1,442</u>	<u>2,232</u>	<u>1,644</u>	<u>1,613</u>
Total operating expenses	<u>2,965</u>	<u>4,381</u>	<u>7,195</u>	<u>5,215</u>	<u>7,819</u>
Operating income	562	1,241	2,051	2,032	5,250
Interest expense	(590)	(811)	(780)	(585)	(695)
Other income (expense) (Note 10)	<u>244</u>	<u>(576)</u>	<u>(379)</u>	<u>(342)</u>	<u>37</u>
Income (loss) from continuing operations	216	(146)	892	1,105	4,592
Loss from discontinued operations (Note 18)	<u>(16,103)</u>	<u>(5,061)</u>	<u>(11,584)</u>	<u>(12,295)</u>	<u>(2,807)</u>
Income (loss)	<u>\$(15,887)</u>	<u>\$(5,207)</u>	<u>\$(10,692)</u>	<u>\$(11,190)</u>	<u>\$ 1,785</u>
Income (loss) per share:					
Continuing operations	\$ 0.06	\$ (0.03)	\$ 0.17	\$ 0.21	\$ 0.88
Discontinued operations	<u>(4.13)</u>	<u>(1.04)</u>	<u>(2.23)</u>	<u>(2.36)</u>	<u>(0.54)</u>
Income(loss) per share	<u>\$(4.07)</u>	<u>\$(1.07)</u>	<u>\$(2.06)</u>	<u>\$(2.15)</u>	<u>\$ 0.34</u>
Weighted average shares outstanding (Note 8)	<u>3,900</u>	<u>4,875</u>	<u>5,200</u>	<u>5,200</u>	<u>5,200</u>

The accompanying notes are an integral part of these consolidated financial statements.

NOVATEL INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(in thousands, except per share data)

	<u>Common Shares</u>		<u>Deficit</u>	<u>Total Shareholders' Equity (Deficit)</u>
	<u>Number</u>	<u>Amount</u>		
December 31, 1993	3,900	\$17,983	\$(15,887)	\$ 2,096
Common shares issued.....	1,300	13,500	—	13,500
Reduction in paid up capital.....	—	(11,982)	11,982	—
Return of capital.....	—	(6,000)	—	(6,000)
Loss	<u>—</u>	<u>—</u>	<u>(5,207)</u>	<u>(5,207)</u>
December 31, 1994	5,200	13,501	(9,112)	4,389
Loss	<u>—</u>	<u>—</u>	<u>(10,692)</u>	<u>(10,692)</u>
December 31, 1995	5,200	13,501	(19,804)	(6,303)
Income.....	<u>—</u>	<u>—</u>	<u>1,785</u>	<u>1,785</u>
September 28, 1996	<u>5,200</u>	<u>\$13,501</u>	<u>\$(18,019)</u>	<u>\$(4,518)</u>

The accompanying notes are an integral part of these consolidated financial statements.

NOVATEL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except per share data)

	Year Ended December 31,			Period from	Period from
	1993	1994	1995	January 1, 1995 to September 30, 1995	January 1, 1996 to September 28, 1996
Operating activities:					
Income (loss) from continuing operations	\$ 216	\$ (146)	\$ 892	\$ 1,105	\$ 4,592
Loss from discontinued operations	(16,103)	(5,061)	(11,584)	(12,295)	(2,807)
Add charges and credits to operations not involving an outlay of cash:					
Depreciation and amortization	6,155	3,569	2,593	2,110	731
(Gain) loss on disposal of capital assets	(137)	1,334	751	200	5
Decrease in accrued commitments incurred upon acquisition	(6,822)	—	—	—	—
Write-off of investment in NovAtel Communications (Europe) GmbH	—	1,500	—	—	—
Gain on divestitures	(43)	(6,380)	(2,605)	—	(778)
Net change in non-cash working capital related to operations	<u>14,273</u>	<u>(1,313)</u>	<u>2,822</u>	<u>6,123</u>	<u>(402)</u>
Cash (used in) provided by operating activities	<u>(2,461)</u>	<u>(6,497)</u>	<u>(7,131)</u>	<u>(2,757)</u>	<u>1,341</u>
Financing activities:					
Deposit from investor	5,708	(5,708)	—	198	—
Increase (decrease) in bank advances	1,240	2,664	(11,980)	2,646	1,770
Increase (decrease) in capital lease obligations . .	—	—	230	1,043	(83)
Return of capital	—	(6,000)	—	—	—
Capital stock issued for cash	—	13,500	—	—	—
Mortgage	—	96	(4)	(2)	(3)
Cash provided by (used in) financing activities	<u>6,948</u>	<u>4,552</u>	<u>(11,754)</u>	<u>3,885</u>	<u>1,684</u>
Increase (decrease) in cash before investing activities	<u>4,487</u>	<u>(1,945)</u>	<u>(18,885)</u>	<u>1,128</u>	<u>3,025</u>
Investing activities:					
Purchase of capital and intangible assets	(1,679)	(5,653)	(3,672)	(3,116)	(3,510)
Proceeds from disposal of capital assets	515	151	1,876	1,861	50
Liquidation of CPG accounts payable	—	(22,500)	—	—	—
Proceeds on divestitures	—	24,338	19,947	—	1,419
Equity investment in NovAtel Communications (Europe) GmbH	—	(1,500)	—	—	—
Net change in accounts payable and accrued liabilities related to investing activities	—	—	201	—	—
Cash (used in) provided by investing activities	<u>(1,164)</u>	<u>(5,164)</u>	<u>18,352</u>	<u>(1,255)</u>	<u>(2,041)</u>
Increase (decrease) in cash	3,323	(7,109)	(533)	(127)	984
Cash, beginning of period	4,341	7,664	555	555	22
Cash, end of period	<u>\$ 7,664</u>	<u>\$ 555</u>	<u>\$ 22</u>	<u>\$ 428</u>	<u>\$ 1,006</u>

The accompanying notes are an integral part of these consolidated financial statements.

NOVATEL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)

(Information included herein related to the period from January 1, 1995 to September 30, 1995 is unaudited.)

Note 1 Continuing Operations

NovAtel Inc. (NovAtel or the Company) is incorporated under the laws of Canada and was acquired by Telexel Holding Limited (Telexel) on May 29, 1992. Subsequent to the May 29, 1992 acquisition, the Company divested its remaining non-global positioning systems businesses in a series of transactions between March 1994 and August 1996, after which the Company focused its activities on its remaining business, the development and marketing of global positioning systems (GPS) equipment. The primary transactions were as follows:

- On March 26, 1994, the Company disposed of its Consumer Products Group (CPG) for \$24,338, resulting in a gain of \$5,528 (see Note 13);
- On March 28, 1994, the Company issued 1,300 common shares to Jenotad Verwaltungs GmbH (Jenotad) for \$13,500 (see Note 8);
- On August 31, 1995, the Company began to wind-down its wholly-owned subsidiary, NovAtel Communications (U.K.) Limited (see Note 15);
- On November 3, 1995, the Company sold its Wireless Access Products (WAP) division and its manufacturing operations, resulting in a gain of \$2,556, subject to post closing adjustments (see Note 16); and
- On August 21, 1996, the Company sold its Personal Communications Products (PCP) division for \$3,957 recognizing a gain of \$778 (see Note 17).

At September 28, 1996, the Company had a deficit of \$18,019 and negative working capital of \$9,705. The ability of the Company to realize its assets and discharge its liabilities in the normal course of business is dependent upon the continued support of the Company's bank and shareholders and the successful development, manufacture and sale of its products at a profit. Management continues to take actions to improve the Company's working capital position such as the following:

- The Company entered into an agreement with the Hongkong Bank of Canada which ensures \$5.5 million of the Company's outstanding lines of credit will not be repayable by the Company before November 22, 1997 (see Note 6).
- The Company is currently pursuing a proposed initial public offering of common shares. There can be no guarantee that the proposed offering will be completed.

These consolidated financial statements have been prepared assuming that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

Note 2 Summary of Accounting Policies

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada in Canadian dollars. The preparation of financial statements in accordance with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

a) *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries.

NOVATEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 2 Summary of Accounting Policies — Continued

b) *Foreign Currency Translation*

Foreign subsidiary operations are considered financially and operationally dependent on the Company and are translated to Canadian dollars using current rates of exchange for monetary assets and liabilities, historical rates of exchange for non-monetary assets and liabilities, and average rates for the period for revenue and expenses, except depreciation, which is translated at the rate of exchange applicable to the related assets. Gains and losses resulting from these translation adjustments are included in other income (expense).

Transactions and monetary balances denominated in a currency other than Canadian dollars are translated into Canadian dollars using period average and period end exchange rates, respectively. Gains and losses arising from this translation process are included in income.

c) *Investment Tax Credits*

Investment tax credits relating to scientific research and development and capital expenditures are accounted for using the cost reduction method as they are claimed as there is not a high degree of assurance that the Company will be able to realize the benefit from these credits.

d) *Inventories*

Raw materials and components, work-in-progress, finished goods and service and refurbished inventories are recorded at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis and includes materials, labour and manufacturing overhead.

e) *Capital Assets, Intangible Assets, Depreciation and Amortization*

Capital assets are recorded at cost; maintenance and repair costs of a routine nature are charged to operations as incurred, and renewals and betterments which extend the economic useful life of an asset are capitalized.

Capital assets are depreciated and intangible assets are amortized on a straight-line basis using the following rates:

Buildings	5%
Computer and ancillary equipment	25%
Test equipment	25%
Machinery and equipment	20%
Furniture and fixtures	10%
Product tooling	50%
Leasehold improvements	Over term of leases
Patents	10%

f) *Research and Development Costs*

Research costs are charged to operations as incurred. Development costs, including software development costs, are charged to operations as incurred except when the Company has indicated its intention to use the process and the costs associated with the process are identifiable. In these circumstances, the costs are deferred and amortized on a systematic basis, subject to recoverability. No development costs have been capitalized in the period from May 29, 1992 to September 28, 1996. There are no deferred development costs included on the consolidated balance sheets at December 31, 1994, 1995 or at September 28, 1996.

NOVATEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 2 Summary of Accounting Policies — Continued

g) *Provision for Future Warranty Costs*

Warranty costs are accrued, to the extent that they are not recoverable from third party manufacturers, for the estimated cost to repair products for the balance of the warranty periods.

h) *Revenue Recognition*

Revenues from product sales are recognized at the time of shipment to the customer. Revenues from non-recurring engineering fees (NRE) are recognized at the time services are rendered.

Note 3 Accounts Receivable

	December 31, 1994	December 31, 1995	September 28, 1996
Trade receivables, net	\$7,028	\$3,332	\$3,236
Duty drawback claims	102	13	8
Goods and Services Tax receivable	120	162	444
Divestiture proceeds receivable	498	435	2,537
	\$7,748	\$3,942	\$6,225

The receivable balances are net of an allowance for doubtful accounts of \$2,116 at December 31, 1994, \$1,682 at December 31, 1995 and \$1,545 at September 28, 1996.

Note 4 Inventories

	December 31, 1994	December 31, 1995	September 28, 1996
Raw materials and components	\$ 6,247	\$1,044	\$ 810
Work-in-progress	1,033	75	264
Finished goods	5,839	417	1,022
Service and refurbished	123	—	—
	\$13,242	\$1,536	\$2,096

The inventory balances are net of a provision for excess and obsolete inventory of \$3,507 at December 31, 1994, \$538 at December 31, 1995 and \$735 at September 28, 1996.

NOVATEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 5 Capital and Intangible Assets

	December 31, 1994			December 31, 1995			September 28, 1996		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Land and buildings . . .	\$ 383	\$ 29	\$ 354	\$ 362	\$ 25	\$ 337	\$ 1,483	\$ 35	\$ 1,448
Computer and ancillary	3,028	1,099	1,929	1,494	743	751	1,503	661	842
Machinery and equipment . .	8,880	4,363	4,517	2,422	2,035	387	515	239	276
Furniture and fixtures	2,126	469	1,657	998	286	712	797	285	512
Product tooling	142	58	84	314	141	173	313	198	115
Leasehold improvements	1,872	130	1,742	208	208	—	8	—	8
Capital leased equipment . .	—	—	—	336	168	168	165	144	21
	<u>\$16,431</u>	<u>\$6,148</u>	<u>\$10,283</u>	<u>\$6,134</u>	<u>\$3,606</u>	<u>\$2,528</u>	<u>\$ 4,784</u>	<u>\$1,562</u>	<u>\$ 3,222</u>

Intangible assets, comprised primarily of patents, are net of accumulated amortization of \$96 at December 31, 1994, \$110 at December 31, 1995 and \$175 at September 28, 1996.

Note 6 Bank Advances and Mortgage Payable

Lines of credit are available with the Hongkong Bank of Canada to an aggregate limit of \$9,700 of which \$156 was unused at September 28, 1996. The lines of credit are payable on demand and are secured by the Company's assets and by guarantees from the ultimate shareholders as at September 28, 1996. At September 28, 1996, a portion of the line of credit was utilized to support \$136 of letters of credit (\$102 at December 31, 1995, \$540 at December 31, 1994). Interest is charged at Prime or Prime plus 1% on various components of the Canadian dollar advances, and at the U.S. Base Rate for U.S. dollar advances. No interest has been capitalized in 1993, 1994, 1995 or 1996. Interest related to the bank advances was paid in the amounts of \$1,099 in 1993, \$1,082 in 1994, \$1,755 in 1995 and \$537 in the period ended September 28, 1996.

On November 22, 1996, the Company entered into an agreement whereby the Hongkong Bank of Canada agreed to call upon the loan securities provided by certain of the ultimate shareholders in support of \$5.5 million of the lines of credit before seeking repayment from the Company in the event that the bank chooses to call the loan. The effected shareholders have further agreed to not seek reimbursement from the Company for any amounts paid to the bank for 18 months after the date of such payments. The bank has also agreed to not take any steps to enforce any right of indemnity it may have against NovAtel until November 22, 1997 should the amount realized from the liquidation of the loan securities be less than the amount due.

The mortgage payable is secured by certain specific assets of the Company, bears interest at a rate of 8.1% and is repayable over the next 12 years through blended payments of \$11 per year.

In September 1996, the Company acquired land for \$1.1 million which subsequently was financed through a demand facility of \$0.5 million in October 1996. This facility, which is secured by the land, bears interest at the lender's prime rate plus 1.25%.

Note 7 Commitments and Contingencies

a) At September 28, 1996, purchase commitments are outstanding for \$3,038 pertaining primarily to the acquisition of inventory, supplies and services.

NOVATEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 7 Commitments and Contingencies — Continued

b) Coincident with the divestiture of the WAP division and the manufacturing operations, the Company terminated, at no cost to the Company, the 10 year lease for its Calgary facility, which had annual rentals of \$596. In addition, the Company entered into new lease agreements. These lease agreements, as amended in October 1996, require aggregate rental payments of \$225 from October 1996 to their expiry date of March 31, 1997.

c) Certain of the Company's equipment, mainly computer hardware, software, and equipment used in research and development activities, are leased for various periods up to 2000. Rental payments under the leasing arrangements are as follows:

	<u>Operating Leases</u>	<u>Capital Leases</u>
1996 (3 months)	\$180	\$ 15
1997	193	61
1998	16	—
1999	13	—
2000	<u>10</u>	<u>—</u>
	<u>\$412</u>	<u>\$ 76</u>

Interest paid on the capital lease for 1996 was \$11 based on an imputed interest rate of 8.1%.

d) On November 3, 1995 the Company entered into agreements with Harris Canada Inc., under which Harris provides certain services, such as manufacturing capacity and computer support for various periods, ranging up to 17 months. These agreements require aggregate payments of \$266 from October 1996 to their expiry date of March 31, 1997.

e) The Company is subject to legal proceedings and other claims which arise in the ordinary course of its business. The Company has sought legal advice on these matters. In the opinion of management, adequate provisions have been established as required, therefore the ultimate liability with respect to the resolution of these actions is not expected to materially affect the financial position or results of operations of the Company.

f) Telexel is required to make \$6,000 in payments to the Province of Alberta, as deferred consideration for the acquisition of the Company by 1998. These payments, which are to be made by Telexel, are based on NovAtel's net income. NovAtel has no obligation with regard to this liability of Telexel unless NovAtel were to default on its own obligations under the settlement agreement with the Province of Alberta, at which point the Company has provided a guarantee of Telexel's liability. NovAtel's obligations under the settlement agreement relate to the maintenance of certain employment levels and other nonfinancial administrative matters. The Company believes it is currently in compliance with these obligations.

NOVATEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 8 Shareholders' Equity

a) Authorized and Issued Capital Stock:

	<u>December 31, 1993</u>		<u>December 31, 1994 and 1995 and September 28, 1996</u>	
	<u>Number Authorized</u>	<u>Number Issued</u>	<u>Number Authorized</u>	<u>Number Issued</u>
Preferred Shares				
Class A (non-voting, cumulative, redeemable)	Unlimited	1	N/A	N/A
Class B (non-voting, noncumulative)				
Class B-1 to B-11	Unlimited	10,968	N/A	N/A
Voting Common Shares	Unlimited	556,283	N/A	N/A
Common Shares	N/A	N/A	5,200	5,200
Non-Voting Common Shares (convertible to Voting Common Shares in the event that the Voting Common Shares are listed for trading on a public stock exchange)	Unlimited	131,482	N/A	N/A

On March 28, 1994, the Company recapitalized shareholders' equity, whereby the deficit was reduced through a reduction of paid up capital in the amount of \$11,982. At the same time, all previously outstanding common and preferred shares were converted to 3,900 new common shares. In addition, the paid up capital was further reduced by distributing to Telexel \$6,000 as a return of capital. Telexel paid this \$6,000 to the Province of Alberta as partial consideration for the acquisition of the Company.

Also on March 28, 1994, the Capital Stock of the Company increased by \$13,500 as a result of Jenotad's purchase of 1,300 common shares.

In connection with a proposed initial public offering of the Company's Common Shares, the Company's shareholders approved a 1.3-for-1 stock split in October 1996. Accordingly, all common share and per share amounts presented in the accompanying consolidated financial statements have been restated to reflect the stock split as though it had occurred at the beginning of the initial period presented (except for the share amounts presented at December 31, 1993 in Note 8 above).

Earnings per share figures are based upon the weighted average number of shares outstanding determined on the assumption that the conversion to 3,000 common shares (of previously outstanding common and preferred shares) completed on March 28, 1994, and the 1.3-for-1 stock split took place on May 29, 1992 (date of acquisition by Telexel).

The Board of Directors has conditionally approved a stock option plan, pending completion of the initial public offering referred to in Note 1. The total aggregate amount of the options granted of 614 at a price equal to the initial public offering price has been approved, however the allocation to specific individuals has not yet been determined.

Note 9 Major Customers, Export Sales and Suppliers

In 1993, four major customers accounted for 81% of sales from continuing operations. In 1994, three major customers accounted for 51% of sales from continuing operations. Accounts receivable related thereto were \$1,064 at December 31, 1994. Revenues from two major customers accounted for 23% of sales from continuing operations for the year ended December 31, 1995. Accounts receivable include \$498 due from

NOVATEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 9 Major Customers, Export Sales and Suppliers — Continued

these customers at December 31, 1995. Revenues from two major customers accounted for 35% of sales from continuing operations for the period ended September 28, 1996. Accounts receivable include \$149 due from these customers at September 28, 1996. The table below reflects customers whose purchases represented more than 10% of the Company's total revenues for the periods indicated.

	Sales by Major Customer				
	Year Ended			Period Ended	
	December 31, 1993	December 31, 1994	December 31, 1995	September 30, 1995	September 28, 1996
Wilcox Electric, Inc.....	\$ —	\$ —	\$1,656	\$1,296	\$3,463
Hughes Information Systems Company	—	—	—	—	2,845
Satloc, Inc.	1,245	2,477	1,443	1,161	—
Litton Systems, Inc. - Aero Products Division	—	1,073	—	—	—
Premier GPS Inc.	1,310	870	—	—	—
Del Norte Technology Inc.	930	—	—	—	—
Oceanics (UK) Ltd - Advanced Systems Division	496	—	—	—	—
	<u>\$3,981</u>	<u>\$4,420</u>	<u>\$3,099</u>	<u>\$2,457</u>	<u>\$6,308</u>
Percentage of total revenue	<u>81%</u>	<u>51%</u>	<u>23%</u>	<u>25%</u>	<u>35%</u>

	Sales by Geographic Market									
	Year Ended						Period Ended			
	December 31, 1993		December 31, 1994		December 31, 1995		September 30, 1995		September 28, 1996	
	\$	%	\$	%	\$	%	\$	%	\$	%
U.S.A	\$2,893	59%	\$6,146	72%	\$ 8,417	62%	\$ 6,434	64%	\$11,778	65%
Asia/Australia	—	0%	301	4%	1,226	9%	1,062	10%	1,877	10%
Europe	549	11%	643	7%	1,358	10%	1,007	10%	2,062	11%
Canada	1,450	30%	1,496	17%	2,422	18%	1,450	15%	2,209	13%
Other	—	0%	—	0%	79	1%	43	1%	179	1%
	<u>\$4,892</u>	<u>100%</u>	<u>\$8,586</u>	<u>100%</u>	<u>\$13,502</u>	<u>100%</u>	<u>\$ 9,996</u>	<u>100%</u>	<u>\$18,105</u>	<u>100%</u>

Certain of the Company's products incorporate components which are either procured from sole source suppliers or which are in short supply. In the opinion of management, the Company has taken measures to mitigate the risk associated with the availability of these components.

Note 10 Other Income (Expense)

	Year Ended			Period Ended	
	December 31, 1993	December 31, 1994	December 31, 1995	September 30, 1995	September 28, 1996
Foreign exchange	\$244	\$(468)	\$(313)	\$(366)	\$ (3)
Miscellaneous	—	(108)	(66)	24	40
	<u>\$244</u>	<u>\$(576)</u>	<u>\$(379)</u>	<u>\$(342)</u>	<u>\$ 37</u>

NOVATEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 11 Taxes

a) *Canadian Taxes*

At September 28, 1996, losses are available for Canadian income tax purposes to be carried forward to reduce future Canadian taxable income, the benefit of which has not been recognized in the consolidated financial statements. These losses expire as follows:

1996	\$	—
1997		—
1998		9,500
1999		—
2000		7,000
2001		—
2002		2,000
		<u>\$18,500</u>

In addition, no recognition has been given in the consolidated financial statements for the potential income tax benefits related to approximately \$157.5 million of research and development and depreciation costs deducted in the accounts, in excess of amounts claimed for Canadian income tax purposes.

The Company has unutilized investment tax credits of \$15.7 million available to reduce future Canadian income taxes. The potential benefit of these credits has not been recognized in the financial statements. These credits expire on December 31 as follows:

1996	\$	—
1997		—
1998		2,300
1999		5,700
2000		2,400
2001		900
2002		800
2003		—
2004		1,200
2005		1,600
2006		800
		<u>\$15,700</u>

The ultimate availability and amount of the losses and other tax benefits described above is dependent upon the final resolution of ongoing and future Revenue Canada, Taxation audits. An adverse determination could result in a significant decrease in the availability and amount of the tax benefits described above.

b) *U.S. Taxes*

The Company's U.S. subsidiaries file a consolidated U.S. federal income tax return. They have net operating loss carryforwards totaling approximately US\$38.0 million which expire in 2007 and 2008. These operating loss carryforwards arose from operations subsequent to the May 29, 1992 acquisition by Telexel. The future benefit of these losses has not been recognized in the consolidated financial statements.

NOVATEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 11 Taxes — Continued

The net operating loss carryforwards generated prior to May 29, 1992 are subject to limitations due to the change in ownership of the Company and thus have not been recognized in the consolidated financial statements.

Note 12 Related Party Transactions

The Company purchased raw material inventory from and sold finished goods to a number of companies in which Horst Pudwill, the principal beneficial shareholder of the Company has a controlling or other significant interest. In addition, the Company received from and provided advances and services to such related companies. The following items have been considered in the determination of income (loss) for the following periods ended:

	December 31, 1993	December 31, 1994	December 31, 1995	September 30, 1995	September 28, 1996
Sales to affiliates	\$ 1,876	\$1,434	\$1,869	\$1,869	\$ —
Purchases from affiliates	14,381	8,259	4,333	4,333	—
Lease expense charged by parent	—	263	495	445	—
Management fees charged to parent	—	109	204	183	—
Management fees charged by affiliate	—	230	151	113	63
Administration fee (WAP Hong Kong operations)	—	334	409	370	(32)
Fees paid by affiliate for shareholder guarantee of bank advances	—	589	334	225	77
Facilitation fee (WAP divestiture) charged by affiliate	—	—	655	—	—
Expense of settlement of payables and receivables held by U.S. and U.K. discontinued operations	—	—	397	—	—

The balances of related party receivables and payables are as follows:

	December 31, 1994	December 31, 1995	September 28, 1996
Trade receivables from affiliates	\$3,253	\$ 557	\$381
Advances to parent	1,611	444	445
Advances to affiliate	<u>3,749</u>	<u>3,314</u>	—
Total related party receivables and advances	<u>\$8,613</u>	<u>\$4,315</u>	<u>\$826</u>
Trade payables to affiliates	\$5,274	\$3,079	\$ —
Advances from affiliates	<u>533</u>	<u>458</u>	—
Total related party payables	<u>\$5,807</u>	<u>\$3,537</u>	<u>\$ —</u>

NOVATEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 12 Related Party Transactions — Continued

All advances are short term, unsecured, non-interest bearing and have no fixed terms of repayment. All related party receivables, payables and advances, except for the \$445 advance to parent, were collected/paid in October 1996.

In 1994, consulting fees of \$230 were paid to a company owned by a member of the board of directors. In addition, capital assets of \$298 were purchased from a person who subsequently became a member of the board of directors. In 1995, consulting fees of \$60 were paid to a company owned by a member of the board of directors. No such fees were incurred in the period from January 1, 1996 to September 28, 1996.

Note 13 Consumer Products Group (CPG) Divestiture

On March 26, 1994, the Company sold certain of the inventory, receivables, capital assets, computer systems and technology, related to CPG. The purchaser assumed all CPG warranty obligations and purchase commitments, as well as the lease and certain employment obligations for the Company's Lethbridge, Alberta and Fort Worth, Texas locations.

The proceeds from the sale of the CPG division totaled \$24,338, resulting in a net gain on divestiture of \$5,528, after consulting expenses.

Note 14 Investment in Novatel Communications (Europe) GmbH

In 1994, the Company wrote off its \$1,500 investment in NovAtel Communications (Europe) GmbH as the Company entered into negotiations to sell its 49% interest to Jenotad.

The shares of NovAtel Communications (Europe) GmbH were sold to Jenotad on March 20, 1996 for a nominal amount.

Note 15 Novatel Communications (U.K.) Limited Wind-Down

On August 31, 1995, the Company instructed its subsidiary, NovAtel Communications (U.K.) Limited to cease trading, and commenced a winding down of its British operations, which consisted of the distribution and marketing of cellular phones.

On January 4, 1996, a winding up order was issued by the Official Receiver to NovAtel Communications (U.K.) Limited. The Official Receiver is currently in the process of liquidating the remaining assets, composed primarily of a building, and distributing the proceeds thereof.

The assets and liabilities of the U.K. operations are reflected in the December 31, 1995 and September 28, 1996 consolidated balance sheets at liquidation values.

Note 16 Wireless Access Products (WAP) and Manufacturing Operations Divestiture

On November 3, 1995, the Company sold the receivables, inventory, fixed assets, technology, prepaid expenses and certain trade payables related to WAP and its manufacturing operations. The purchaser has assumed all WAP warranty and customer obligations and purchase order commitments. The net gain on the divestiture is expected to be approximately \$2,556, after consulting fees and restructuring costs, subject to post-closing adjustments, warranties and indemnification provisions. The purchase price is subject to an adjustment based on a post-closing audit of the balance sheet of the divested operations. Although the purchaser claims a purchase price adjustment of approximately \$3,300, the Company believes the final post closing adjustment will be between \$1,000 and \$2,400. Accordingly, the Company has accrued a provision for \$2,400. However, there can be no assurance as to how this matter will be resolved.

NOVATEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 17 Personal Communications Products (PCP) Divestiture

On August 21, 1996, the Company sold the inventory, prepaid expenses, capital assets and technology related to the PCP group to a group of companies controlled by NovAtel Wireless, Inc. (NWI), an unrelated party.

The purchaser will assume all PCP warranty obligations, purchase order commitments and certain customer commitments.

Proceeds from the sale include cash of \$1,419, a 15% equity interest in NWI and notes receivable of \$2,055, which are secured by the assets which were sold and are due in November 1996 and 1997, resulting in a net gain on divestiture of \$2,633 after expenses. Of this gain, \$778 was recognized at closing, \$1,372 was deferred until such time as a portion of the notes receivable is received and the remaining \$483 was deferred until such time as the Company's 15% equity interest in NWI is sold. Subsequent to September 28, 1996, the Company's 15% equity interest in NWI was sold for \$483 to Telexel with closure of such sale to be effective upon completion of the initial public offering discussed in Note 1.

Note 18 Discontinued Operations

The discontinued operations include the results for the CPG division, WAP division and its manufacturing operations, PCP division, NovAtel Communications (U.K.) Limited, NovAtel Communications (Europe) GmbH and a gain on the final liquidation of the Company's Norwegian subsidiary, Simonsen Communications A.S. which had been in the process of an orderly wind up. The costs associated with shared resources were separately classified and presented in the accompanying financial statements both within continuing operations (GPS business) and discontinued operations to reflect the approximate level of support required by each business unit. The loss from discontinued operations for the following periods is as set forth below:

	Discontinued Operations				
	December 31, 1993	December 31, 1994	December 31, 1995	September 30, 1995	September 28, 1996
Revenues	\$112,660	\$ 48,701	\$ 21,045	\$ 14,509	\$ 367
Cost of sales	94,924	33,311	16,616	12,212	776
Research and development expenses	6,951	6,405	7,646	6,464	1,811
Selling and marketing expenses	9,801	5,392	4,370	3,743	294
General and administration expenses	13,916	8,968	4,624	3,224	915
Other expenses	<u>3,214</u>	<u>6,066</u>	<u>1,978</u>	<u>1,161</u>	<u>156</u>
Loss before gain on divestiture	(16,146)	(11,441)	(14,189)	(12,295)	(3,585)
Gain on divestiture	<u>43</u>	<u>6,380</u>	<u>2,605</u>	<u>—</u>	<u>778</u>
Loss from discontinued operations	<u><u>\$ (16,103)</u></u>	<u><u>\$ (5,061)</u></u>	<u><u>\$ (11,584)</u></u>	<u><u>\$ (12,295)</u></u>	<u><u>\$ (2,807)</u></u>

At the date Telexel acquired the Company, the Company, in connection with the acquisition, incurred certain obligations related to employment levels and facilities. An accrual of \$30,793 was established for these obligations. This accrual was subsequently utilized as the related costs were incurred in 1992 and 1993.

NOVATEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 18 Discontinued Operations — Continued

The Consolidated Balance Sheets include residual assets and liabilities related to discontinued operations which includes CPG, WAP, PCP, NovAtel Communications (U.K.) Limited and Simonsen Communications A.S., as follows:

	September 28, 1996		
	<u>As Presented</u>	<u>Related to Discontinued Operations</u>	<u>Related to Continuing Operations</u>
Cash	\$ 1,006	\$ 12	\$ 994
Accounts receivable	6,225	2,647	3,578
Inventories	2,096	482	1,614
Capital assets	3,222	118	3,104
Accounts payable and accrued liabilities	10,099	2,961	7,138
Customer deposits	219	78	141
	December 31, 1995		
	<u>As Presented</u>	<u>Related to Discontinued Operations</u>	<u>Related to Continuing Operations</u>
Cash	\$ 22	\$ 306	\$ (284)
Accounts receivable	3,942	551	3,391
Inventories	1,536	737	799
Prepaid expenses and deposits	254	16	238
Capital assets	2,528	722	1,806
Accounts payable and accrued liabilities	7,510	3,833	3,677
Customer deposits	219	78	141
Provision for future warranty costs	35	2	33
Capital lease obligations — current portion	230	119	111
	December 31, 1994		
	<u>As Presented</u>	<u>Related to Discontinued Operations</u>	<u>Related to Continuing Operations</u>
Cash	\$ 555	\$ 1,364	\$ (809)
Accounts receivable	7,748	4,002	3,746
Related party receivables	8,613	976	7,637
Inventories	13,242	11,565	1,677
Prepaid expenses and deposits	311	76	235
Capital assets	10,283	6,157	4,126
Intangible assets	528	211	317
Accounts payable and accrued liabilities	10,237	6,262	3,975
Related party payables	5,807	4,316	1,491
Customer deposits	753	569	184
Provision for future warranty costs	244	207	37

NOVATEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 19 Consolidated Statements of Cash Flows

The net changes in non-cash working capital related to operations include:

	Year Ended			Period Ended	
	December 31, 1993	December 31, 1994	December 31, 1995	September 30, 1995	September 28, 1996
Decrease (increase) in accounts receivable	\$ 9,436	\$ (1,027)	\$ 8,104	\$1,940	\$ 3,261
(Increase) decrease in inventories	(6,853)	11,161	11,706	2,533	(1,368)
Decrease (increase) in prepaid expenses and deposits	192	1,284	57	(376)	117
Increase (decrease) in accounts payable and accrued liabilities	9,718	(18,435)	(4,997)	2,140	(1,425)
Increase (decrease) in customer deposits	4,417	(3,664)	(534)	(98)	—
(Decrease) increase in provision for future warranty costs	<u>(2,680)</u>	<u>(1,859)</u>	<u>(209)</u>	<u>(16)</u>	<u>9</u>
Net change in non-cash working capital	14,230	(12,540)	14,127	6,123	594
Non-cash working capital items related to divestitures	43	11,227	(11,104)	—	(996)
Net change in accounts payable and accrued liabilities related to investing activities	<u>—</u>	<u>—</u>	<u>(201)</u>	<u>—</u>	<u>—</u>
Net change in non-cash working capital related to operations	<u>\$14,273</u>	<u>\$ (1,313)</u>	<u>\$ 2,822</u>	<u>\$6,123</u>	<u>\$ (402)</u>

Note 20 Differences Between Canadian and United States Generally Accepted Accounting Principles

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The significant differences from U.S. principles are as follows:

(a) Under U.S. principles deferred income taxes would be recognized, at enacted rates, to reflect the future effects of tax carry forwards and temporary differences arising between the tax bases of assets and liabilities and their financial reporting amounts at each balance sheet date.

If U.S. principles were followed, the Company would record the tax benefit attributable to the estimated Canadian net operating loss carryforwards, research and development costs, depreciation and unutilized investment tax credits of approximately \$190 million available to offset future taxable income, subject to certain limitations. However, the Company would also establish a full valuation allowance against the calculated benefit of these deductions since it is more likely than not that any of these deductions will not be utilized. Although management expects future results of operations to be profitable, it emphasized past performance rather than growth projections when determining the valuation allowance. As no income taxes are currently payable and a full valuation allowance would be recorded against the deferred tax assets as determined under U.S. principles, this difference between Canadian and U.S. principles has no effect on the consolidated statements as at and for the periods ended December 31, 1994, 1995 or September 28, 1996 or on the consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 1993.

NOVATEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 20 Differences Between Canadian and United States Generally Accepted Accounting Principles — Continued

(b) Under U.S. principles, development costs would be expensed as incurred. As the Company has not deferred any development expenses through September 28, 1996 this difference between U.S. and Canadian accounting principles has no impact on the consolidated financial statements as of and for the periods ended December 31, 1994, 1995 or September 28, 1996 or on the consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 1993.

(c) The Company provides certain post employment benefits other than pensions to its employees. Such future costs have not been accrued as deferred compensation earned during the period that employees render service as is required by U.S. principles; however these amounts are not material to the financial position or ongoing operations of the Company. No funding of these future obligations is provided as future liabilities are not material to the ongoing operations of the Company.

(d) The Company holds certain debt and equity securities which would be classified as "available for sale securities" under U.S. principles and which would be revalued to their current market values with the unrealized gains and losses being reported in a separate component of shareholders' equity. The Company believes that there are no gains or losses on these instruments as at September 28, 1996.

(e) Under Canadian principles, general and administration expenses may be classified within discontinued operations if such costs appropriately relate to such discontinued operations whereas such costs may be classified as discontinued operations under U.S. principles only if they have been eliminated or will no longer be incurred after discontinuance. As such, the 1993 income from continuing operations reflected on the accompanying statement of operations under Canadian principles would have been adjusted to a loss from continuing operations of \$(111) or \$(0.03) per share under U.S. principles and the 1994 loss from continuing operations reflected on the accompanying statement of operations would increase to \$(518) or \$(0.11) per share under U.S. principles. Additionally, the loss from discontinued operations under Canadian principles would have decreased to \$(15,776) or \$(4.05) per share and the 1994 loss from continuing operations would have decreased to \$(4,689) or \$(0.96) per share. The adjustments relate to general and administration expenses which are reflected as discontinued operations under Canadian principles and continuing operations under U.S. principles of \$327 and \$372 in 1993 and 1994, respectively, resulting in general and administration expenses under U.S. principles of \$791 and \$1,814 in 1993 and 1994, respectively.

Assessment of Impairment of Long-Lived Assets

Statement of Financial Accounting Standards Number 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" requires a review of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable based on expected future cash flows. When an impairment has occurred, a loss is recognized using a fair value based model. Had the Company applied this principle as at September 28, 1996 no recognition of an impairment loss on long-lived assets would be required.

No dealer, representative or any other person has been authorized to give information or to make any representations in connection with this offering other than those contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company, the Selling Shareholder or any of the Underwriters. This Prospectus does not constitute an offer to sell or a solicitation of any offer to buy any securities other than the Common Shares to which it relates or an offer to, or a solicitation of, any person in any jurisdiction where such an offer or solicitation would be unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Company or that information contained herein is correct as of any time subsequent to the date hereof.

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Until February 28, 1997 (25 days after the date of this Prospectus), all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligation of dealers to deliver a Prospectus when acting as Underwriters and with respect to their unsold allotments or subscriptions.



2,570,000 Common Shares

PROSPECTUS

MONTGOMERY SECURITIES
PRUDENTIAL SECURITIES INCORPORATED

February 3, 1997