

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 20-F

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 1999

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 0-29004

NOVATEL INC.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Canada

(Jurisdiction of incorporation or organization)

1120 – 68th Avenue N.E., Calgary, Alberta, Canada T2E 8S5

(Address of principal executive offices)

**SECURITIES REGISTERED OR TO BE REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
NONE**

**SECURITIES REGISTERED OR TO BE REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Common Shares
(Title of Class)**

**SECURITIES FOR WHICH THERE IS A REPORTING OBLIGATION PURSUANT TO SECTION 15(d)
OF THE ACT: NONE**

At December 31, 1999, Registrant had outstanding 7,674,040 Common Shares, no par value.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirement for the past 90 days.

Yes No

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 Item 18

This Report Consists of 118 Sequentially Numbered Pages
Exhibit Index Appears on Page 76

The dollar amounts presented in this Annual Report on Form 20-F are in Canadian currency unless otherwise noted (CDN\$1 = US\$0.6826 on February 23, 2000), and are presented in accordance with accounting principles generally accepted in Canada. Historic rates of exchange appear in Part I, "Item 8 — Selected Financial Data." The material differences between Canadian and U.S. generally accepted accounting principles ("GAAP") which would bear upon the Company's financial statements and, more particularly, income (loss) applicable to equity share and retained earnings, are disclosed in Note 20 of Notes to Consolidated Financial Statements.

Certain statements in this Annual Report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or developments in the Company's industry, to differ materially from the anticipated results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, operating results of affiliates and subsidiaries, establishing and maintaining effective distribution channels, certification and market acceptance of the Company's new products, impact and timing of large orders, pricing pressures in the market and other competitive factors and maintaining technological leadership, together with the other risks and uncertainties described under "Item 1 — Description of Business — Risk Factors" in Part I of this Annual Report.

PART I

Item 1 — Description of Business

General

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"), aviation, marine, mining and machine control and agriculture markets, rather than for applications in low-end markets such as the vehicle navigation and consumer/cellular markets.

The Company was incorporated in October 1978 under the Canada Business Corporations Act. The Company's principal executive offices are located at 1120 – 68th Avenue N.E., Calgary, Alberta, Canada T2E 8S5, and its telephone number is (403) 295-4500. Unless the context otherwise requires, references herein to "NovAtel" or the "Company" refer to NovAtel Inc., its subsidiaries and Point, Inc.

Restructuring and Divestitures; New Ventures

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, a Canadian corporation controlled by Horst J. and Barbara Pudwill (the "Pudwills"). 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. 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.

On April 17, 1998, BAE Systems Canada Inc. (formerly Canadian Marconi Company and referred to herein as "Canadian Marconi") purchased approximately 58% of the Company's total shares outstanding from the Company's two principal shareholders. As of February 29, 2000, Canadian Marconi is owned 48.9% by Canmar Investments Inc. ("Canmar") and 4.8% by Meslink Ltd. ("Meslink") which owns 100% of Canmar. British Aerospace, p.l.c. ("British Aerospace") owns 100% of Meslink. On November 29, 1999, British Aerospace acquired the assets of Marconi Electronic Systems, a division of the General Electric Company, p.l.c. which included Canadian Marconi. The entire British Aerospace group of companies, including Canadian Marconi, now carry on business as BAE SYSTEMS.

All representations and warranties related to the Company's divestitures have expired without a claim having been made. The purchase price adjustment outstanding with respect to the divestiture of the Wireless Access Products (WAP) group to Harris Canada Inc. was resolved in December 1999, particulars of which may be found in Note 19 in the Consolidated Financial Statements included elsewhere in this Annual Report.

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 net income (loss) from discontinued operations in the Consolidated Financial Statements included elsewhere in this Annual Report. Financial results for the periods presented herein have been reclassified to conform to this presentation.

In May 1999, the Company announced that it had entered into a joint venture known as GOPS Servicios De Consultoria S.A. ("GOPS") to provide GPS services and products in Central America. Central America was identified as a key region that provided many opportunities for the introduction of GPS technology. There are numerous requirements for extensive maintenance, major refurbishing and expansion of the existing infrastructure and new infrastructure projects throughout the region.

On July 20, 1999, the Company entered into an agreement with Sokkia Co., Ltd. ("Sokkia") to form a jointly owned company known as Point, Inc. ("Point"). The ownership of Point is 51% Sokkia and 49% the Company. The Company's Custom Products Group, which was responsible for the development of survey products, was transferred to Point effective August 1, 1999. In addition, Sokkia transferred in the Sokkia Technology, Inc. organization which had been conducting advanced measurement solutions research and development for Sokkia. Point will provide Sokkia's global marketing organization with advanced measurement solutions for the fields of surveying, mapping, geographical information systems (GIS), construction and construction machine control. Sokkia's distribution system includes more than 25 subsidiaries and additional representatives around the world, each having its own dealer network.

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 Community or private corporations.

According to data from The International Trade Administration, Office of Telecommunications, U.S. Department of Commerce ("DoC"), the worldwide civilian market for GPS receiver systems were projected to be US\$6.1 billion in sales revenue in 1999 and is expected to grow to over US\$16 billion in sales revenue by the year 2003. However, a 1998 report, "GPS '99 A Commercial Market Analysis" from Forward Concepts Electronics Market Research ("Forward Concepts"), authored by George Fry of Aviso Micro Technology, estimates US\$14.5 billion in sales revenue by the year 2003. The major markets for GPS receiver systems include surveying, GIS, aviation, marine, mining and machine control, agriculture, timing, 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. 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 the DoC report, sales revenues from the high end markets were projected to be more than US\$2 billion in 1999 and forecasted sales revenues from these markets is expected to exceed US\$7 billion by the year 2003. Forward Concepts projected sales revenues of US\$1.0 billion from these markets in 1999 and forecasts sales revenues to exceed US\$2.0 billion by the year 2003.

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. U.S. Vice-President Al Gore has announced that two new civilian signals will be added to GPS, the first of these to be available on new satellites to be launched in 2003. In January 1999, Mr. Gore announced a commitment of US\$400 million to support the implementation of these new signals. Budgetary decisions by the United States Congress may result in a funding shortage for these programs, which may in turn result in program delays.

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 three to five 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, aviation, marine, mining and machine control and agriculture 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 that can provide sub-centimeter level accuracy and that are small in size, provide significant computational power, maintain a high degree of reliability in dynamic environments and are easy to use and integrate into various applications. 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 chips, together with the DSP section, provide signal processing together with range and position computation in real time with a high degree of speed and reliability. The Company's innovative receiver designs also allow the Company to use a limited number of hardware platforms to offer a variety of GPS products, which serve

multiple markets, through software enhancements. These designs facilitate 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 by 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 29% 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 tracking technology, 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 and strategic partners. 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.

Continue to Expand Presence in Geomatics Sector. The Geomatics sector is made up of surveying and GIS markets. On July 20, 1999, the Company entered into an agreement with Sokkia to form a jointly owned company known as Point. The ownership of Point is 51% Sokkia and 49% the Company. The Company's Custom Products Group, which was responsible for the development of survey products, was transferred to Point effective August 1, 1999. In addition, Sokkia transferred in the Sokkia Technology, Inc. organization which had been conducting advanced measurement solutions research and development for Sokkia. Point will provide Sokkia's global marketing organization with advanced measurement solutions for the fields of surveying, mapping, geographical information systems (GIS), construction and construction machine control. Sokkia's distribution system includes more than 25 subsidiaries and additional representatives around the world, each having its own dealer network. The rollout of sales to Point from the Company and from Point to Sokkia commenced in the fourth quarter 1999. The Geomatics sector also includes opportunities such as those created by a joint venture in Costa Rica to provide GPS services and products in Central America.

Opportunities for Aerospace and Defense. The Aerospace and Defense sector is made up of aviation, space and defense markets. The Company has built a strong presence in ground based navigation aids. Over the past several years, the Company has gained valuable experience supplying the GPS receivers used in the United States Federal Aviation Administration ("FAA") Wide Area Augmentation System ("WAAS") and Japan's Multi-Functional Transport Satellite based Augmentation System ("MSAS"). To date the Company has delivered more than 200 receivers to be installed at WAAS and MSAS sites around the United States and Japan. A similar GPS or GPS/GLONASS based air traffic system is planned for Europe known as European Geostationary Overlay System ("EGNOS"). Other countries planning WAAS or a similar system include Canada, Mexico, Australia and Chile. Johns Hopkins University Applied Physics Laboratory conducted a study which concluded that augmented GPS can satisfy performance requirements to be the only navigation system installed in an aircraft and the only service by the FAA for operations anywhere in the National Airspace System. The FAA has signed partnership agreements with each of Raytheon Company ("Raytheon") and Honeywell Inc. ("Honeywell") to develop a Local Area Augmentation System ("LAAS"). The LAAS program is intended to complement the WAAS program. Together these will function to supply users of the U.S. National Airspace System (NAS) with seamless satellite based navigation for all phases of flight. The certified GPS receiver that the Company is developing with Canadian Marconi is targeted to be used by Honeywell for the airborne market and the LAAS program. The Company believes that it is well positioned to participate with Raytheon in the LAAS program given its past experience with Raytheon and the WAAS program. While the Company has participated in previous phases of WAAS and MSAS and has relationships with Raytheon and Honeywell, the Company currently has no commitments for future participation in the WAAS, MSAS or LAAS programs and there can be no assurance that the Company will receive commitments for future participation in the WAAS, MSAS or LAAS programs.

Build Special Apps Business. The Special Apps sector is made up of marine, agriculture, robotics, construction/grading, scientific, dealers (other than those that can be identified with a particular market segment) and miscellaneous markets. The innovative design of the Company's products is ideally suited for the Special Apps sector 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 receiver provides cost efficiencies. In addition, a Special Apps 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 customers full access to its latest GPS technology and provides a highly qualified technical customer support staff to advise on the system integration efforts of these customers. The Company believes that its combination of technology and responsiveness to the customer gives it a competitive edge.

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. Further, the Company has offices in Great Britain and the United States to better support customer needs.

Expand International Presence. In 1999, the Company derived approximately 46% of its total revenues from the sale of its products to countries outside the United States and Canada. This is a decrease from 52% in 1998 due to fewer sales of receivers to Nikon Corporation ("Nikon Japan"), and WAAS receivers for the MSAS program in Japan. However, total dollar revenues from international sales decreased only 1.7% from \$11.3 million in 1998 to \$11.1 million in 1999. The Company plans to expand its international sales and marketing effort and believes that opportunity for expansion exists in many of these regions, particularly Europe and Asia. This expansion is expected through continued expansion of its dealer network, sales of the survey products developed by Point through the Sokkia distribution network and new strategic relationships. The Company currently has dealers serving more than 20 countries worldwide. In addition, Sokkia's distribution system includes more than 25 subsidiaries and additional representatives around the world, each having its own dealer network. The Company has an office in Great Britain to provide more responsive sales and technical support to the Company's customers and distributors in Europe.

Markets

NovAtel currently targets surveying and GIS applications primarily through Point and aerospace, agriculture, marine and mining and machine control GPS applications markets through its own sales force and dealer network.

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 personal computer-based pre- and post-processing software. The equipment must also be useable in a variety of different applications and physical environments. The Company is addressing this market not only through the sale of products but also by providing surveying services through its subsidiary in Costa Rica.

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.

Aerospace

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 additional ground based navigational aids, thus reducing costs. In addition, under the current system 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, Japan and Mexico are based on GPS technology for primary navigation. A similar GPS or GPS/GLONASS based air traffic system known as EGNOS is planned for Europe. 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. Johns Hopkins University Applied Physics Laboratory conducted a study which concluded that augmented GPS can satisfy performance requirements to be the only navigation system installed in an aircraft and the only service by the FAA for operations anywhere in the National Airspace System.

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 highly 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.

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, hydrographic surveys, 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. The Company recently introduced its newest generation receiver, the OEM4. These receiver boards are sold to OEM customers for integration into their own products. The innovative receiver designs enable the Company to differentiate product features using software, which is embedded in the receiver, thereby reducing the need for a variety of hardware platforms. These designs facilitate shorter product development and production times, reduced manufacturing complexities and lower product costs.

OEM Products

The Company's OEM products include:

OEM4. The OEM4 receiver was introduced in 1999 as the smallest 24 channel dual frequency GPS receiver on the market. Key features of this receiver include less than 3 watts power consumption, on-board power conversion eliminating the need for external power conditioning thus saving space, cost and engineering time, voltage and temperature monitoring and the ability to drive LED and status lines.

DL Series of Receivers. The DL Series of receivers were introduced in 1999. Incorporating NovAtel's MiLlennium receivers, the DL Series provides a removable PCMCIA memory card eliminating the need for separate data collectors. Dual battery management and a built in scheduling function allows the users to pre-program multiple logging sessions for stand-alone (autonomous) operation. Front panel operation, access to the memory card and LED status indicators provides greater flexibility and ease of use.

MiLlennium – WAAS. The MiLlennium – WAAS receiver was introduced in 1998 and directly uses the WAAS signal to significantly enhance position accuracy. It is envisioned that the WAAS signal will improve basic GPS signal accuracy from 100 meters to approximately 7 meters. Although WAAS is intended primarily for aviation users, the MiLlennium – WAAS receiver will permit anyone within the area of coverage to take advantage of its benefits.

MiLlennium – GLONASS. The MiLlennium – GLONASS receiver was introduced in 1998 and offers one card access to both GPS and GLONASS satellite constellations on the L1 frequency. This hybrid receiver offers both GPS only and combined GPS/GLONASS position solutions. GLONASS is a constellation of satellites developed by the Russian government. It is able to provide positioning messages with accuracies exceeding those of

GPS, mainly due to the absence of Selective Availability. The additional satellites permit applications where GPS positioning is not currently feasible due to poor satellite coverage or where system reliability could be enhanced by having access to two independent satellite positioning services.

BeeLine. The BeeLine receiver was introduced in 1997. BeeLine is a real-time azimuth determination and kinematic positioning system. This 16 channel L1/L1 configuration contains a 2-D attitude solution with RT-20 position. BeeLine features 7 milliradian real time kinematic azimuth accuracy, 20 centimeter positional accuracy and high data output rates. Fast and robust 'on the fly' initialization algorithms provide superior performance and ease of use.

MiLLennium. The MiLLennium receiver was introduced in 1996 as the Company's first dual frequency receiver. MiLLennium features patented Narrow Correlator tracking technology 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 tracking technology.

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 tracking 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.

Other Products

The following is a list of the Company's other principal products and the products developed by Point:

Antennas

GPS-600. The GPS-600 antenna was introduced in January 2000. This is a new antenna using the Company's patent pending Pinwheel aperture coupled slot array technology. Without the aid of a choke ring, the antenna achieves the same accuracy and reduction of multipath provided with a choke ring. However, as no choke ring is required, the GPS-600 is much smaller and lighter.

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. In 1998, this product was incorporated into the Japanese MSAS program. This product is also being incorporated into the European EGNOS program. The Company believes that its product is the leader for WAAS reference stations in providing the highest level of performance and integrity.

Point Products

Axis. The Axis system uses GPS technology for GIS data collection. Axis features a fully integrated DGPS receiver and a pen-based software field solution with real time mapping capabilities. The Axis system features a 12 channel L1 GPS receiver with an internal dual channel beacon receiver.

Radian. The Radian system uses the Company's dual frequency DL Series receiver to provide centimeter-level accuracy in real time surveys and millimeter level in post processed surveys. The Radian system may be used as a rover or a base station. The data structure is conveniently formatted for real time (RTK) and post processing applications.

Locus. An easy to learn, simple to use, cable free GPS survey system for high accuracy, high productivity applications. Locus provides the ability to perform a multitude of surveys from centimeter-level static surveys, such as control and boundary, to kinematic jobs, such as topographic or as-built surveys.

Technology

NovAtel established itself as a technological leader in the GPS industry through the introduction of its patented Narrow Correlator tracking technology in 1992. Narrow Correlator tracking technology 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 tracking 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, proprietary VLSI chips, together with the DSP section, provide signal processing together with range and position computation 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 tracking 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.

These developments were followed in 1996 by the MiLLennium dual frequency receiver and RT-2. MiLLennium is based upon a custom design ASIC chip combined with Narrow Correlator tracking technology 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.

Continuing to advance its technological leadership, in 1997, the Company introduced the BeeLine receiver. BeeLine is a real-time azimuth determination and kinematic positioning system. This 16 channel L1/L1 configuration combines a 2-D attitude solution with RT-20 position. BeeLine features 7 milliradian real-time kinematic azimuth accuracy, 20 centimeter positional accuracy and high data output rates. Fast and robust 'on the fly' initialization algorithms provide superior performance and ease of use.

In 1998, the Company introduced three new receivers designed to provide users with technology that is applicable in real life situations and that meet customers needs. The MiLLennium – WAAS receiver uses the WAAS signal to significantly enhance position accuracy. The MiLLennium – GLONASS receiver offers one card access to both GPS and GLONASS satellite constellations, providing enhanced system reliability and broader satellite coverage. Finally, the DL Series of receivers provide a removable PCMCIA memory card, eliminating the need for separate data collectors, dual battery management and a built in scheduling function allowing the user to pre-program multiple logging sessions for stand alone (autonomous) operation.

In 1999, the Company introduced the smallest 24 channel, dual frequency GPS receiver on the market, the OEM4. The Company recently announced a new antenna, the GPS-600, utilizing the Company's patent pending Pinwheel aperture coupled slot array technology. Without the aid of a choke ring, the antenna achieves the same accuracy and reduction of multipath provided with a choke ring. However, as no choke ring is required, the GPS-600 is much smaller and lighter.

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 expensed \$6.1 million, \$8.2 million and \$6.9 million, representing approximately 22%, 38% and 28% of total revenues in 1997, 1998 and 1999, respectively, on research and development. Starting in 1999, Point's research and development expenses have been proportionately consolidated with the Company's research and development expenses.

Research costs are charged to operations as incurred. Development costs, including software development costs, are charged to operations as incurred unless they meet specific criteria related to technical, market and financial feasibility. In these circumstances, the costs are deferred and amortized on a systematic basis, subject to recoverability. The Company deferred \$1.3 million of development costs in 1999 and \$0.5 million in 1998 related to the development of a certified aviation GPS receiver. No development costs were deferred in 1997. The Company has not commenced the amortization of these deferred costs.

Often a new product is initially developed for a 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 by the Company and through its affiliate company, Point. 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.

Development and production schedules for technology products are difficult to predict, and accordingly, there can be no assurance that the Company or Point 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 or Point'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 or Point's products until the Company's, Point's or their competitors' new products become available. Certain of the Company's and Point'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.

The Company has established a Technology Advisory Committee (TAC) consisting of GPS industry experts, Dr. M. Elizabeth Cannon; Dr. Frank van Graas; Prof. Dr. Gunther W. Hein and Mr. Phillip Ward. The committee is chaired by Mr. Patrick Fenton, the Company's Vice President, Technology. The Company believes that TAC has been and will continue to be an important contributor in maintaining the Company's research and development on the leading edge.

Customers

During the past two years the Company has sold its products to over 300 customers worldwide. Sales to DX Trading Co. Ltd., Nikon (being collectively Nikon Incorporated and Nikon Corporation) and Carl Zeiss Jena GmbH accounted for 7.7% , 5.8% and 5.6%, respectively, of the Company's total revenues in 1999. In comparison, sales to DX Trading Co. Ltd., Nikon and Cubic Defense Systems Inc. accounted for 24.2%, 8.6% and 4.4%, respectively, of the Company's total revenues in 1998. Sales to Point, net of intercompany eliminations, accounted for 4.2% of total revenues in 1999 compared to no revenues in 1998. The Company's proportionate share of revenues from Point accounted for 12.0% of total revenues in 1999 compared to no revenues in 1998. See "Item 9 — Management's Discussion and Analysis of Financial Condition and Results of Operations."

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. The Company recognizes the importance of sales, marketing and product distribution as critical to its future success. The number of independent dealers and resellers of the Company's products was approximately 20 in 1999. In addition, Sokkia's distribution system includes more than 25 subsidiaries and additional representatives around the world, each having its own dealer network. The Company has offices in the United States and Great Britain to provide more responsive sales and technical support to the Company's customers and distributors in these regions.

From 1997 through 1999, distribution of the Company's end user products was through Nikon Japan and Nikon US in Japan, North, Central and South America. The Nikon US distribution agreement expired September 30, 1999, the parties mutually agreeing not to renew it. The Nikon Japan agreement expired December 31, 1999, the Company elected not to renew it. In July 1999, the Company commenced a transition to a new GPS surveying partner, Sokkia. Sokkia is a world leader in surveying. The partnership reflects a move from a supplier relationship to a fully integrated development team. Sokkia and the Company formed a jointly owned company known as Point. The ownership of Point is 51% Sokkia and 49% the Company. The Company's Custom Products Group, which was responsible for the development of survey products, was transferred to Point effective August 1, 1999. In addition, Sokkia transferred in the Sokkia Technology, Inc. organization which had been conducting advanced measurement solutions research and development for Sokkia. Point will provide Sokkia's global marketing organization with advanced measurement solutions for the fields of surveying, mapping, geographical information systems (GIS), construction and construction machine control. Sokkia's distribution system includes more than 25 subsidiaries and additional representatives around the world, each having its own dealer network. Newly developed GPS survey products were announced in October 1999 and are now being delivered through the Sokkia channels. The Company seeks to enter into additional strategic relationships to penetrate various markets, for technical cooperation or for integrated product development.

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.

Customer support is essential not only for optimal service to customers in support of their system integration effort, but also to provide 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 72%, 48% and 54% of its total revenues in 1997, 1998 and 1999, respectively, from sales to customers in Canada and the United States. The Company plans to continue to increase its international sales and marketing efforts. The percentage of total revenues from international sales decreased from 52% in 1998 to 46% in 1999. Total dollar revenues from international sales declined slightly from \$11.3 million in 1998 to \$11.1 million in 1999. 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, Magellan Corporation and Leica AG, and to a lesser extent, Javad Positioning Systems, Garmin Corporation, Dassault Sercel Navigation Positioning and Allan Osborne Associates, as well as Topcon America Corporation in the survey markets. 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 such as Canadian Marconi and Sokkia. 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 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, for some products, mounts the boards in different enclosures. 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, one being Raven Industries Inc. of Sioux Falls, South Dakota. The Company has recently sourced a second subcontractor, SMTC Manufacturing Corporation of Canada of Markham, Ontario, Canada, to manufacture its products. 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 supplied by Arrow Electronics Canada Ltd., crystals from Quest Marketing Inc., duplexers from Comnav Engineering Inc., and filters supplied by Lark Inc. The Company experienced significant production delays 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 can be obtained. The Company has received notices about last buy opportunities for certain components. The Company has taken steps to ensure adequate supply of these components and commenced product redesigns, as may be required. In particular, the Company is completing a last buy of the processor used in most of its products. The Company is obligated to complete deliveries of the processor by December 2000, which is believed to be a sufficient supply for the next two to three years. Also, a significant increase in the price of one or more 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, there can be no assurance that the manufacturing subcontractors will be able to manufacture the Company's products in a timely and reliable manner. The failure by a 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. In 1998, a workmanship defect arose with respect to WAAS receivers manufactured and delivered by Harris Canada, Inc. ("Harris"), the Company's former subcontract manufacturer. The Company has implemented a corrective action

plan and has filed a lawsuit against Harris for damages in the amount of at least \$400,000 and such other damages as may be proven at trial. Harris has filed a Statement of Defence denying liability.

In January 1999, the Company concluded a sale/leaseback arrangement by which the Company's Calgary facility, including certain adjacent land, was sold for net proceeds of \$6.9 million. At the same time, the Company entered into a lease agreement with a minimum 10 year term. In September 1999, the Company sold its remaining land for net proceeds of \$0.7 million.

Patents, Trademarks and Licenses

The Company currently holds eleven U.S. patents and seventeen related foreign patents which expire at various dates no earlier than November 28, 2010. The Company has also received a notice of allowance for a eighteen related foreign patent and the Company has numerous pending U.S. and foreign patent applications. The Company currently has numerous trademarks worldwide, including the NovAtel trademark, which is registered or pending in 35 countries.

The Company has copyrights and intellectual property rights to its proprietary software and custom integrated circuit designs. In 1997, the Company purchased a license with respect to its SoftSurv software, which is a full-featured GPS dual frequency data post-processing package for surveying applications. The purchase allows for more control over the pricing, costs, support and development of SoftSurv. In 1999, the Company licensed SoftSurv and certain intellectual property related to its end user products to Point.

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 significant. The Company has received written notices from BTG USA Inc., the United States Department of the Navy, Western Atlas International, Inc. and GeoResearch Inc. alleging patent infringement of their respective patents. No formal claim has been brought by any of the parties. The Company believes that it has valid defences to these claims should formal proceedings be commenced. In protecting its intellectual property rights the Company has sent 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 tracking technology 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 tracking 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. The settlement agreement with Trimble includes a provision that Trimble may, at its sole option, terminate the licenses and rights granted upon a direct change of control. Trimble has not terminated such licenses and rights since Canadian Marconi acquired control in April 1998, and the Company does not believe that Trimble will terminate such licenses and rights as a result of the change of control.

Employees

As of December 31, 1999 the Company, not including subsidiaries or Point, employed 96 permanent persons (127 in 1998), including 42 in research and product development (66 in 1998), 10 in sales and marketing (10 in 1998), 18 in operations (18 in 1998) and 26 in administration and finance (25 in 1998). The number of temporary and contract personnel was 5 as of December 31, 1999 (1 in 1998). As a result of the Agreement with Sokkia to create Point, 21 full time employees and 1 temporary employee from the Company's Custom Products Group were transferred to Point effective August 1, 1999. As well, given the internal restructuring that followed, 6 employees were laid off in July. The Company encountered its highest rate of staff turnover in 1999 reaching 18% (not including the July layoffs or the reassignment of people to Point). 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.

Risk Factors

In addition to the other information set forth in this Annual Report, the following risk factors should be considered carefully in evaluating the Company. This Annual Report contains certain forward-looking statements and intentions. The cautionary statements made in this Annual Report should be read as being applicable to all related forward-looking statements wherever they appear in this Annual Report. 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 Annual Report.

Periodic Fluctuations in Results of Operations

The Company's results of operations have fluctuated and can be expected to continue to fluctuate on a periodic basis as a result of a number of factors which affect revenue, gross margin and operating expenses. Annual and quarterly revenues have fluctuated because of a number of factors, including revenue generated from major contracts, operating results of affiliates and subsidiaries, certification and market acceptance of the Company's new products, impact and timing of large orders, pricing pressures in the market, establishing and maintaining effective distribution channels, fluctuations in non-recurring engineering ("NRE") fees, seasonality of 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 1999, sales of the Company's WAAS receivers to the WAAS and MSAS programs accounted for approximately 10% of the Company's total revenues compared to approximately 27% in 1998. The Company currently has no commitments for future sales of its WAAS receivers in any further implementations of the WAAS or MSAS programs. 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 sells GPS receivers to Point, which incorporates these receivers into surveying systems that are in turn sold through the Sokkia distribution channels. The proportionate share of the accounts of Point are included in the Company's accounts. Point is subject to all of the same types of risks that the Company is subject to. There can be no assurance that Point's operations may not have a material adverse effect on the Company's business, financial condition and results of operations. The Company currently has a preliminary contract for work related to EGNOS. This contributed largely to NRE fees increasing from \$99,000 in 1998 to \$863,000 in 1999. The Company is currently negotiating a full contract for further EGNOS work. There can be no assurance that the Company will receive any further contract related to EGNOS. Revenues can be expected to vary significantly as a result of a lack of a significant order backlog, fluctuations in demand for existing products, operating results of affiliates and subsidiaries, 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 as a percentage of revenue varies primarily as a result of product sales mix, consolidated results of affiliates and subsidiaries, changes in materials and contract manufacturing costs, liquidation of discontinued inventory, and

absorption of fixed manufacturing costs. As revenues derived from sales of WAAS receivers decrease as a percentage of total revenues, gross margin percentage may be adversely affected as these sales generally have higher gross margin percentages. The Company's OEM products typically have higher gross margins than the sale of survey products by Point. The Company believes the sale of survey products by Point is an important growth strategy; however, selling survey products through Point could adversely affect the Company's gross margins. A shortfall from anticipated revenue could adversely affect results of operations and income per share. In addition, if the Company were to receive a major contract, it would likely increase its expenditures to support such a 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 "Item 9 — Management's Discussion and Analysis of Financial Condition and Results of Operations."

Concentration of Stock Ownership

As of March 23, 2000, Canadian Marconi owns approximately 58% of the outstanding Common Shares of the Company. As a result, Canadian Marconi is able to exercise significant influence over management of the business, including such matters as budgets, profitability, acquisitions and development of new markets. In addition, controlling interest by Canadian Marconi has a significant effect on public securities market issues such as analyst coverage and stock price. In turn, as of February 29, 2000, Canadian Marconi is owned 48.9% by Canmar and 4.8% by Meslink which owns 100% of Canmar. British Aerospace owns 100% of Meslink. As a result, British Aerospace is able to exercise significant influence over Canadian Marconi, and therefore, the Company. Further, Canadian Marconi, acting alone, is able to exercise 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 "Item 4 — Control of Registrant."

Expansion and Development of New Distribution Channels

The Company sells its OEM products to OEM customers and through strategic relationships. The Company expects to continue to utilize these relationships to sell to 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 relationships and develop new OEM and other third party relationships. The Company cannot predict nor control the extent to which its distribution network will be successful in marketing products incorporating the Company's products. A material loss of any of the Company's OEM customers or strategic partners, either as a result of competitive products offered by other companies or products developed internally by these OEM customers 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 OEM customers, dealers and strategic partners and any inability to do so could materially adversely affect the Company's business, financial condition and results of operations.

In the surveying market the Company's products currently are sold to Point which integrates them into survey products sold by Sokkia through its worldwide distribution system. Accordingly, there can be no assurance that Sokkia will be successful in distributing GPS survey products. The Company has expanded, and plans to continue expanding, its distribution channels. 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 manage effectively its distribution expansion could have a material adverse effect on the Company's business, financial condition and results of operations. See "— Sales, Marketing and Distribution."

Dependence on New Products

The Company's success will depend to a substantial degree upon Point and its own ability to develop and introduce in a timely manner new products and product enhancements 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 and Point each expect 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 or Point 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 or Point 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 or Point'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 or Point's products until the Company's or Point's or their competitor's new products become available. In addition, certain of the Company's and Point'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 "— Research and Development."

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, Magellan Corporation and Leica AG, and to a lesser extent, Javad Positioning Systems, Garmin Corporation, Dassault Sercel Navigation Positioning and Allan Osborne Associates as well as Topcon America Corporation in the survey market. 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 such as Canadian Marconi and Sokkia. 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 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 "— Competition."

Uncertain Market Development

The Company currently addresses the following markets for the application of GPS technology: surveying and GIS primarily through Point, aerospace, agriculture, 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 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.

Management of the Business

The Company's ability to manage its business 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 continue to improve its operational, financial and management systems. There can be no assurance that the Company will be able to manage business shortfalls or 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 research and development projects, the control of overhead expenses and inventories and the management and training of its employee base. The Company's inability to manage these and other factors could have a material adverse effect on the Company's business, financial condition and results of operations. See "— Employees" and "— Operations."

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 supplied by Arrow Electronics Canada Ltd., crystals from Quest Marketing Inc., duplexers from Comnav Engineering Inc. and filters supplied by Lark Inc. The Company experienced significant production delays 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 can be obtained. The Company has received notices about last buy opportunities for certain components. The Company has taken steps to ensure adequate supply of these components and commenced product redesigns, as may be required. In particular, the Company is completing a last buy of the processor used in most of its products. The Company is obligated to complete deliveries of the processor by December 2000, which is believed to be a sufficient supply for the next two to three years. Also, a significant increase in the price of one or more 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 currently relies on one subcontractor to manufacture its products. The Company is planning to source a second subcontractor 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 a 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. In 1998, a workmanship defect arose with respect to WAAS receivers manufactured and delivered by Harris Canada, Inc. ("Harris"), the Company's former subcontract manufacturer. The Company has implemented a corrective action plan and has filed a lawsuit against Harris for damages in the amount of at least \$400,000 and such other damages as may be proven at trial. Harris has filed a Statement of Defence denying liability.

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 its executive officers, Douglas R. Reid, President and Chief Executive Officer, Werner Gartner, Executive Vice President and Chief Financial Officer and Randy R. Mabbott, Senior Vice President Corporate Affairs, General Counsel and Corporate Secretary. The Company does not maintain key man life insurance for any of its executive officers.

Reliance on Satellite Networks

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. As of early 2000, there are 28 usable satellites, 4 more than the design requirement. The satellites have a limited design life of between 7 and 11 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. Spare satellites have been launched to address these concerns. President Clinton confirmed in 1996 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. In addition, Vice-President Gore has announced two new civilian signals will be added to GPS, and in January 1999 announced US\$400 million to support the implementation of these new signals. There can be no assurance that the Company will be able to design products to use the new signals. Further, 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, or 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, 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. 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. The Company could be impacted by decisions taken at international bodies, such as the International Telecommunication Union ("ITU"). In 1997, the ITU considered a proposal for satellite communications providers to share a portion of the GPS frequencies at the lower end of the satellite navigation band. Concern was raised about possible interference with GPS receivers. Discussions about this issue are ongoing within the ITU.

The Company has a product that also relies on signals from the Global Navigation Satellite System (GLONASS) deployed by the Russian Federation. GLONASS resembles GPS in that it provides services both to the military establishment that developed it and to civilian users worldwide. Unlike GPS, GLONASS does not degrade the civilian signal and therefore offers an accuracy of 25 to 30 meters. GLONASS is not fully operational with only 10 functional satellites as of January 28, 2000. The number of satellites in service continues to decline and there are no known launches of new satellites for GLONASS. Political, economic and military uncertainties in Russia have raised doubts about the reliability of GLONASS. A further reduction in the number of operating satellites would impair the current usefulness of GLONASS or the growth of current and additional market opportunities, which, in either case, could adversely affect the Company's results of operations.

The European Union has announced plans to develop its own global navigation satellite system (GNSS or Galileo). The European Union expects operation of Galileo to commence in 2008. There can be no assurance that the Company will be able to design products to use Galileo.

Risks Associated with Legal Proceedings

The Company is currently subject to several legal and administrative proceedings. 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 "Item 3 — Legal Proceedings."

Risks Associated with Divestitures

In November 1995, the WAP division and the manufacturing operation in Calgary were sold to Harris. The purchase price was 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. KPMG completed the post closing audit of the balance sheet on December 23, 1999, resulting in a purchase price adjustment of \$2.3 million. The Company had provided for a potential adjustment of \$3.3 million. The balance of the provision, \$949,000 net of interest and miscellaneous costs, has been recognized as income from discontinued operations in the results of operations for 1999. All representations and warranties related to the various divestitures have expired without a claim having been made. The Company is not aware of and does not anticipate any other claims arising from the various divestitures. There can be no assurance that any claims will not arise from the various divestitures that could have a material adverse affect on the Company's results of operations.

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.

Historical Losses

The Company had losses in each of 1993, 1994 and 1995 primarily generated from its non-GPS businesses. In 1996, the Company achieved profitability for the first time on a consolidated basis. The GPS business unit achieved profits in 1993, 1995, 1996 and 1997, computed in accordance with Canadian GAAP. However, the Company had losses from continuing operations in 1998 and 1999. There can be no assurance that the Company will be profitable in the future.

Patents and Proprietary Rights; Patent Litigation

The Company currently holds eleven U.S. patents and seventeen related foreign patents which expire at various dates no earlier than November 28, 2010. The Company has also received a notice of allowance for a eighteen related foreign patent and the Company 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 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., U.S. Department of the Navy, Western Atlas International, Inc. and GeoResearch Inc. alleging patent infringement of their respective patents. No formal claim has been brought by any of the parties. The Company believes that it has valid defenses to these claims should formal proceedings be commenced. In protecting its intellectual property rights the Company has sent 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 tracking technology 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 tracking 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. The settlement agreement with Trimble includes a provision that Trimble may, at its sole option, terminate the licenses and rights granted upon a

direct change of control. Trimble has not terminated such licenses and rights since Canadian Marconi acquired control in April 1998, and the Company does not believe that Trimble will terminate such licenses and rights as a result of the change of control. See "— Patents, Trademarks and Licenses" and "Item 3 — Legal Proceedings."

Foreign Currency Exchange

Most 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 other foreign currencies and the Canadian dollar could have a material adverse effect on the Company's results from 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 uses foreign currency options and forward foreign currency contracts to reduce its exposure to fluctuations in the U.S. dollar. There can be no assurance that the Company will be successful in such hedging activities.

Risks Associated with International Sales

The Company plans to continue to expand its international sales and marketing efforts. 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 "— Sales, Marketing and Distribution."

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. As of March 23, 2000, the Company had 7,674,440 Common Shares outstanding. Of these shares, all 2,670,500 Common Shares sold in the Company's initial public offering are 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 the Company's initial public offering were sold by the Company in reliance upon Regulation S under the Securities Act to persons outside the United States, 4,694,500 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. Common Shares sold outside the United States may, under certain circumstances, be resold in the United States by affiliates of the Company subject to compliance with volume and manner of sale, but not the holding period, requirements of Rule 144.

The Company has registered up to 990,000 Common Shares and 111,000 Common Shares, for issuance under the Company's Employee Stock Option Plan and Directors Stock Option Plan, respectively. As of March 23, 2000, there were 13,010 Common Shares and 50,000 Common Shares remaining for future grants under the Employee Stock Option Plan and Directors Stock Option Plan, respectively. All of the Common Shares issuable upon exercise of outstanding options will be eligible for sale in the public market.

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 are 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.

Item 2 — Properties

In January 1999, the Company concluded a sale/leaseback arrangement by which the Company's Calgary facility, including certain adjacent land, was sold for net proceeds of \$6.9 million, resulting in a gain of \$1.1 million. Contemporaneously, the Company entered into a lease agreement with a minimum 10 year term. The gain on the sale has been deferred and is being amortized over the initial term of the lease. The Company currently leases approximately 46,000 square feet for all of its operations in Calgary, Alberta, Canada. The lease provides for an expansion of up to an additional 25,000 square feet and for additional parking. In September 1999, the Company sold the remaining land that it owned for net proceeds of \$0.7 million. The Company also leases an office in Great Britain. This lease expires June 12, 2006. The Company believes that its facilities are adequate to support its current and anticipated near term future operations.

Item 3 — Legal Proceedings

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 Defence 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. This lawsuit has largely been inactive.

On August 24, 1999, Simon Newby, a former employee based in the United Kingdom, filed an application with the Employment Tribunals in Manchester, England, complaining that he had been wrongfully and unfairly dismissed, not provided with a sufficient period of notice, his dismissal was a breach of his contract or alternatively that he was constructively dismissed from his employment. Mr. Newby is claiming unspecified compensation. The Company has filed a response to the claim stating that Mr. Newby resigned his employment during the course of a working notice period that had been provided to him. The Company believes that this claim is without merit and that it has valid defenses to this claim. A hearing of the matter is scheduled for April 5, 2000.

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. A cross claim for approximately \$432,000 alleging the plaintiff's failure to perform its contractual obligations with respect to the purchase of product. The trial was held in June 1996, and all of the claims were dismissed. The plaintiff has filed an appeal and the Company filed a cross appeal. The appeals were heard in November 1999 and a decision was reserved.

On September 27, 1991, a lawsuit was filed in Court of Queen's Bench of Alberta, Judicial District of Lethbridge/Macleod for wrongful dismissal and coverage under a disability insurance policy. A former employee

("Kirkham") 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 but has been largely inactive.

The Le Car Stereo and Kirkham matters are subject to an indemnity provision in favour of Telexel from Her Majesty the Queen in Right of Alberta and 496072 (a corporation controlled by the Government of the Province of Alberta) (collectively the "Crown"). Until July 1998, the Crown had conduct of both of these matters pursuant to the terms of the indemnity provision. At that time, the Crown and NovAtel determined that when the indemnity provision was renegotiated in 1994, the threshold amount was increased to more than \$7.0 million. As the claims in these matters are collectively less than the new threshold, conduct of the litigation has been transferred back to NovAtel.

A claim was filed October 16, 1992 in the Ontario Court (General Division) by Ericsson Communications Inc. ("Ericsson") against 475342 Alberta Ltd. (a corporation controlled by the Government of the Province of Alberta) (the "Province") and NovAtel claiming that certain agreements (the "Agreements") entered into between Ericsson and NovAtel in 1984 have been frustrated, repudiated and/or fundamentally breached by NovAtel thereby releasing Ericsson of its obligations to pay monies at any time due thereunder or in connection therewith from and following May 21, 1992 (the "Assignment Date"). NovAtel assigned the Agreement to the Province effective on the Assignment Date. The Province is currently prosecuting a claim against Ericsson which had been filed prior to the Ericsson claim against NovAtel. Counsel for the Province advises that the Province's claim against Ericsson relates to amounts due under the Agreements in the amount of \$10 million plus interest and costs. In May 1997, Ericsson filed an amendment to their original claim seeking damages against NovAtel and the Province in the amount of \$17.8 million for breach of fiduciary duties and misappropriation of confidential information, and for damages in the amount of \$10.4 million or an amount equal to 8% of the volume of business transacted by NovAtel on the basis of an alleged use of confidential or proprietary information belonging to Ericsson, together with interest and costs. The Province has had and continues to have conduct of this claim pursuant to the indemnity provisions of agreements between NovAtel and the Province. The Province has confirmed that it will indemnify NovAtel with respect to any amount awarded by way of damages, including any award of interest or costs, with respect to this matter. The Company has recently been advised that this matter has been settled, including a dismissal of any claims against the Company.

The Company believes that it has meritorious defenses and claims with respect to each of these lawsuits. The Company 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 litigations, and an adverse outcome could have a material adverse effect on the Company's business, financial condition and results of operations.

Item 4 — Control of Registrant

(a) BAE Systems Canada Inc. owns approximately 58% of the Company. BAE Systems Canada Inc. may be deemed to be a "control person" of the Company within the meaning of the rules and regulations of the Securities and Exchange Commission.

(b) The following table sets forth as of March 23, 2000 those persons known to the Company to be owners of more than 10% of the Company's Common Shares and the ownership of the Company's Common Shares by each director and officer and all directors and officers as a group:

Name	Shares Beneficially Owned	
	Shares	Percent
BAE Systems Canada Inc.(1)(2)	4,694,500	61.2%
W. James Close(3).....	4,694,500	61.2%
Pierre Y. Ducros(3)	4,694,500	61.2%
Gregory A. Yeldon(3).....	4,694,500	61.2%
Douglas R. Reid(4).....	110,750	1.4%
Werner Gartner(4).....	70,000	*
Randy R. Mabbott(4).....	63,700	*
Richard D. Orman(4).....	16,000	*
Horst J. Pudwill(2)(5).....	220,000	2.9%
Joel A. Schleicher.....	15,000	*
All directors and executive officers as a group (nine persons)(6).....	4,969,950	64.8%

* Less than 1%.

- (1) The address of BAE Systems Canada Inc. (formerly the Canadian Marconi Company and referred to herein as "Canadian Marconi") is 600 Dr. Frederick Philips Boulevard, Ville Saint-Laurent, Quebec, Canada H4M 2S9. Canadian Marconi may be deemed to be a "control person" of the Company within the meaning of the rules and regulations of the Securities and Exchange Commission.
- (2) The amount shown includes 220,000 Common Shares that are the subject of a Right of First Refusal and Call Option Agreement (the "Option Agreement") and a Pledge and Escrow Agreement (the "Pledge Agreement"), in each case between Canadian Marconi and Telexel Holding Limited ("Telexel" – see note 5). The Option Agreement provides for (i) a right of first refusal through April 17, 2003 granting Canadian Marconi the right to acquire the 220,000 Common Shares (the "Remaining Shares") of the Company which were not sold by Telexel to Canadian Marconi on the same terms and conditions as those offered to a third party and (ii) a call option through April 17, 2008 granting Canadian Marconi the right to purchase, at the price specified therein, the Remaining Shares if such purchase is necessary to allow Canadian Marconi to continue to hold at least 51% of the outstanding Common Shares in the event of the dilution of its percentage ownership as a result of the exercise of employee and director stock options and Canadian Marconi has been unable to purchase on the open market Common Shares sufficient for this purpose. The Option Agreement further provides that Telexel will not transfer the Remaining Shares during the term of the right of first refusal and call option, except to give effect to the Option Agreement and the Pledge Agreement. The Pledge Agreement provides for the pledge to Canadian Marconi, through April 17, 2000, of the Remaining Shares as security for Telexel's obligations to indemnify Canadian Marconi pursuant to the Telexel Stock Purchase Agreement. Under the Pledge Agreement, Telexel shall have the right to vote the Remaining Shares, unless there is an Event of Default (as defined therein).
- (3) Represents 4,694,500 Common Shares held by Canadian Marconi with whom Messrs. Close, Ducros and Yeldon are affiliated.
- (4) The amounts shown represent vested stock options to purchase Common Shares of the Company except Messrs. Orman and Mabbott who, in addition, beneficially own 1,000 Common Shares and 8,700 Common Shares, respectively.
- (5) The registered owner of 220,000 of these shares is Telexel. Mr. Pudwill is the beneficial owner of these shares subject to the rights granted to Canadian Marconi referred to in note 2.

- (6) Includes vested stock options to purchase 265,750 Common Shares of the Company.

Cede & Co. is a depository trust beneficially holding shares on behalf of certain of the shareholders of the Company. Other than as set forth above, the Company has no knowledge that any such shares are beneficially owned by any person who beneficially owns 10% or more of the outstanding shares of common stock of the Company.

Item 5 — Nature of Trading Market

Effective February 4, 1997, the Company's shares commenced trading in the United States on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol "NGPSF." The Company has been notified that its shares are traded on the Berlin Stock Exchange. This has occurred without the Company's consent or knowledge. The Company's shares are not listed on any other non-United States trading market. On March 15, 1999 the Company's symbol was changed to "NGPS".

Prior to February 4, 1997, the Company's shares were not listed on any trading market.

A significant number of the Company's securities are held in street name. To the best of the Company's knowledge, as of March 3, 2000, there were 11 shareholders of record resident in the United States, including Cede & Co., holding approximately 2,977,440 shares, representing 38.79% of the Company's shares then outstanding. In total the Company has in excess of 16 shareholders of record.

Item 6 — Exchange Controls and Other Limitations Affecting Security Holders

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 "Item 7 — Taxation."

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 \$184 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.

Item 7 — Taxation

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 report, and the current published administrative practices and policies of the Canada Customs and Revenue Agency. 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 60 month period ending at the time of 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.

Item 8 — Selected Financial Data

(a) Summary Financial Information

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, 1997, 1998 and 1999 have been derived from the Company's audited consolidated financial statements, which appear elsewhere in this Annual Report. The selected financial data for the years ended December 31, 1995 and 1996 have been derived from the Company's audited consolidated financial statements, not included in this Annual Report. The following unaudited summary financial information, in the opinion of management, has been prepared on the same basis as the audited consolidated 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 generally accepted accounting principles ("Canadian GAAP"). The financial data should be read in conjunction with "Item 9 — 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 Annual Report.

Year Ended December 31

Statement of Operations Data(1): <i>(Canadian \$)</i>	<u>1995</u>	<u>1996</u>	<u>1997 (1)</u>	<u>1998 (1)</u>	<u>1999 (1)</u>
	(in thousands, except per share data)				
Revenues	\$13,502	\$ 22,663	\$ 27,049	\$21,567	\$24,226
Cost of sales.....	<u>4,256</u>	<u>6,469</u>	<u>7,850</u>	<u>8,674</u>	<u>12,646</u>
Gross profit.....	<u>9,246</u>	<u>16,194</u>	<u>19,199</u>	<u>12,893</u>	<u>11,580</u>
Operating expenses:					
Research and development	3,312	5,531	6,077	8,234	6,902
Selling and marketing.....	1,651	2,646	3,196	4,621	3,925
General and administration.....	<u>2,163</u>	<u>2,318</u>	<u>3,541</u>	<u>3,561</u>	<u>2,783</u>
Total operating expenses	<u>7,126</u>	<u>10,495</u>	<u>12,814</u>	<u>16,416</u>	<u>13,610</u>
Operating income (loss)	2,120	5,699	6,385	(3,523)	(2,030)
Interest income (expense).....	(780)	(853)	201	212	374
Other income (expense).....	<u>(379)</u>	<u>17</u>	<u>199</u>	<u>(236)</u>	<u>(204)</u>
Income (loss) from continuing operations – before income taxes	961	4,863	6,785	(3,547)	(1,860)
Provision for income taxes	<u>69</u>	<u>24</u>	<u>62</u>	<u>87</u>	<u>123</u>
Net income (loss) from continuing operations	892	4,839	6,723	(3,634)	(1,983)
Net income (loss) from discontinued operations.....	<u>(11,584)</u>	<u>(2,704)</u>	<u>460</u>	<u>1,304</u>	<u>949</u>
Net income (loss)	<u><u>\$(10,692)</u></u>	<u><u>\$ 2,135</u></u>	<u><u>\$ 7,183</u></u>	<u><u>\$(2,330)</u></u>	<u><u>\$(1,034)</u></u>
Net income (loss) per share (basic):					
Continuing operations	\$ 0.17	\$ 0.93	\$ 0.91	\$ (0.47)	\$ (0.26)
Discontinued operations.....	<u>(2.23)</u>	<u>(0.52)</u>	<u>0.06</u>	<u>0.17</u>	<u>0.13</u>
Net income (loss) per share.....	<u><u>\$ (2.06)</u></u>	<u><u>\$ 0.41</u></u>	<u><u>\$ 0.97</u></u>	<u><u>\$ (0.30)</u></u>	<u><u>\$ (0.13)</u></u>
Weighted average shares outstanding (basic)(2)	<u>5,200</u>	<u>5,200</u>	<u>7,420</u>	<u>7,673</u>	<u>7,674</u>
Net income (loss) per share (fully diluted):					
Continuing operations	\$ 0.17	\$ 0.93	\$ 0.86	\$ (0.47)	\$ (0.26)
Discontinued operations.....	<u>(2.23)</u>	<u>(0.52)</u>	<u>0.06</u>	<u>0.17</u>	<u>0.13</u>
Net income (loss) per share.....	<u><u>\$ (2.06)</u></u>	<u><u>\$ 0.41</u></u>	<u><u>\$ 0.92</u></u>	<u><u>\$ (0.30)</u></u>	<u><u>\$ (0.13)</u></u>
Weighted average shares outstanding (fully diluted)	<u>5,200</u>	<u>5,200</u>	<u>8,100</u>	<u>8,509</u>	<u>8,566</u>

Footnotes appear on page 31

	<u>Year Ended December 31,</u>	
<i>(US\$ equivalent)(3)</i>	<u>1998</u>	<u>1999</u>
	<i>(in thousands, except per share data)</i>	
Revenues.....	\$ 14,722	\$ 16,537
Cost of sales	<u>5,921</u>	<u>8,632</u>
Gross profit	<u>8,801</u>	<u>7,905</u>
Operating expenses:		
Research and development.....	5,621	4,712
Selling and marketing	3,154	2,679
General and administration.....	<u>2,431</u>	<u>1,900</u>
Total operating expenses	<u>11,206</u>	<u>9,291</u>
Operating loss.....	(2,405)	(1,386)
Interest income	145	255
Other income (expense).....	<u>(161)</u>	<u>(139)</u>
Income (loss) from continuing operations before income taxes	(2,421)	(1,270)
Provision for income taxes.....	<u>59</u>	<u>84</u>
Net loss from continuing operations	(2,480)	(1,354)
Net income from discontinued operations.....	<u>890</u>	<u>648</u>
Net loss	<u>\$ (1,590)</u>	<u>\$ (706)</u>
Net income (loss) per share (basic):		
Continuing operations	\$ (0.32)	\$ (0.18)
Discontinued operations	<u>0.12</u>	<u>0.09</u>
Net loss per share.....	<u>\$ (0.20)</u>	<u>\$ (0.09)</u>
Weighted average shares outstanding (basic)(2).....	<u>7,673</u>	<u>7,674</u>
Net income (loss) per share (fully diluted):		
Continuing operations	\$ (0.32)	\$ (0.18)
Discontinued operations	<u>0.12</u>	<u>0.09</u>
Net loss per share.....	<u>\$ (0.20)</u>	<u>\$ (0.09)</u>
Weighted average shares outstanding (fully diluted) .	<u>8,509</u>	<u>8,566</u>

	<u>December 31,</u>					<u>US\$ Equivalent</u>
Balance Sheet Data(1):	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>December 31,</u>
<i>(Canadian \$)</i>	<i>(in thousands)</i>					<u>1999(3)</u>
Working capital (deficit).....	\$ (9,121)	\$(11,157)	\$ 10,515	\$ 8,081	\$ 13,804	\$ 9,423
Total assets	13,094	16,549	32,379	29,460	29,204	19,935
Bank advances	7,774	9,610	—	—	—	—
Long-term liabilities	207	84	—	1,002	1,485	1,014
Total shareholders' equity (deficit)	(6,303)	(4,168)	(25,073)	22,786	21,752	14,848

(1) Based upon the Company's accounting policies, a reconciliation of the selected consolidated financial data with U.S. GAAP produces the following significant differences from the selected consolidated financial data prepared in accordance with Canadian GAAP (\$ thousands):

- (i) In the year ended December 31, 1999, the Company deferred \$1,275 of development costs (\$528 in 1998) in accordance with Canadian GAAP. Under U.S. GAAP, these costs would be expensed as incurred as research and development costs.
- (ii) The Company has entered into foreign exchange options and forward contracts to manage its exposure to foreign currency fluctuations. Under Canadian GAAP, any gains or losses on these financial instruments would be recognized in the period that the underlying anticipated transactions occur. Under U.S. GAAP, these financial instruments would be recorded at fair value at the ending date of each reporting period, resulting in an additional gain of \$329 in 1999 and an additional loss of \$308 in 1998.
- (iii) The accounts of the Company's investment in Point, Inc. are proportionately consolidated as required under Canadian GAAP. Under U.S. GAAP, proportionate consolidation is not permitted and the Company's investment in Point, Inc. would be accounted for using the equity method.

The reconciliation of the selected financial data between U.S. and Canadian GAAP produces the following differences on the presented statement of operations data:

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Net income (loss) from continuing operations – Canadian GAAP.....	\$ 892	\$ 4,839	\$ 6,723	\$ (3,634)	\$(1,983)
Adjustments to U.S. GAAP					
Deferred development costs.....	—	—	—	(528)	(1,275)
Fair value of financial instruments....	—	—	—	(308)	329
Net income (loss) from continuing operations – U.S. GAAP.....	<u>\$ 892</u>	<u>\$ 4,839</u>	<u>\$ 6,723</u>	<u>\$ (4,470)</u>	<u>\$ (2,929)</u>
Net income (loss) from discontinued operations – Canadian GAAP.....	\$ (11,584)	\$(2,704)	\$ 460	\$ 1,304	\$ 949
Adjustments to U.S. GAAP	—	—	—	—	—
Net income (loss) from discontinued operations – U.S. GAAP.....	<u>\$ (11,584)</u>	<u>\$ (2,704)</u>	<u>\$ 460</u>	<u>\$ 1,304</u>	<u>\$ 949</u>
Net income (loss) – U.S. GAAP	<u>\$ (10,692)</u>	<u>\$ 2,135</u>	<u>\$ 7,183</u>	<u>\$ (3,166)</u>	<u>\$ (1,980)</u>

- (iv) Under Canadian GAAP, the Company's net income (loss) per share is calculated on a "basic" and on a "fully diluted" basis. The fully diluted net income (loss) per share incorporates the potential dilutive effect of the stock options outstanding under the Company's stock option plans.

Under U.S. GAAP, net income (loss) per share is calculated on a "basic" and "diluted" basis. Diluted net income (loss) per share includes the potential dilutive effect of the outstanding stock options under certain conditions, which differ from the conditions applicable under Canadian GAAP.

Net income (loss) per share as computed under Canadian and U.S. GAAP is as set forth below for the following periods:

Net income (loss) per share from continuing operations	Year Ended December 31				
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Canadian GAAP – basic.....	\$ 0.17	\$ 0.93	\$ 0.91	\$(0.47)	\$(0.26)
U.S. GAAP – basic.....	\$ 0.17	\$ 0.93	\$ 0.91	\$(0.58)	\$(0.38)
Canadian GAAP - fully-diluted	\$ 0.17	\$ 0.93	\$ 0.86	\$(0.47)	\$(0.26)
U.S. GAAP – diluted.....	\$ 0.17	\$ 0.93	\$ 0.90	\$(0.58)	\$(0.38)

Net income (loss) per share	Year Ended December 31				
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Canadian GAAP – basic.....	\$(2.06)	\$ 0.41	\$ 0.97	\$(0.30)	\$(0.13)
U.S. GAAP – basic.....	\$(2.06)	\$ 0.41	\$ 0.97	\$(0.41)	\$(0.26)
Canadian GAAP - fully-diluted	\$(2.06)	\$ 0.41	\$ 0.92	\$(0.30)	\$(0.13)
U.S. GAAP – diluted.....	\$(2.06)	\$ 0.41	\$ 0.96	\$(0.41)	\$(0.26)

The weighted average number of shares used in the computation of diluted net income (loss) per share under U.S. GAAP for the year ended December 31, 1999 would have been increased by 30 shares (31 shares in 1998 and 49 shares in 1997) to reflect the effect of options where the average market price of the Company's common shares exceeded the options' exercise price.

The reconciliation of the selected consolidated financial data between U.S. and Canadian GAAP produces the following differences on the presented balance sheet data.

	Year Ended December 31				
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Total Assets					
Canadian GAAP	\$13,094	\$16,549	\$32,379	\$29,460	\$29,204
Adjustments to U.S. GAAP					
Deferred development costs	—	—	—	(528)	(1,803)
Fair value of financial instruments.	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>21</u>
U.S. GAAP.....	<u>\$13,094</u>	<u>\$16,549</u>	<u>\$32,379</u>	<u>\$28,932</u>	<u>\$27,422</u>
Total Shareholders' Equity(Deficit)					
Canadian GAAP	\$(6,303)	\$(4,168)	\$25,073	\$22,786	\$21,752
Adjustments to U.S. GAAP					
Deferred development costs	—	—	—	(528)	(1,803)
Fair value of financial instruments.	<u>—</u>	<u>—</u>	<u>—</u>	<u>(308)</u>	<u>21</u>
U.S. GAAP.....	<u>\$(6,303)</u>	<u>\$(4,168)</u>	<u>\$25,073</u>	<u>\$21,950</u>	<u>\$19,970</u>

- (2) Weighted average shares outstanding have been determined based on 1.3-for-1 stock split approved by the Company in October 1996.
- (3) Canadian dollar amounts have been translated into U.S. dollars solely for the convenience of the reader at the rate of US\$0.6826 per Cdn\$1.00, which was the exchange rate as of February 23, 2000. 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.

(b) Canadian and U.S. Dollar Exchange Rates

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				
	<u>Year Ended December 31,</u>				
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Average.....	\$0.7301	\$ 0.7332	\$ 0.7221	\$ 0.6740	\$ 0.6730
High.....	0.7523	0.7513	0.7487	0.7105	0.6925
Low.....	0.7016	0.7235	0.6945	0.6341	0.6535
Period end....	0.7332	0.7301	0.6999	0.6504	0.6888

On February 23, 2000, the exchange rate was US\$0.6826 per Cdn\$1.00.

(c) Dividends

The Company has not paid any cash dividends since its inception. The Company does not intend to pay any cash dividends in the foreseeable future, but intends to retain all earnings, if any, for use in its business operations.

Item 9 — 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, aviation, marine, mining and machine control and agriculture markets, rather than for applications in low-end markets such as 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. On April 17, 1998, BAE Systems Canada Inc. (formerly Canadian Marconi Company and referred to herein as "Canadian Marconi") purchased approximately 58% of the Company's total shares outstanding from the Company's two principal shareholders. As of February 29, 2000, Canadian Marconi is owned 48.9% by Canmar Investments Inc. ("Canmar") and 4.8% by Meslink Ltd. ("Meslink") which owns 100% of Canmar. British Aerospace, p.l.c. ("British Aerospace") owns 100% of Meslink. On November 29, 1999, British Aerospace acquired the assets of Marconi Electronic Systems, a division of the General Electric Company, p.l.c. which included Canadian Marconi. The entire British Aerospace group of companies, including Canadian Marconi, now carry on business as BAE SYSTEMS.

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 net income (loss) from discontinued operations in the Consolidated Financial Statements included elsewhere in this Annual Report.

The Company's consolidated financial statements include the Company's proportionate share of the Point accounts as required under Canadian GAAP. The Company sells its products to Point. Point sells products which incorporate the Company's products, Sokkia products and third party products to Sokkia. The Company's revenues include the sale of product to Point and its proportionate share of Point's sales to Sokkia, net of intercompany eliminations. The remaining line items on the consolidated Statements of Operations include the Company's proportionate share of each of the equivalent line items reflected on Point's Statement of Operations. Similarly, the Company consolidates its proportionate share of each line item of Point's Balance Sheet. In addition, the Company provides, at market rates, facilities, computer support and development and logistical support for Point's Calgary operations.

Including the results of the discontinued operations, the Company incurred losses in each of 1993, 1994, 1995, 1998 and 1999. Despite these losses on a consolidated basis, the GPS business unit increased its sales since the introduction of its first products from \$456,000 in 1992 to \$27.0 million in 1997 and had profits in 1993, 1995, 1996 and 1997. However, in 1998, revenues declined to \$21.6 million and the Company incurred a loss from continuing operations of \$3.6 million. Although, revenues increased to \$24.2 million in 1999, the Company incurred a loss from continuing operations of \$2.0 million. There can be no assurance that the Company will be able to increase revenues or generate profits.

The Company's results of operations have fluctuated and can be expected to continue to fluctuate on a periodic basis as a result of a number of factors which affect revenue, gross margin and operating expenses. Annual and quarterly revenues have fluctuated because of a number of factors, including revenue generated from major contracts, operating results of affiliates and subsidiaries, certification and market acceptance of the Company's new products, impact and timing of large orders, pricing pressures in the market, establishing and maintaining effective distribution channels, fluctuations in non-recurring engineering ("NRE") fees, seasonality of 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 1999, sales of the Company's WAAS receivers to the WAAS and MSAS programs accounted for approximately 10% of the Company's total revenues compared to approximately 27% in 1998. The Company currently has no commitments for future sales of its WAAS receivers in any further implementations of the WAAS or MSAS programs. 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 sells GPS receivers to Point, which incorporates these receivers into surveying systems that are in turn sold through the Sokkia distribution channels. The proportionate share of the accounts of Point are included in the Company's accounts. Point is subject to all of the same types of risks that the Company is subject to. There can be no assurance that Point's results may not have a material adverse effect on the Company's business, financial condition and results of operations. The Company currently has a preliminary contract for work related to EGNOS. This contributed largely to NRE fees increasing from \$99,000 in 1998 to \$863,000 in 1999. The Company is currently negotiating a full contract for further EGNOS work. There can be no assurance that the Company will receive any further contract related to EGNOS. Revenues can be expected to vary significantly as a result of a lack of a significant order backlog, fluctuations in demand for existing products, operating results of affiliates and subsidiaries, 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 as a percentage of revenue varies primarily as a result of product sales mix, consolidated results of affiliates and subsidiaries, changes in materials and contract manufacturing costs, liquidation of discontinued inventory, and absorption of fixed manufacturing costs. As revenues derived from sales of WAAS receivers decrease as a percentage of total revenues, gross margin percentage may be adversely affected as these sales generally have higher gross margins. The Company's OEM products typically have higher gross margins than the sale of survey products by Point. The Company believes the sale of survey products by Point is an important growth strategy, however, selling survey products through Point could adversely affect the Company's gross margin percentages. A shortfall from anticipated revenue could adversely affect results of operations and income (loss) per share. In addition, if the Company were to receive a major contract, it would likely increase its expenditures to support such a 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.

The Company faces competition from a variety of competitors. Prices of the Company's products have declined since their introduction due to competitive pressures. The Company expects competition to increase, which is expected to result in further price decreases 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, expand and develop new distribution channels and achieve market acceptance for such products. There can be no assurance that the Company will be successful in such efforts.

The Company's revenues have been derived principally from product sales. Revenues from product sales are recognized upon shipment. 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.

Year 2000

The Year 2000 issue is the result of date sensitive computer software programs being written using two digits rather than four digits to define the applicable year. Consequently, unless corrected, computer software programs will be unable to read and accurately process date information on or after the year 2000. The Company has critical reliance on technology systems, telecommunications systems, facilities infrastructure and embedded systems, such as heating and ventilation systems, in conducting its business. The Company also has business relationships with third party providers, such as telecommunication vendors and financial institutions, who are highly reliant on information technology and other systems to conduct their business.

Costs to Address the Year 2000 Issues. The Company incurred minimal incremental costs addressing the Year 2000 issues. The Company had no separate budget for Year 2000 issues.

Year 2000 Issues. The Company transitioned into the year 2000 without any material adverse effect on the Company's business, financial condition and operating results.

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:

	<u>Year Ended December 31,</u>		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Revenues	100.0%	100.0%	100.0%
Gross profit	<u>71.0</u>	<u>59.8</u>	<u>47.8</u>
Operating expenses:			
Research and development	22.5	38.2	28.5
Selling and marketing	11.8	21.4	16.2
General and administration	<u>13.1</u>	<u>16.5</u>	<u>11.5</u>
Total operating expenses	<u>47.4</u>	<u>76.1</u>	<u>56.2</u>
Operating income (loss)	23.6	(16.3)	(8.4)
Interest income (expense)	0.7	1.0	1.5
Other income (expense)	<u>0.7</u>	<u>(1.1)</u>	<u>(0.8)</u>
Income (loss) from continuing operations before income taxes	25.1	(16.4)	(7.7)
Provision for income taxes	<u>0.2</u>	<u>0.4</u>	<u>0.5</u>
Net income (loss) from continuing operations	<u>24.9%</u>	<u>(16.8)%</u>	<u>(8.2)%</u>

1999 Compared to 1998

Revenues. Revenues include product sales, non-recurring engineering (“NRE”) fees and consolidated revenues of subsidiaries and Point. Product sales revenues consist primarily of sales of original equipment manufacturer (“OEM”) boards, software, software upgrades and Wide Area Augmentation System (“WAAS”) type receivers.

In July 1999, the Company commenced a transition to a new GPS surveying partner, Sokkia Co., Ltd. (“Sokkia”). Sokkia is a world leader in surveying. The partnership reflects a move from a supplier relationship to a fully integrated development team. Sokkia and the Company formed a jointly owned company known as Point, Inc. (“Point”). The ownership of Point is 51% Sokkia and 49% the Company. The Company’s Customer Products Group, which was responsible for the development of survey products, was transferred to Point effective August 1, 1999. Sokkia transferred in the Sokkia Technology, Inc. organization which had been conducting advanced measurement solutions research and development for Sokkia. Point will provide Sokkia’s global marketing organization with advanced measurement solutions for the fields of surveying, mapping, geographical information systems (“GIS”), construction and construction machine control. Sokkia’s distribution system includes more than 25 subsidiaries and additional representatives around the world, each having its own dealer network. Newly developed GPS survey products were announced in October 1999 and are now being delivered through the Sokkia channels. The Company’s consolidated financial statements include sales to Point, net of intercompany eliminations, and the Company’s proportionate share of the Point revenues.

The Company has historically reported revenues for survey, aviation and OEM. As a result of the creation of Point and restructuring that has taken place within the Company, the Company will going forward report revenues based on the following market sectors: Geomatics, Aerospace and Defense and Special Apps. Sales of components to the Company’s subcontract manufacturers will be reported as Other Revenue.

Total revenues increased 12.3% from \$21.6 million in 1998 to \$24.2 million in 1999.

Geomatics

The Geomatics sector is made up of the surveying and GIS markets. Included within these markets are the Company’s sales to Point, net of intercompany eliminations, the Company’s proportionate share of sales by Point, revenues of the Company’s Costa Rican subsidiary (“GOPS”) and residual sales to Carl Zeiss Jena GmbH, Nikon Corporation (“Nikon Japan”) and Nikon Inc. (“Nikon US”). Geomatics sales were \$8.2 million in 1999 compared to \$4.9 million in 1998, an increase of 67%. The Nikon US distribution agreement expired September 30, 1999, both parties electing not to renew the agreement. The Nikon Japan agreements expired December 31, 1999, the Company electing not to renew the agreements. The Company sold product to Point, predominantly in the fourth quarter of 1999, and benefited from sales by Point in the third and fourth quarters 1999. Net revenues contributed from the Point/Sokkia relationship were \$4.0 million in 1999. Newly developed GPS survey products were announced by Point in October 1999 and are now being delivered through the Sokkia distribution channels. The Company also earned revenue from its subsidiary GOPS related to a project in Costa Rica funded by the Canadian government through the Canadian International Development Agency. The project is a study of the roadway that links the City of Puerto Limón and Sixaola City in Costa Rica. The project was substantially completed in December 1999. GOPS revenue currently is project based and there are presently no other projects being undertaken by GOPS. While GOPS is pursuing other opportunities, GOPS currently has no commitments for future projects and there can be no assurance that GOPS will receive commitments for future projects.

Aerospace and Defense

The Aerospace and Defense sector is made up of aviation, space and defense markets. Aerospace and Defense sales were \$5.8 million for 1999 compared to \$7.3 million for 1998, a decrease of 21%. Sales in this sector includes WAAS receiver sales related to the U.S. Wide Area Augmentation System (“WAAS”), the Japanese MTSAT Satellite-based Augmentation System (“MSAS”), NavCanada which is working in conjunction with the U.S. Federal Aviation Administration (“FAA”) to implement the WAAS program and to the European Geostationary Overlay System (“EGNOS”). Sales of WAAS receivers to the WAAS and MSAS programs in 1999 accounted for

approximately 10% of total revenues compared to approximately 27% in 1998. The Company has an initial contract to supply wide area reference receivers for EGNOS. The Company is teamed with Racal Avionics Ltd. ("Racal") to supply one section of the EGNOS Remote Integrity Monitoring System ("RIMS-C"). The Racal/NovAtel RIMS-C channel will provide integrity and correction data within the EGNOS ground network. Under the initial contract, the Company will develop new GPS receiver processing for Satellite Failure Detection and will begin software qualification. In addition, the Company has delivered a number of receivers for use in developmental activities. The EGNOS receivers have the same hardware configuration as the Company's WAAS receivers, with added software qualification and functionality. The Company is currently negotiating a full contract to complete software proving and qualification activities and deliver 18 EGNOS receiver systems. There can be no assurance that the Company will receive commitments for future participation in the EGNOS program. Other countries planning WAAS or a similar system include Canada, Mexico, Australia and Chile. Johns Hopkins University Applied Physics Laboratory conducted a study which concluded that augmented GPS can satisfy performance requirements to be the only navigation system installed in an aircraft and the only service by the FAA for operations anywhere in the National Airspace System. The FAA has signed partnership agreements with each of Raytheon Company ("Raytheon") and Honeywell Inc. ("Honeywell") to develop a Local Area Augmentation System ("LAAS"). The LAAS program is intended to complement the WAAS program. Together these will function to supply users of the U.S. National Airspace System (NAS) with seamless satellite based navigation for all phases of flight. The certified GPS receiver that the Company is developing with Canadian Marconi is targeted to be used by Honeywell for the LAAS program. The Company believes that it is well positioned to participate with Raytheon in the LAAS program given its past experience with Raytheon and the WAAS program. While the Company has participated in previous phases of WAAS and MSAS and has relationships with Raytheon and Honeywell, the Company currently has no commitments for future participation in the WAAS, MSAS or LAAS programs and there can be no assurance that the Company will receive commitments for future participation in the WAAS, MSAS or LAAS programs.

Special Apps

The Special Apps sector is made up of marine, agriculture, robotics, construction/grading, scientific, dealers (other than those that can be identified with a particular market sector) and miscellaneous markets. Special Apps revenues were \$8.9 million in 1999 compared to \$7.9 million in 1998, an increase of 12%.

Generally across each of the market sectors, in September 1999, the Company launched its latest generation receiver, the OEM4. This is the smallest 24 channel dual frequency receiver on the market. In January 2000, the Company announced a revolutionary new antenna using the Company's patent pending Pinwheel aperture coupled slot array technology. Without the aid of a choke ring, the antenna achieves the same accuracy and reduction of multipath provided with a choke ring. However as no choke ring is required, the GPS-600 is much smaller and lighter. Both of these products can be used in all of the defined market sectors. The Company anticipates new revenues from these products in 2000 but there can be no assurances that these products will result in increased revenues in any of the market sectors.

Other revenue related to the sale of manufacturing components was \$1.3 million for 1999 compared to \$1.4 million in 1998.

In 1999, the Company derived approximately 46% of its total revenues from the sale of its products to countries outside the United States and Canada, compared to 52% in 1998. Revenues from international sales decreased slightly from \$11.3 million in 1998 to \$11.1 million in 1999.

Gross Profit. Gross profit as a percentage of total revenues decreased from 59.8% in 1998 to 47.8% in 1999. The decrease was due to price pressures, lower gross margins from Point, a lower proportion of WAAS receiver sales, a higher proportion of lower margin engineering service revenue and the establishment of inventory provisions for surveying and mapping related inventory being phased out of production. Point earns lower gross margins than the Company due to the purchase of third party accessories that provide lower gross margins and the fact that Point is closer to the end user in the distribution chain.

Research and development. Research and development expenses consist primarily of engineering personnel expenses, contracted research and development expenses, amortization of purchased technology, equipment costs and facility and computer support costs. Research and development expenses decreased 16.2% from \$8.2 million in

1998 to \$6.9 million in 1999 and decreased as a percentage of total revenues from 38.2% in 1998 to 28.5% in 1999. The reduction in research and development expenses is primarily attributable to lower staffing costs as a result of a restructuring and staff reduction in November 1998. The consolidated proportionate share of Point's research and development expenses was included in the Company's research and development expenses in 1999, however, since the Company and Sokkia funded Point for engineering work being conducted on their behalf until December 31, 1999, the overall impact of Point on research and development expenses was negligible. In 2000, the Company expects its proportionate share of Point's research and development expenses to comprise approximately 25%-30% of the Company's consolidated research and development expenses. In 1999, the Company deferred development costs of \$1.3 million related to the development of a certified aviation GPS receiver, compared to \$528,000 in 1998. 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 sale of the Company's products. Selling and marketing expenses decreased 15.1% from \$4.6 million in 1998 to \$3.9 million in 1999 and decreased as a percentage of total revenues from 21.4% in 1998 to 16.2% in 1999. The decrease in selling and marketing expenses is primarily the result of lower personnel costs as a result of the restructuring and staff reduction in November 1998 and reduced advertising and product promotions. The consolidated proportionate share of Point's selling and marketing expenses was included in the Company's selling and marketing expenses. In 2000, the Company expects its proportionate share of Point's selling and marketing expenses to comprise approximately 25%-30% of the Company's consolidated selling and marketing expenses.

General and administration. General and administration expenses consist primarily of salaries of administrative personnel, corporate overhead and facilities expenses. General and administration expenses decreased by 21.8% from \$3.6 million in 1998 to \$2.8 million in 1999 and decreased as a percentage of total revenues from 16.5% in 1998 to 11.5% in 1999. The decrease in general and administration expenses is due in part to one less executive position. The consolidated proportionate share of Point's general and administration expenses was included in the Company's general and administration expenses. In 2000, the Company expects its proportionate share of Point's general and administrative expenses to comprise approximately 25%-30% of the Company's consolidated general and administrative expenses.

Interest income. The Company earned net interest income of \$374,000 in 1999 compared with \$212,000 in 1998. The Company's cash deposits not required for operations are invested in short term interest bearing instruments.

Other income(expense). Other income (expense) consists primarily of foreign currency income (loss) and miscellaneous items. Other expense was \$204,000 in 1999, primarily comprised of severance costs of \$213,000 relating to a staff reduction in July 1999 offset by a gain of \$178,000 on the sale of surplus lands. Other expense in 1998 was \$236,000, comprised of foreign currency exchange income offset by costs associated with the work force reduction in November 1998.

Provision for income taxes. The provision for income taxes, which consists of Canadian federal large corporations tax and the consolidated proportionate share of income taxes related to Point, increased from \$87,000 in 1998 to \$123,000 in 1999. The increase is primarily related to the provision for Point income taxes.

Discontinued operations. The Company recorded net income from discontinued operations of \$949,000 in 1999 compared to net income of \$1.3 million in 1998. In 1995, the Company sold its Wireless Access Products division and manufacturing operations to Harris Canada Inc. The purchase price was subject to an adjustment based on a post-closing audit of the balance sheet of the divested operations. The post closing audit was completed in December 1999 resulting in a purchase price adjustment of \$2.3 million. As the Company had previously provided for a potential adjustment of \$3.3 million, the balance, after interest and miscellaneous costs, has been recognized as income from discontinued operations in 1999.

1998 Compared to 1997

Revenues. Total revenues decreased 20.3% from \$27.0 million in 1997 to \$21.6 million in 1998. The decrease in revenues was primarily due to significantly lower WAAS sales in the United States, \$638,000 in 1998 as

compared to \$8.5 million in 1997, partially offset by sales to the Japanese MSAS program of \$5.1 million in 1998 as compared to no MSAS program sales in 1997. OEM revenues, which were 34% lower in 1998 from 1997, also contributed to lower revenues.

The Company has historically reported revenues for survey, aviation and OEM. As a result of the creation of Point and restructuring that has taken place within the Company, the Company now reports revenues based on the following market sectors: Geomatics, Aerospace and Defense and Special Apps. For purposes of comparing revenues from 1997 and 1998, the Company has restated the revenues based on the new reporting format. Sales to the Geomatics sector in 1998 were \$4.9 million compared to \$7.6 million in 1997, a decrease of 35%. Sales to the Aerospace and Defense sector were \$7.3 million in 1998 compared to \$11.0 million in 1997, a decrease of 34%. Sales to Special Apps sector were \$7.9 million in 1998 compared to \$8.2 million in 1997, a decrease of 4%. Manufacturing components accounted for sales of \$1.4 million in 1998 compared to \$254,000 in 1997.

Sales of WAAS receivers (United States and Japan) accounted for approximately 27% of the Company's total revenues in 1998 as compared to 31% in 1997. Another wide area augmentation program known as EGNOS has been initiated in Europe. The Company believed that it was well positioned to pursue this and other international opportunities. In addition, with the expertise that the Company had developed as a result of the WAAS project, the Company believed it was well positioned to continue serving the growing market for high-performance avionics GPS receivers. The Company believed this market would be part of the Company's product and revenue mix beginning again in the year 2000 and for the remainder of the WAAS and MSAS rollouts and beyond. GPS use for aviation received support from a study by Johns Hopkins University Applied Physics Laboratory which concluded an augmented GPS can satisfy the performance requirements to be the only navigation system installed in an aircraft and the only service by the FAA for operations anywhere in the National Airspace System. The Company's alliance with Canadian Marconi combine respective technologies and marketing strengths to develop and bring to market a new generation of certified, high performance GPS receiver for use in airborne and ground applications. The Company did not anticipate revenues from this alliance in 1999.

Nikon US had a network of over 30 dealers carrying the Company's GISMO and Outrider products in the United States and Latin America. Sales to Nikon US represented 9% of total revenues in 1998 and 10% in 1997, ranking Nikon US as the Company's second largest customer in both years. In addition, Nikon Japan distributed NovAtel's current GPS product family in Japan along with products that have been customized to suit the Japanese survey market. Sales to Nikon Japan represented 4% of revenues in 1998, ranking Nikon Japan as the Company's fourth largest customer. The Company had no sales to Nikon Japan in 1997.

OEM sales in 1998 were \$5.6 million compared to \$8.5 million in 1997, a decrease of 34%. In 1998, the Company experienced significant price competition and reduced visibility with its OEM customer base. The Company was completing development of new OEM products which would continue the Company's technological innovation and provide the foundation to rebuild its OEM base.

NRE revenues decreased from \$154,000 in 1997 to \$99,000 in 1998. NRE revenues for 1997 and 1998 reflected that there were no significant development programs being funded by outside parties. The Company did not expect to generate significant NRE fees in the future.

Revenue for 1998 included \$1.4 million of sales of raw material inventory to the Company's subcontract manufacturer. The Company anticipated lower sales of manufacturing components in 1999.

In 1998, the Company derived approximately 52% of its total revenues from the sale of its products to countries outside of the United States and Canada compared to 28% in 1997. Revenues from international sales increased 52.7% from \$7.4 million in 1997 to \$11.3 million in 1998. The Company anticipated lower international sales in 1999 because no shipments were expected to the Japanese MSAS program.

Gross profit. Gross profit as a percentage of total revenues decreased from 71.0% in 1997 to 59.8% in 1998. The decrease was due to price pressures, absorption of higher fixed operating costs, the sale of \$1.4 million low margin manufacturing components, and a higher proportion of end user products.

Research and development. Research and development expenses increased 35.5% from \$6.1 million in 1997 to \$8.2 million in 1998 and increased as a percentage of total revenues from 22.5% in 1997 to 38.2% in 1998. The dollar increase in research and development expenses was primarily due to an increase in engineering personnel from 59 at December 31, 1997 to 88 by October 1998, salary increases, higher depreciation expenses and new product development. In November and December 1998, the Company reduced its workforce by approximately 20%. By December 31, 1998 the number of engineering personnel was 66. To December 31, 1998, the Company had charged all research and development costs to operations as incurred, except \$528,000 associated with the Canadian Marconi certified aviation receiver project, which has been deferred.

Selling and marketing. Selling and marketing expenses increased 44.6% from \$3.2 million in 1997 to \$4.6 million in 1998 and increased as a percentage of total revenues, from 11.8% in 1997 to 21.4% in 1998. The increase in selling and marketing expenses as a percentage of revenue was due principally to a decline in revenues and an increase in personnel related costs, product promotions and the costs associated with the new offices in Great Britain and the United States.

General and administration. General and administration expenses were constant at approximately \$3.6 million in 1997 and 1998, but increased as a percentage of total revenues from 13.1% in 1997 to 16.5% in 1998. The increase as a percentage of total revenues was primarily related to lower revenues in 1998. In 1999, the Company incurred facility lease costs but these were partially offset by the elimination of depreciation expenses related to the facility.

Interest income. Interest income increased 5.5% from \$201,000 in 1997 to \$212,000 in 1998.

Other income (expense). The Company had other income of \$199,000 in 1997 compared to an other expense of \$236,000 in 1998. The 1998 expense was comprised of foreign currency exchange income, offset by costs associated with the workforce reduction of approximately \$400,000.

Provision for income taxes. The provision for income taxes, which consisted of Canadian federal large corporations tax, increased from \$62,000 in 1997 to \$87,000 in 1998.

Net income from discontinued operations. In 1998, the Company earned income from discontinued operations of \$1.3 million, primarily from the sale of \$500,000 of residual inventory and the receipt of US\$500,000 of the final installment payment from the purchaser of the Company's former Personal Communications Products division. In 1997, the Company earned income from discontinued operations of \$460,000, mainly from the sale of the 15% equity interest in NovAtel Wireless, Inc. (NWI) and the collection of notes receivable related to the sale of the Company's former PCP division to a group of companies controlled by NWI, partially offset by additional provisions established for the liquidation of residual PCP inventory and the purchase price adjustment claimed by Harris Canada Inc.

Quarterly Results of Operations

The following tables present certain unaudited statement of operations data for each of the Company's last eight 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							
	1998				1999			
	April 4	July 4	Oct. 3	Dec. 31	March 31	June 26	Oct. 2	Dec. 31
	(in thousands)							
Revenues	\$ 4,765	\$5,744	\$ 6,683	\$ 4,375	\$ 5,270	\$ 3,307	\$ 7,510	\$ 8,139
Cost of sales.....	2,291	2,367	2,162	1,854	2,579	1,763	3,756	4,548
Gross profit.....	2,474	3,377	4,521	2,521	2,691	1,544	3,754	3,591
Operating expenses:								
Research and								
development.....	1,889	2,098	2,186	2,061	1,885	1,680	1,860	1,477
Selling and marketing .	961	1,027	1,329	1,304	973	965	1,014	973
General and								
administration.....	850	935	932	844	616	630	808	729
Total operating								
expenses.....	3,700	4,060	4,447	4,209	3,474	3,275	3,682	3,179
Operating income (loss).	(1,226)	(683)	74	(1,688)	(783)	(1,731)	72	412
Interest income	59	66	44	43	94	105	88	87
Other income (expense).	12	27	211	(486)	(60)	(27)	(60)	(57)
Income (loss) from								
continuing operations								
before income taxes....	(1,155)	(590)	329	(2,131)	(749)	(1,653)	100	442
Provision for income								
taxes.....	19	20	20	28	21	21	21	60
Net income (loss) from								
continuing operations..	<u>\$ (1,174)</u>	<u>\$ (610)</u>	<u>\$ 309</u>	<u>\$ (2,159)</u>	<u>\$ (770)</u>	<u>\$ (1,674)</u>	<u>\$ 79</u>	<u>\$ 382</u>

	Quarter Ended							
	1998				1999			
	April 4	July 4	Oct. 4	Dec. 31	March 31	June 26	Oct. 2	Dec. 31
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit.....	51.9	58.8	67.6	57.6	51.1	46.7	50.0	44.1
Operating expenses:								
Research and								
development.....	39.6	36.5	32.7	47.1	35.8	50.8	24.8	18.1
Selling and marketing .	20.2	17.9	19.9	29.8	18.5	29.2	13.5	12.0
General and								
administration.....	17.8	16.3	13.9	19.3	11.7	19.0	10.7	9.0
Total operating								
expenses.....	77.6	70.7	66.5	96.2	66.0	99.0	49.0	39.1
Operating income (loss).	(25.7)	(11.9)	1.1	(38.6)	(14.9)	(52.3)	1.0	5.1
Interest income.....	1.2	1.1	0.7	1.0	1.8	3.1	1.1	1.0
Other income (expense).	0.3	0.5	3.2	(11.1)	(1.1)	(0.8)	(0.8)	(0.7)
Income (loss) from								
continuing operations								
before income taxes....	(24.2)	(10.3)	4.9	(48.7)	(14.2)	(50.0)	1.3	5.4
Provision for income								
taxes.....	0.4	0.3	0.3	0.6	0.4	0.6	0.3	0.7
Net income (loss) from								
continuing operations..	<u>(24.6)%</u>	<u>(10.6)%</u>	<u>4.6%</u>	<u>(49.3)%</u>	<u>(14.6)%</u>	<u>(50.6)%</u>	<u>1.0%</u>	<u>4.7%</u>

The Company has historically reported revenues for survey, aviation and OEM. As a result of the creation of Point and restructuring that has taken place within the Company, the Company will going forward report revenues based on the following market sectors: Geomatics, Aerospace and Defense and Special Apps. Revenues also include sales of components to the Company's subcontract manufacturers.

The following table sets forth Geomatics, Aerospace and Defense, Special Apps and manufacturing component revenues for the last eight quarters.

	Quarter Ended							
	1998				1999			
	<u>April 4</u>	<u>July 4</u>	<u>Oct. 3</u>	<u>Dec. 31</u>	<u>March 31</u>	<u>June 26</u>	<u>Oct. 2</u>	<u>Dec. 31</u>
	(in thousands)							
Geomatics	\$ 630	\$ 1,261	\$ 1,560	\$ 1,490	\$ 1,838	\$ 958	\$ 1,938	\$ 3,512
Special Apps	2,107	3,249	1,398	1,190	2,423	1,759	2,462	2,281
Aerospace and Defense.....	1,357	754	3,549	1,634	772	403	2,926	1,669
Manufacturing components.....	<u>671</u>	<u>480</u>	<u>176</u>	<u>61</u>	<u>237</u>	<u>187</u>	<u>184</u>	<u>677</u>
Total revenues.....	<u>\$ 4,765</u>	<u>\$ 5,744</u>	<u>\$ 6,683</u>	<u>\$ 4,375</u>	<u>\$ 5,270</u>	<u>\$ 3,307</u>	<u>\$ 7,510</u>	<u>\$ 8,139</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, operating results of affiliates and subsidiaries, new product introductions, fluctuations in NRE fees, seasonality of customer purchase patterns and the timing of industry trade shows.

For example, during 1999, sales of the Company's WAAS receivers to the WAAS and MSAS programs accounted for approximately 10% of the Company's total revenues compared to approximately 27% in 1998. The Company currently has no commitments for future sales of its WAAS receivers in any further implementations of the WAAS or MSAS programs. 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.

In addition, revenues can be expected to vary significantly as a result of a 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 decreased in 1999 as the Company reduced costs in late 1998 in response to lower revenues. The Company anticipates operating expenses to increase by approximately 25% in 2000 due primarily to the impact of Point operating for a full year, but decline as a percentage of revenue as the Company's revenue grows. A shortfall from anticipated revenues has and could adversely affect results of operations and income (loss) 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 were 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 in Canada, other than for large corporations tax, due to previously incurred losses, credits and costs. As of December 31, 1999, losses, investment tax credits, depreciation and research and development costs are available to reduce future taxable income in Canada. The Company has determined that the acquisition of a majority of the Common Shares of the Company by Canadian Marconi in 1998 and BAE SYSTEMS' indirect acquisition of the majority of the common shares of Canadian Marconi in November 1999 constitute acquisition of control of the Company for Canadian income tax purposes. Accordingly, the availability of certain of the Company's Canadian income tax losses, research and development

costs, depreciation deductible for tax purposes and investment tax credits may be subject to limitation. The ultimate availability and amount of these losses, credits and costs may be dependent upon future Canada Customs and Revenue Agency audits. See Note 14 of Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

In 1999, cash used in operations was \$895,000, compared to cash used in operations of \$4.9 million in 1998. Cash used in operations in 1999 consisted primarily of an increase in non-cash working capital of \$2.2 million, a \$2.0 million loss from continuing operations partially offset by the \$949,000 income from discontinued operations and \$2.7 million in amortization.

In 1999, cash used in financing activities was \$349,000, related to a decrease in capital lease obligations. In the comparable period in 1998, the Company concluded a sale/leaseback of certain capital assets which was the primary factor contributing to \$1.3 million cash provided by financing activities.

In 1999, cash provided by investing activities was \$5.0 million, primarily related to the sale/leaseback of the Company's Calgary facility and certain adjacent land, offset by deferred development expenditures of \$1.3 million related to the development of a certified aviation GPS receiver and other capital expenditures of \$1.2 million. On July 20, 1999, the Company acquired a 49% interest in Point in exchange for \$311,000, net of cash acquired.

At December 31, 1999, the Company had cash and short term investments of \$8.3 million. The Company has a credit agreement with the HSBC Bank Canada whereby the Company can borrow up to \$1.0 million for day-to-day operating requirements and \$2.2 million to support the margin requirement related to the purchase of foreign exchange contracts. The Company has a second credit arrangement with the Toronto Dominion Bank under which the Company can borrow up to \$650,000 for day-to-day operations. The credit line also supports the margin requirement related to the purchase of up to US\$2.5 million of foreign exchange contracts. The lines of credit are payable on demand and are secured by certain of the Company's assets. At December 31, 1999, portions of the lines of credit were utilized to support \$665,000 of letters of credit (\$93,000 at December 31, 1998) and the margin requirements on US\$3.0 million in forward exchange contracts leaving \$985,000 available for day-to-day operating requirements and the margin capacity necessary to enter into an additional US\$4.5 million in forward exchange contracts.

On March 15, 2000, Sokkia and the Company collectively loaned Point US\$1.2 million, the Company's share being US\$588,000 (the "Loan"). The Loan is repayable December 31, 2000, is secured by the assets of Point and bears interest at the U.S. Prime Rate in effect from time to time.

The Company believes that its existing cash, cash equivalents, short term investments, available lines of credit and anticipated cash generated from operations will be sufficient to satisfy its currently anticipated cash needs for at least the next twelve months.

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.

Item 9A - Market Risk

Most of the Company's revenues (over 93% in 1999) are earned in currencies other than the Canadian dollar, principally the U.S. dollar. A substantial portion of the Company's expenses, however, have been and will continue to be incurred in Canadian dollars. Accordingly, fluctuations in exchange rates between the U.S. dollar and the Canadian dollar could materially affect the Company's results of operations. In the normal course of business the Company uses foreign currency options and forward foreign currency contracts to reduce its exposure to fluctuations in the U.S. dollar. At December 31, 1999, the Company had foreign currency options and forward foreign currency contracts to sell US\$3.0 million between January 5, 2000 and June 30, 2000 at rates between \$0.6805 and \$0.6849. In addition, at December 31, 1999, the Company had entered into forward currency contracts obligating it to buy US\$1.0 million at an average rate of \$0.6787 between March 31, 2000 and June 30, 2000. Derivative financial instruments are not used for speculative purposes. There can be no assurance that the Company will be successful in such hedging activities.

The Company is not subject to interest rate risk as it currently does not have and it does not anticipate incurring any debt.

Item 10 — Directors and Officers of Registrant

The following table sets forth certain information, as of March 23, 2000, regarding the executive officers, directors and certain key employees of the Company:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>	<u>Executive Officer Since</u>
Directors and Executive Officers				
W. James Close	53	Chairman of the Board	1998	—
Horst J. Pudwill	55	Director	1992	—
Douglas R. Reid	45	Chief Executive Officer, President and Director	1996	1995
Werner Gartner	43	Executive Vice President and Chief Financial Officer	—	1995
Randy R. Mabbott	37	Senior Vice President Corporate Affairs, General Counsel and Corporate Secretary	—	1994
Pierre Y. Ducros	60	Director	1998	—
Richard D. Orman	51	Vice Chairman of the Board	1994	—
Gregory A. Yeldon	40	Director	1998	—
Joel A. Schleicher	48	Director	1997	—
Key Employees				
Patrick C. Fenton	42	Vice President, Technology	—	—
Anthony J. Murfin	52	Director, Aviation Group	—	—
Graham C. Purves	37	Vice President, Sales and Marketing	—	—
Michael McAloney	42	Director, Quality and Technical Services	—	—
Duane Macauley	36	Director, Business Operations	—	—

W. James Close has served as Chairman of the Board of Directors of the Company since January 1999 and a Director of the Company since September 1998. Mr. Close has been President and Chief Executive Officer of BAE Systems Canada Inc. (“BAE Systems Canada”, formerly Canadian Marconi Company) since July 1, 1998. Mr. Close was President of AlliedSignal Aerospace Canada Inc. prior to joining BAE Systems Canada. Mr. Close is also a Director with BAE Systems Canada.

Horst J. Pudwill has served as a Director of the Company since May 1992, as Chairman of the Board of Directors of the Company from May 1992 until April 1998 and served as Chief Executive Officer of the Company from May 1992 until October 1996. 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.

Douglas R. Reid has served as Chief Executive Officer and President of the Company since September 1998. Mr. Reid was Executive Vice President and Chief Operating Officer of the Company from October 1996 to September 1998, and as a Director of the Company from November 1996 until April 1998 and since September 1998. 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 was Director of the Company from November 1995 until April 1998. 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 Senior Vice President Corporate Affairs since October 1, 1997 and 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 Vice Chairman of the Board of Directors since March 1997 and as a Director of the Company since January 1994. Mr. Orman currently serves as Chairman and Chief Executive Officer of Runnymede Resources Corporation in Calgary, Canada, which he founded in February 1999. From August 1995 to October 1998 Mr. Orman served as Chairman and Chief Executive Officer of Kappa Energy Company Inc. (now Vanguard Oil Corporation) in Calgary, Canada and continues to serve as a Director. 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 Labor from September 1988 to April 1989 and Minister of Energy from April 1989 to December 1992.

Joel A. Schleicher has served as a Director of the Company since March 1997. Mr. Schleicher is currently a business consultant and advisor since January, 2000. Mr. Schleicher was President and Chief Executive Officer of Expanets, Inc. from June 1998 to December 1999. Mr. Schleicher was a business consultant, advisor and investor with and to leverage buyout firms from July 1997 to June 1998. From June 1996 to June 1997, Mr. Schleicher served as President and Chief Executive Officer of ProCommunications, Inc. From July 1995 to June 1996, Mr. Schleicher was a private investor. From 1989 to July 1995, Mr. Schleicher served as Chief Operating Officer for and a director of Nextel Communications, Inc.

Gregory A. Yeldon has served as a Director of the Company since April 1998. Mr. Yeldon has been Vice President and Chief Financial Officer for BAE Systems Canada since July 1995. From October 1994 to July 1995 Mr. Yeldon was Corporate Controller for BAE Systems Canada and from February 1988 to October 1994 he was Director of Finance and Administration of Micronav International Inc.

Pierre Y. Ducros has served as a Director of the Company since February 1999. Mr. Ducros has been Chairman of the Board of Directors of BAE Systems Canada since January 1999. Mr. Ducros is President of P. Ducros & Associés since June 1996. Mr. Ducros was Chairman of the Board, President and Chief Executive Officer of DMR Consulting Group Inc. from February 1973 to June 1996. Mr. Ducros is a member of the Order of Canada. Mr. Ducros is also President of Université du Québec à Montreal and serves as a Director of BCE Emergis Inc., Cognos Inc., Alliance Atlantis Communications Inc., National Bank Financial and Manulife Financial.

Patrick C. Fenton was recently appointed Vice President, Technology having served as Vice President, Research and Development since March 1997. Mr. Fenton previously 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.

Graham C. Purves has served as Vice President Sales and Marketing since October 1998. Mr. Purves assumed additional responsibility for product development in July 1999. Mr. Purves was previously Director, Custom Products Group from January 1, 1998 until October 26, 1998. Mr. Purves was Director, Business Operations for the Company's GPS business unit since August 1994 until February 1998. From August 1988 to August 1994 Mr. Purves has served in various capacities at the Company including Manager, VLSI Design Group.

Anthony J. Murfin has served as Director, Aviation Group since January 1, 1998. Mr. Murfin was previously Director, Corporate Accounts for the Company from May 1996 to December 1997 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.

Michael McAloney has served as Director, Quality and Technical Services since January 1, 1999, having served as Director, Technical Services since January 1, 1998. Mr. McAloney was Program Manager from June

1994 to December 1997. From April 1990 to March 1994 Mr. McAloney was Systems Engineering Manager for Micronav International Incorporated.

Duane Macauley has served as Director, Business Operations since March 1, 1998. From June 1996 to March 1998, Mr. Macauley was an Account Manager with Electro-Source Inc., a semiconductor sales company. From September 1991 to June 1996, Mr. Macauley worked at Northern Telecom Ltd. as a Production Manager and later as Purchasing Manager. He also worked at NovAtel from September 1986 to September 1991 in various capacities including Process Manager, Production.

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

Item 11 — Compensation of Officers and Directors

Directors who are not employees of the Company 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 receives \$20,000 per year and \$2,000 for each meeting he attends and the Vice Chairman who receives \$15,000 per year and \$1,500 for each meeting he attends. Notwithstanding the foregoing, James Close, Gregory Yeldon and Pierre Ducros being representatives of Canadian Marconi Company, have waived any fees to which they are otherwise entitled to receive. In addition, all directors are 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 aggregate amount of cash compensation paid by the Company to all officers and directors as a group during fiscal 1999 was \$589,156.

The following Summary Compensation Table sets forth the compensation earned during each of the three years ended December 31, 1999 by 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>Year</u>	<u>Annual Compensation</u>		
		<u>Salary</u>	<u>Bonus</u>	<u>Other Annual Compensation</u>
Douglas R. Reid (1)	1999	\$ 230,649	\$ —	\$ —
Chief Executive Officer and President;	1998	\$ 208,586	\$ —	\$ —
Executive Vice President and	1997	\$ 195,462	\$ 18,000 (2)	\$ —
Chief Operating Officer				
Werner Gartner	1999	\$ 157,407	\$ —	\$ —
Executive Vice President and	1998	\$ 157,500	\$ —	\$ —
Chief Financial Officer	1997	\$ 157,500	\$ 15,000 (2)	\$ —
Randy R. Mabbott	1999	\$ 152,250	\$ —	\$ —
Senior Vice President, Corporate Affairs	1998	\$ 152,250	\$ —	\$ —
General Counsel and Corporate Secretary	1997	\$ 133,142 (4)	\$ 12,000 (2)	\$ —
Pascal E. Spothelfer (1)	1999	\$ —	\$ —	\$ —
Former Chief Executive Officer and President	1998	\$ 223,740	\$ —	\$ —
	1997	\$ 232,284	\$ 30,000 (2)	\$ 34,267 (3)
All directors and executive officers as a group	1999	\$ 589,156	\$ —	\$ —
(nine persons in 1999, thirteen persons in 1998	1998	\$ 826,276	\$ —	\$ —
and ten persons in 1997)(5)	1997	\$ 828,388	\$ 75,000	\$ 34,267

- (1) Mr. Spothelfer resigned as Chief Executive Officer and President in September 1998 at which time Mr. Doug Reid assumed this position. Mr. Spothelfer continued to receive his salary and other benefits until December 31, 1998.
- (2) 1997 bonuses were approved by the Compensation Committee of the Board of Directors on December 15, 1997 but not paid until 1998. These amounts were provided for in the Company's December 31, 1997 financial statements.
- (3) Includes \$25,689 for housing expenses, \$4,354 for automobile expenses and \$4,224 for travel expenses for Mr. Spothelfer's spouse and family. None of these expenses were paid in 1998 or 1999.
- (4) Mr. Mabbott became an employee effective October 1, 1997. Prior to this time he provided contract services to the Company.
- (5) Included in 1997 and 1998, are Rodger Conner and William B. Patton, Jr. who resigned as Directors in May 1998 and Pascal E. Spothelfer who resigned in September 1998. Included in 1998 is William Turner who resigned in December 1998.

(5) **Item 12 — Options to Purchase Securities from Registrant or Subsidiaries**

The following table sets forth certain information regarding outstanding options to purchase securities held by the Company's executive officers and directors as of March 23, 2000:

<u>Title - Stock Options</u>	<u>Total Amount</u>	<u>Purchase Price (1)</u>	<u>Expiration Date</u>
Douglas R. Reid.....	74,000	US\$7.50	2/6/2007
	26,000	US\$7.50	6/30/2007
	95,000	US\$7.50	9/14/2008
	20,000	US\$1.375	3/28/2009
	10,000	US\$3.0625	1/16/2010
Werner Gartner	60,000	US\$7.50	2/6/2007
	20,000	US\$7.50	6/30/2007
	12,000	US\$1.375	3/28/2009
	7,000	US\$3.0625	1/16/2010
Randy Mabbott	45,000	US\$7.50	2/6/2007
	20,000	US\$7.50	6/30/2007
	12,000	US\$1.375	3/28/2009
	7,000	US\$3.0625	1/16/2010
W. James Close (2).....	—	—	—
Pierre Y. Ducros (2).....	—	—	—
Gregory A. Yeldon (2).....	—	—	—
Horst J. Pudwill (2).....	7,000	US\$1.375	3/28/2009
Richard D. Orman.....	7,400	US\$7.50	2/6/2007
	12,600	US\$7.50	3/19/2007
	7,000	US\$1.375	3/28/2009
Joel A. Schleicher.....	20,000	US\$7.50	3/19/2007
	7,000	US\$1.375	3/28/2009
All directors and executive officers as a group (9 persons).....	469,000		

(1) All options were granted at not less than fair market value at date of grant.

(2) Messrs. Close, Ducros, Pudwill and Yeldon have waived the right to receive any stock options that they would be otherwise entitled to receive.

Item 13 — Interest of Management in Certain Transactions

On April 17, 1998, Canadian Marconi Company (now BAE Systems Canada Inc. and referred to herein as “Canadian Marconi”) purchased approximately 58% of the Company’s total shares outstanding from the Company’s two principal shareholders, Telexel Holding Limited, which was beneficially owned by Horst J. Pudwill a Director of the Company, and Deutsche Effekten – und Wechsel-Beteiligungsgesellschaft AG, represented by Alexander von Witzleben, a former Director of the Company.

The Company is an authorized reseller of certain Canadian Marconi GPS products. In 1999, the Company purchased \$177,000 (\$38,000 in 1998) worth of products from Canadian Marconi. In addition, the Company purchased \$233,000 (\$77,000 in 1998) of contracted engineering services from Canadian Marconi in 1999.

PART II

Item 14 — Description of Securities to be Registered

Not applicable.

PART III

Item 15 — Defaults on Senior Securities

Not applicable.

Item 16 — Changes in Securities and Changes in Security for Registered Securities

Not applicable.

PART IV

Item 17 — Financial Statements

Not applicable.

Item 18 — Financial Statements

See Item 19 below for Financial Statements filed as a part of this Annual Report.

Item 19 — Financial Statements and Exhibits

(a) Financial Statements

1. Report of Independent Chartered Accountants
2. Consolidated Balance Sheets
3. Consolidated Statements of Operations
4. Consolidated Statements of Shareholders' Equity (Deficit)
5. Consolidated Statements of Cash Flows
6. Notes to Consolidated Financial Statements
7. Financial Statement Schedules

(b) Exhibits

- 2.1 Agreement of Purchase and Sale of Assets dated November 3, 1995 between NovAtel Communications Ltd. and Harris Corporation.†
- 2.2 Asset Purchase Agreement dated July 12, 1996 between NovAtel Communications Ltd., NovAtel Wireless, Inc., NovAtel Wireless Solutions, Inc. and NovAtel Wireless Technology, Inc.†
- 2.3 Amendment to the Asset Purchase Agreement dated August 21, 1996 between NovAtel Communications Ltd., NovAtel Wireless, Inc., NovAtel Wireless Solutions, Inc. and NovAtel Wireless Technology, Inc.†
- 3.1 Restated Articles of Incorporation of Registrant.†
- 3.2 Restated Bylaws of Registrant.†
- 4.1 Form of Common Stock Certificate.†
- 10.1 Directors Stock Option Plan.†
- 10.2 Stock Option Plan with form of stock option agreement.†
- 10.3 Form of Indemnification Agreement to be entered into between Registrant and certain directors and officers.†
- 10.4 Intellectual Property License and Assignment Agreement dated November 3, 1995 between NovAtel Communications Ltd. and Harris Corporation.†

- 10.5 Technology Agreement dated February 27, 1994 between Japan Radio Co., Ltd., JRC Canada Inc., JRC International Inc., Telexel Holding, Ltd., NovAtel Communications Ltd. and NovAtel Carcom, Inc.†
- 10.6 Share Purchase Agreement dated May 13, 1992 between her Majesty the Queen in Right of Alberta, 473654 Alberta Ltd., 475342 Alberta Ltd., 496072 Alberta Ltd. and Telexel Holding Limited.†
- 10.7 Post Purchase Agreement dated May 29, 1992 between Her Majesty the Queen in Right of Alberta, 496072 Alberta Ltd., Telexel Holding Limited and NovAtel Communications Ltd.†
- 10.8 Surplus Systems Assets Agreement dated May 29, 1992 between NovAtel Communications Ltd., 475342 Alberta Ltd. and Her Majesty the Queen in Right of the Province of Alberta.
- 10.9 Settlement Agreement dated March 18, 1994 between North West Trust Company, as representative of 496072 Alberta Ltd., Telexel Holding Limited and NovAtel Communications Ltd.†
- 10.10 Letter dated February 7, 1997 amending Settlement Agreement. ††
- 10.11 Post Purchase Agreement Amending Agreement dated March 18, 1994 between Her Majesty the Queen in Right of Alberta, 496072 Alberta Ltd., Telexel Holding Limited and NovAtel Communications Ltd.†
- 10.12 Guarantee of Post Purchase Agreement dated May 29, 1992 by NovAtel Communications Ltd. in favour of Her Majesty the Queen in Right of Alberta (amended by Settlement Agreement dated March 18, 1994, filed hereto as Exhibit 10.15).†
- 10.13 Definitive Project Agreement #1 dated July 1, 1998 between Canadian Marconi Company and NovAtel Inc.
- 10.14 Reseller and License Agreement dated May 22, 1998 between NovAtel Inc. and Canadian Marconi Company
- 10.15 Final Agreement dated December 31, 1997 between ViaSat Geo-Technologie Inc. and NovAtel Inc. ††
- 10.16 Lease Agreement dated January 30, 1998 with Hongkong Bank of Canada with Schedule 1 (Computer) and Schedule 2 (Furniture) ††
- 10.17 Employment Agreement dated September 11, 1998 between NovAtel Inc. and Doug Reid.
- 10.18 Employment Agreement dated July 1, 1997 between NovAtel Inc. and Werner Gartner. ††
- 10.19 Employment Agreement dated October 1, 1997 between NovAtel Inc. and Randy Mabbott. ††
- 10.20 Operating Line Credit Facility Letter from The Toronto Dominion Bank dated June 23, 1999.
- 10.21 Lease Agreement (Building) dated January 29, 1999 between Christian Schumacher and NovAtel Inc.
- 10.22 Agreement made effective July 20, 1999 between NovAtel Inc. and Sokkia Co., Ltd.
- 10.23 License Agreement made effective August 1, 1999 between NovAtel Inc., Sokkia Co., Ltd. and Point, Inc.
- 10.24 Operating Loan Credit Facility Letter from HSBC Bank Canada dated November 15, 1999.
- 10.25 Agreement dated January 1, 2000 between NovAtel Inc. and SMTC Manufacturing Corporation of Canada.
- 10.26 Loan Agreement made effective March 15, 2000 between NovAtel Inc. and Sokkia Co., Ltd. and Point, Inc.
- 21.1 List of Subsidiaries.†
- 23.1 Consent of Arthur Andersen & Co.


† Incorporated by reference to Registrant's registration statement on Form F-1 (Registration Statement No. 333-6088).

†† Incorporating by reference to Registrant's annual report on Form 20-F for the year ended December 31, 1997.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Act of 1934, the Registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

NOVATEL INC.

By 
Doug Reid
President and Chief Executive Officer

Date: March 24, 2000

NOVATEL INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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ARTHUR ANDERSEN

REPORT OF INDEPENDENT CHARTERED ACCOUNTANTS

To the Shareholders of NovAtel Inc.:

We have audited the consolidated balance sheets of **NOVATEL INC.** as at December 31, 1999 and 1998 and the consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1999. 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 in Canada. 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, 1999 and 1998 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999 in accordance with generally accepted accounting principles in Canada.

Calgary, Alberta.
January 28, 2000.

Chartered Accountants

NOVATEL INC.

CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31,	
	1999	1998
ASSETS		
(Note 8)		
Current assets:		
Cash and short term investments	\$ 8,280	\$ 4,486
Accounts receivable (Notes 3 and 12)	6,110	5,349
Related party receivables (Note 15).....	1,340	8
Inventories (Note 4).....	3,684	3,595
Prepaid expenses and deposits.....	<u>292</u>	<u>315</u>
Total current assets	19,706	13,753
Capital assets (Note 5)	4,648	11,755
Intangible assets (Notes 6 and 9)	3,047	3,424
Deferred development costs (Note 7).....	<u>1,803</u>	<u>528</u>
Total assets.....	<u>\$ 29,204</u>	<u>\$ 29,460</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (Note 19).....	\$ 4,851	\$ 5,121
Related party payables (Note 15)	278	49
Provision for future warranty costs.....	246	110
Deferred gain on sale/leaseback of capital assets – current portion (Note 5) .	153	42
Capital lease obligation – current portion (Note 9).....	<u>374</u>	<u>350</u>
Total current liabilities.....	5,902	5,672
Deferred gain on sale/leaseback of capital assets – long-term portion (Note 5) ..	936	80
Capital lease obligation – long-term portion (Note 9).....	<u>549</u>	<u>922</u>
Total liabilities	<u>7,387</u>	<u>6,674</u>
Non-controlling interest	<u>65</u>	<u>—</u>
Shareholders' equity (Note 11):		
Capital stock.....	35,602	35,602
Deficit	<u>(13,850)</u>	<u>(12,816)</u>
Total shareholders' equity	<u>21,752</u>	<u>22,786</u>
Total liabilities and shareholders' equity.....	<u>\$ 29,204</u>	<u>\$ 29,460</u>

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

NOVATEL INC.

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

	Year Ended December 31,		
	1999	1998	1997
Revenues (Notes 12 and 15)	\$ 24,226	\$ 21,567	\$ 27,049
Cost of sales (Note 15)	<u>12,646</u>	<u>8,674</u>	<u>7,850</u>
Gross profit	<u>11,580</u>	<u>12,893</u>	<u>19,199</u>
Operating expenses:			
Research and development	6,902	8,234	6,077
Selling and marketing	3,925	4,621	3,196
General and administration	<u>2,783</u>	<u>3,561</u>	<u>3,541</u>
Total operating expenses	<u>13,610</u>	<u>16,416</u>	<u>12,814</u>
Operating income (loss)	(2,030)	(3,523)	6,385
Interest income	374	212	201
Other income (expense) (Note 13)	<u>(204)</u>	<u>(236)</u>	<u>199</u>
Income (loss) from continuing operations before income taxes	<u>(1,860)</u>	<u>(3,547)</u>	<u>6,785</u>
Provision for income taxes	<u>123</u>	<u>87</u>	<u>62</u>
Net income (loss) from continuing operations	(1,983)	(3,634)	6,723
Net income from discontinued operations (Note 19)	<u>949</u>	<u>1,304</u>	<u>460</u>
Net income (loss)	<u>\$ (1,034)</u>	<u>\$ (2,330)</u>	<u>\$ 7,183</u>
Net income (loss) per share (basic) (Note 11)			
Continuing operations	\$ (0.26)	\$ (0.47)	\$ 0.91
Discontinued operations	<u>0.13</u>	<u>0.17</u>	<u>0.06</u>
Net income (loss) per share	<u>\$ (0.13)</u>	<u>\$ (0.30)</u>	<u>\$ 0.97</u>
Weighted average shares outstanding (basic) (Note 11)	<u>7,674</u>	<u>7,673</u>	<u>7,420</u>
Net income (loss) per share (fully diluted) (Note 11)			
Continuing operations	\$ (0.26)	\$ (0.47)	\$ 0.86
Discontinued operations	<u>0.13</u>	<u>0.17</u>	<u>0.06</u>
Net income (loss) per share	<u>\$ (0.13)</u>	<u>\$ (0.30)</u>	<u>\$ 0.92</u>
Weighted average shares outstanding (fully diluted) (Note 11)	<u>8,566</u>	<u>8,509</u>	<u>8,100</u>

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

NOVATEL INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(in thousands)

	<u>Common Shares (Note 11)</u>		<u>Deficit</u>	<u>Total Shareholders' Equity (Deficit)</u>
	<u>Number</u>	<u>Amount</u>		
December 31, 1996.....	5,200	\$ 13,501	\$ (17,669)	\$ (4,168)
Initial public offering of common shares.....	2,470	22,058	—	22,058
Net income.....	<u>—</u>	<u>—</u>	<u>7,183</u>	<u>7,183</u>
December 31, 1997.....	7,670	35,559	(10,486)	25,073
Common shares issued	4	43	—	43
Net loss	<u>—</u>	<u>—</u>	<u>(2,330)</u>	<u>(2,330)</u>
December 31, 1998.....	7,674	35,602	(12,816)	22,786
Net loss	<u>—</u>	<u>—</u>	<u>(1,034)</u>	<u>(1,034)</u>
December 31, 1999.....	<u>7,674</u>	<u>\$ 35,602</u>	<u>\$ (13,850)</u>	<u>\$ 21,752</u>

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

NOVATEL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	1999	1998	1997
Operating activities:			
Net income (loss) from continuing operations.....	\$ (1,983)	\$(3,634)	\$ 6,723
Net income from discontinued operations.....	949	1,304	460
Charges and credits to operations not involving an outlay of cash:			
Amortization.....	2,697	2,371	1,419
(Gain) loss on disposal of capital assets.....	(183)	(10)	258
Amortization of deferred gain on sale/leaseback of capital assets.....	(142)	(53)	—
Non-controlling interest.....	3	—	—
Gain on divestitures.....	—	(718)	(1,093)
Net change in non-cash working capital related to operations (Note 17) .	<u>(2,236)</u>	<u>(4,196)</u>	<u>(2,134)</u>
Cash (used in) provided by operating activities.....	<u>(895)</u>	<u>(4,936)</u>	<u>5,633</u>
Financing activities:			
Proceeds from initial public offering (Note 11).....	—	—	22,058
Issuance of shares.....	—	43	—
(Decrease) in bank advances.....	—	—	(9,610)
(Decrease) increase in capital lease obligations.....	(349)	1,272	(60)
Decrease in deferred charges.....	—	—	707
(Decrease) in mortgage payable.....	—	—	(88)
Cash (used in) provided by financing activities.....	<u>(349)</u>	<u>1,315</u>	<u>13,007</u>
(Decrease) increase in cash before investing activities.....	<u>(1,244)</u>	<u>(3,621)</u>	<u>18,640</u>
Investing activities:			
Purchase of capital and intangible assets.....	(1,240)	(4,512)	(10,304)
Proceeds from disposal of capital assets.....	7,864	1,705	435
Investment in Point, Inc. net of cash acquired (Note 16).....	(311)	—	—
Proceeds on divestitures.....	—	710	1,900
Deferred development costs.....	<u>(1,275)</u>	<u>(528)</u>	<u>—</u>
Cash provided by (used in) investing activities.....	<u>5,038</u>	<u>(2,625)</u>	<u>(7,969)</u>
Increase (decrease) in cash and short term investments.....	3,794	(6,246)	10,671
Cash and short term investments, beginning of year.....	<u>4,486</u>	<u>10,732</u>	<u>61</u>
Cash and short term investments, end of year.....	<u>\$ 8,280</u>	<u>\$ 4,486</u>	<u>\$10,732</u>
Cash and short term investments consisted of:			
Cash and cash equivalents.....	\$ 5,280	\$ 2,736	\$ 6,232
Short term investments (original maturities of greater than 90 days).....	<u>3,000</u>	<u>1,750</u>	<u>4,500</u>
	<u>\$ 8,280</u>	<u>\$ 4,486</u>	<u>\$10,732</u>
Interest paid related to bank advances and capital lease obligations.....	<u>\$ 74</u>	<u>\$ 115</u>	<u>\$ 57</u>
Income taxes paid.....	<u>\$ 80</u>	<u>\$ 86</u>	<u>\$ 99</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 and unless otherwise stated)

Note 1 Nature of Business

NovAtel Inc. (NovAtel or the Company) is incorporated under the laws of Canada. The Company designs, markets and supports a broad range of products that determine precise geographic locations using the Global Positioning System (GPS).

On February 7, 1997, the Company completed an initial public offering of 2,470 common shares for \$22,058 (see Note 11).

On April 17, 1998, Canadian Marconi Company (CMC) acquired 58.3% of the Company's outstanding common shares from the Company's two former principal shareholders. On November 29, 1999, BAE SYSTEMS (formerly British Aerospace, p.l.c.) acquired control of the Company through the indirect acquisition of approximately 51.6% of the common shares of CMC from their previous owner, The General Electric Company, p.l.c. (see Note 14).

On July 20, 1999, the Company and Sokkia Co., Ltd. formed a company, Point, Inc. to develop and distribute GPS based products for surveying, mapping, geographical information systems, construction and construction machine control applications, on a world wide basis. The Company acquired a 49% equity interest in Point, Inc. for \$311, net of cash acquired (see Note 16).

Note 2 Significant Accounting Policies

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada (Canadian GAAP or Canadian principles) and are stated in Canadian dollars. With respect to the consolidated financial statements, the material differences between Canadian and United States of America (U.S.) generally accepted accounting principles (U.S. GAAP or U.S. principles) are described in Note 20. 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, its subsidiaries and its proportionate (49%) interest in the accounts of Point, Inc.

b) *Foreign Currency Translation*

Foreign subsidiaries and the Company's investment in Point, Inc. are considered financially and operationally dependent on the Company and are translated into 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 revenues and expenses, except amortization, 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 the Canadian dollar are translated into Canadian dollars using yearly average and year-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 received, as there is not a high degree of assurance that the Company will be able to realize the benefit from these credits.

d) *Cash and Cash Equivalents*

Cash and cash equivalents include short term, highly liquid investments which have original maturities of 90 days or less.

e) *Inventories*

Raw materials and components, work-in-progress, and finished goods 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.

f) *Capital Assets, Intangible Assets 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 that extend the economic useful life of an asset are capitalized.

Capital assets and intangible assets are amortized on a straight-line basis using the expected useful lives of the assets:

Buildings.....	20 years
Computer and ancillary equipment.....	4 years
Research and development equipment...	4 years
Production equipment.....	5 years
Furniture and fixtures	10 years
Product tooling.....	2 years
Patents and other intangibles.....	5 - 10 years

Capital assets and intangible assets are assessed for future recoverability or impairment by estimating future net undiscounted cash flows and residual values. When an impairment has occurred, a loss is recognized in the period.

g) *Research and Development Costs*

Research costs are charged to operations as incurred. Development costs, including software development costs, are charged to operations as incurred unless they meet specific criteria related to technical, market and financial feasibility. In these circumstances, the costs are deferred and amortized on a systematic basis, subject to recoverability.

h) *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.

i) **Revenue Recognition**

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

j) **Stock-based Compensation Plans**

The Company has stock-based compensation plans (see Note 11). No compensation expense is recognized for these plans when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to capital stock. If stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock options cancelled is charged to retained earnings.

k) **Interest Capitalization**

Interest costs incurred to finance the construction of capital assets are capitalized.

l) **Comparative Figures**

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted in 1999.

Note 3 Accounts Receivable

	<u>December 31, 1999</u>	<u>December 31, 1998</u>
Trade receivables, net.....	\$ 5,748	\$ 4,989
Goods and Services Tax receivable.....	170	241
Other.....	<u>192</u>	<u>119</u>
	<u>\$ 6,110</u>	<u>\$ 5,349</u>

The receivable balances are net of an allowance for doubtful accounts of \$768 at December 31, 1999 and \$509 at December 31, 1998.

Note 4 Inventories

	<u>December 31, 1999</u>	<u>December 31, 1998</u>
Raw materials and components.....	\$ 2,685	\$1,065
Work-in-progress	68	342
Finished goods	<u>931</u>	<u>2,188</u>
	<u>\$ 3,684</u>	<u>\$3,595</u>

The inventory balances are net of a provision for excess and obsolete inventory of \$720 at December 31, 1999 and \$588 at December 31, 1998.

Note 5 Capital Assets

	December 31, 1999			December 31, 1998		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land and buildings	\$ —	\$ —	\$ —	\$ 6,638	\$ 455	\$ 6,183
Computer and ancillary equipment.....	4,477	2,613	1,864	4,450	1,951	2,499
Production, research and development equipment .	2,165	1,091	1,074	1,613		951
					662	
Furniture and fixtures	512	183	329	489	131	358
Product tooling.....	875	581	294	742	361	381
Equipment under capital lease	1,641	554	1,087	1,651	268	1,383
	<u>\$ 9,670</u>	<u>\$ 5,022</u>	<u>\$ 4,648</u>	<u>\$15,583</u>	<u>\$ 3,828</u>	<u>\$11,755</u>

On January 29, 1999, the Company concluded a sale/leaseback arrangement by which the Company's Calgary facility, including certain adjacent land, with a carrying value of \$5,812 at the time of sale, was sold for net proceeds of \$6,922, resulting in a gain of \$1,110. The gain on the sale of the Calgary facility has been deferred and is being amortized over the ten year term of the lease.

In a separate transaction, on September 24, 1999, the Company sold its remaining land, with a carrying value of \$474 at time of sale, for net proceeds of \$652, resulting in a gain of \$178.

Note 6 Intangible Assets

Intangible assets, comprised primarily of patents and purchased technology, are net of accumulated amortization of \$1,704 at December 31, 1999 and \$1,054 at December 31, 1998.

Note 7 Deferred Development Costs

In the year ended December 31, 1999, the Company deferred \$1,275 of development costs related to the development of a certified aviation GPS receiver, compared to \$528 in 1998 and \$nil in 1997. The Company has not commenced the amortization of these deferred costs.

Note 8 Bank Advances

At December 31, 1999, lines of credit were available with the HSBC Bank Canada and the Toronto Dominion Bank. The lines of credit are payable on demand and are secured by certain of the Company's assets. The bank advances bear interest at the banks' prime rate on Canadian dollar advances.

In aggregate, the Company can borrow up to \$1,650 for day-to-day operating requirements and \$2,510 to support the margin requirements related to the purchase of up to US\$7,500 of forward foreign exchange contracts. At December 31, 1999, portions of the lines of credit were utilized to support \$665 of letters of credit (\$93 at December 31, 1998) and the margin requirements on US\$3,000 in forward foreign exchange contracts leaving \$985 available for day-to-day operating requirements and the margin capacity necessary to enter into an additional US\$4,500 in forward foreign exchange contracts.

Interest in the amount of \$42, incurred to finance the construction of the Company's Calgary facility, was capitalized in 1997. No interest was capitalized in 1999 or 1998.

Note 9 Commitments and Contingencies

a) At December 31, 1999, purchase commitments were outstanding for approximately \$4,200 pertaining primarily to the acquisition of inventory, supplies and services.

b) The Company's facilities and certain of the Company's computer equipment, office equipment and furniture are leased for various periods up to 2009. Payments under the leasing arrangements are as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2000.....	\$ 423	\$1,005
2001.....	270	947
2002.....	256	849
2003.....	64	811
2004.....	—	903
2005 and beyond	<u>—</u>	<u>3,788</u>
Total future minimum lease payments.....	1,013	<u>\$8,303</u>
Less: imputed interest (6.8 %).....	<u>(90)</u>	
Balance of capital lease obligations	923	
Less: current portion.....	<u>(374)</u>	
Capital lease obligations - long-term portion	<u>\$ 549</u>	

c) As at December 31, 1999, intangible assets included \$906 related to the Company's settlement agreement with Trimble Navigation Limited (Trimble). This settlement agreement with Trimble includes a provision that Trimble may, at its sole option, terminate rights granted there under, including licenses, should the Company undergo a direct change in control. The share acquisition by CMC in 1998 constitutes a change of control for purposes of the settlement agreement. However, the Company has received no notice of termination from Trimble and believes that Trimble will not terminate these licenses and rights. Accordingly, the Company has not provided for any impairment of these intangible assets as at December 31, 1999.

d) 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, 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.

Note 10 Financial Instruments

In the normal course of business, the Company uses foreign currency options and forward foreign currency contracts to reduce its exposure to fluctuations in the U.S. dollar to Canadian dollar exchange rates. At December 31, 1999, the Company has foreign currency options and forward foreign currency contracts to sell US \$3,000 between January 5, 2000 and June 30, 2000 at rates between \$0.6805 and \$0.6849. In addition, at December 31, 1999, the Company has entered into forward foreign currency contracts obligating it to buy US\$1,000 between March 31, 2000 and June 30, 2000 at rates between \$0.6775 and \$0.6797. Had these contracts been settled on December 31, 1999, an additional gain of \$21 would have been recognized.

The carrying values of other financial instruments, which include short term investments, accounts receivable, related party receivables, accounts payable and related party payables approximate their fair value because of the near-term maturity of these instruments. The carrying value of capital lease obligations approximate their fair value, as the imputed interest rates on these obligations approximate market rates.

Note 11 Shareholders' Equity

The Company has authorized an unlimited number of common shares, of which 7,674 are outstanding as of December 31, 1999 (7,674 in 1998 and 7,670 in 1997).

On February 7, 1997, the Company completed an initial public offering of its common shares. The Company issued 2,470 common shares at a price of US \$7.50 per share, which increased shareholders' equity by \$22,058, after deducting underwriters' discounts of \$1,749 and expenses related to the offering of \$1,174.

Net income (loss) per share figures presented in the Company's financial statements are based upon the weighted average number of shares outstanding. Fully diluted net income (loss) per share figures assume the exercise of options, if dilutive, effective on their dates of issue and that the funds derived there from would have been invested at an annual rate of return of 5% for 1999 and 1998, and 3.6% for 1997.

The Company maintains stock option plans for employees and members of the Board of Directors. Under the plans, participants are granted options to purchase common shares of the Company at no less than the market value on the date of the grant. The options have vesting periods ranging from three to four years and expire ten years from the date of the grant. As of December 31, 1999, the Company has authorized the granting of up to 1,101 options to purchase common shares of the Company under the stock option plans, of which 4 had been exercised.

A summary of the status of the Company's stock option plans as of December 31, 1999, 1998 and 1997, and changes during the years ending on those dates is presented below:

Options	1999		1998		1997	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year...	892	US \$7.62	854	US \$7.55	—	US \$ —
Granted	208	1.38	274	7.75	867	7.55
Exercised.....	—	—	(4)	7.50	—	—
Forfeited.....	(162)	6.85	(232)	7.54	(13)	7.50
Outstanding at end of year	<u>938</u>	6.37	<u>892</u>	7.62	<u>854</u>	7.55
Options exercisable at year-end.....	<u>409</u>	7.59	<u>264</u>	7.54	<u>—</u>	N/A

The following table summarizes information about the stock option plans as of December 31, 1999:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
US \$7.50 to \$11.25	749	7.6 years	US \$7.63	409	US \$7.59
\$1.38	<u>189</u>	9.2	1.38	—	—
\$1.38 to \$11.25	<u>938</u>	7.9	6.37	<u>409</u>	7.59

In January 2000, the Company granted an additional 104 options, with an exercise price of US \$3.06, to employees.

Note 12 Major Customers, Export Sales and Suppliers

Certain major customers accounted for significant portions of the sales from continuing operations. The table below reflects customers whose purchases represented more than approximately 10% of the Company's total revenues in any of the periods indicated.

	Sales by Major Customer		
	Year Ended December 31,		
	1999	1998	1997
Customer A.....	\$ 4,014	\$ —	\$ —
Customer B.....	1,870	5,222	591
Customer C.....	1,401	1,851	2,676
Customer D.....	1,346	715	2,675
Customer E.....	<u>1,116</u>	<u>948</u>	<u>8,677</u>
	<u>\$ 9,747</u>	<u>\$ 8,736</u>	<u>\$ 14,619</u>
Percentage of total revenue.....	<u>40%</u>	<u>41%</u>	<u>54%</u>

Accounts receivable related to these major customers at December 31 were \$2,921 in 1999 and \$2,182 in 1998.

	Sales by Geographic Market					
	Year Ended December 31,					
	1999		1998		1997	
	\$	%	\$	%	\$	%
U.S.A.....	\$10,079	42%	\$ 8,493	40%	\$ 17,149	63%
Europe.....	4,645	19%	2,382	11%	4,228	16%
Asia/Australia.....	5,745	24%	8,690	40%	3,120	12%
Canada.....	3,003	12%	1,743	8%	2,479	9%
Other.....	<u>754</u>	<u>3%</u>	<u>259</u>	<u>1%</u>	<u>73</u>	<u>—</u>
	<u>\$24,226</u>	<u>100%</u>	<u>\$ 21,567</u>	<u>100%</u>	<u>\$ 27,049</u>	<u>100%</u>

Certain of the Company's products incorporate components that 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 13 Other Income (Expense)

	Year Ended December 31,		
	1999	1998	1997
Foreign exchange.....	\$ (211)	\$ 104	\$ 178
Gain on sale of land.....	178	—	—
Miscellaneous.....	<u>(171)</u>	<u>(340)</u>	<u>21</u>
	<u>\$ (204)</u>	<u>\$ (236)</u>	<u>\$ 199</u>

Miscellaneous expense included charges related to work force reductions of \$213 in 1999 and \$400 in 1998.

Note 14 Taxes

a) *Canadian Taxes*

At December 31, 1999, losses were available for Canadian income tax purposes that can be carried forward to reduce future Canadian taxable income. These losses expire as follows:

2004.....	\$ 31,900
2005.....	—
2006.....	<u>1,500</u>
	<u>\$ 33,400</u>

In addition, the Company has \$137 million of research and development costs deducted in the accounts, in excess of amounts claimed for Canadian income tax purposes.

The Company also has unutilized investment tax credits of \$7.5 million available to reduce future Canadian income taxes. These credits expire as follows:

2000.....	\$ 900
2001.....	800
2002.....	—
2003.....	1,200
2004.....	1,600
2005.....	900
2006.....	500
2007.....	300
2008.....	800
2009.....	<u>500</u>
	<u>\$ 7,500</u>

The potential tax benefits of these losses, deductions and investment tax credits have not been recognized in the consolidated financial statements.

The Company has determined that CMC's acquisition of a majority of the common shares of the Company on April 17, 1998 and BAE SYSTEMS' indirect acquisition of the majority of the common shares of CMC on November 29, 1999 constitute acquisition-of-control of the Company for Canadian income tax purposes. Accordingly, the availability of certain of the Company's Canadian losses, deductions, and investment tax credits may be subject to limitation.

The ultimate availability and amount of the losses and other tax benefits described above may be dependent upon future Canada Customs and Revenue Agency 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 totalling approximately US\$38.0 million which expire in 2007 and 2008. However, these operating loss carryforwards will be substantially limited due to the CMC and BAE SYSTEMS acquisition of control. The potential future benefit of these losses has not been recognized in the consolidated financial statements.

Note 15 Related Party Transactions

In the normal course of business, the Company had the following transactions, measured at the exchange amount, with its related parties:

	<u>Year Ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Product sales to Point, Inc.	\$ 1,165	\$ —	\$ —
Services provided to Point, Inc.	169	—	—
Royalty income from Point, Inc.	74	—	—
Development costs charged by Point, Inc.	567	—	—
Inventory purchases from CMC	177	38	—
Contracted development costs charged by CMC	233	77	—
Product sales to CMC	47	—	—
Other expenses	—	4	71

Significant related party receivables at December 31, 1999 consist of \$1,308 from Point, Inc. and \$29 from CMC (both \$0 at December 31, 1998). Related party payables at December 31, 1999 were comprised of amounts due to CMC of \$151 (\$49 at December 31, 1998) and \$127 to Point, Inc. (\$0 at December 31, 1998).

Note 16 Investment in Point, Inc.

On July 20, 1999, the Company signed an agreement to acquire a 49% equity interest in Point, Inc. The fair value of assets acquired was as follows:

Cash	\$ 427
Inventories	134
Prepaid expenses	13
Capital assets	<u>164</u>
	738
Less: Cash of Point, Inc.	<u>(427)</u>
Investment, net of cash acquired	<u>\$ 311</u>

The following is a summary of the Company's proportionate share of the financial position, operating results, and cash flows of Point, Inc.:

	<u>Year Ended December 31,</u>
	<u>1999</u>
Current assets	\$2,577
Non-current assets	<u>106</u>
Total assets	<u>\$2,683</u>
Current liabilities	\$1,220
Long-term liabilities	<u>—</u>
Total liabilities	<u>\$1,220</u>
Revenue	\$2,907
Expenses	<u>2,873</u>
Net income	<u>\$ 34</u>
Cash provided by (used in)	
Operating activities	\$(1,003)
Investing activities	\$ —
Financing activities	\$ 738

Note 17 Consolidated Statements of Cash Flows

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

	Year ended December 31,		
	1999	1998	1997
Increase in accounts receivable and related party receivables...	\$ (2,093)	\$ (619)	\$ (43)
Increase in inventories	(274)	(1,529)	(120)
Decrease (increase) in prepaid expenses and deposits.....	36	(184)	17
Increase (decrease) in accounts payable, accrued liabilities and related party payables.....	908	(2,001)	(2,338)
Decrease in customer deposits	—	—	(219)
Increase in provision for future warranty costs	<u>136</u>	<u>50</u>	<u>10</u>
Net change in non-cash working capital	(1,287)	(4,283)	(2,693)
Non-cash working capital items related to divestitures	<u>(949)</u>	<u>87</u>	<u>559</u>
Net change in non-cash working capital related to operations..	<u>\$ (2,236)</u>	<u>\$ (4,196)</u>	<u>\$ (2,134)</u>

Note 18 Uncertainty Due to the Year 2000 Issue

Most entities depend on computerized systems and therefore are exposed to the Year 2000 conversion risk, which, if not properly addressed, could affect an entity's ability to conduct normal business operations. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000. Given the nature of this risk, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company and those with whom it deals such as customers, suppliers or other third parties, will be fully resolved.

Note 19 Discontinued Operations

a) *Wireless Access Products (WAP) Divestiture*

On November 3, 1995, the Company sold its WAP division and its manufacturing operations in Calgary to Harris Canada, Inc. (Harris). The purchase price was subject to an adjustment based on a post-closing audit of the balance sheet of the divested operations. The post closing audit of the balance sheet was completed on December 23, 1999, resulting in a purchase price adjustment of \$2,336. As the Company had previously provided for a potential adjustment of \$3,320, the balance of the provision of \$949, after interest and miscellaneous costs, has been recognized as income from discontinued operations in 1999.

b) *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 assumed all PCP warranty obligations, purchase order commitments and certain customer commitments.

At the time of the divestiture, proceeds from the sale included cash of \$1,419, a 15% equity interest in NWI and notes receivable of \$2,055, resulting in a net gain on divestiture of \$2,705 after expenses. Of this gain, \$778 was recognized at closing and \$1,927 was recognized in 1997 upon final collection of the notes receivable and the sale of the 15% equity interest in NWI to a former shareholder.

In 1998, the Company received additional proceeds of \$710 as deferred contingent consideration which increased the cumulative net gain on divestiture of the PCP group to \$3,415.

c) Inclusion of Discontinued Operations in Consolidated Financial Statements

The discontinued operations are substantially comprised of the results of the former WAP division and its manufacturing operations and the former PCP division. The net income from discontinued operations for the following years is as set forth below:

	Year Ended December 31,		
	1999	1998	1997
Revenues.....	\$ —	\$ 512	\$ —
Cost of sales	—	—	572
Selling and marketing expenses	—	(76)	—
General and administration expenses	—	2	8
Other expense.....	—	—	53
Income (loss) before gain on divestitures	—	586	(633)
Gain on divestitures.....	949	718	1,093
Net income from discontinued operations.....	<u>\$ 949</u>	<u>\$ 1,304</u>	<u>\$ 460</u>

Accounts receivable as at December 31, 1999 includes \$3 related to discontinued operations (\$3 at December 31, 1998), and accounts payable as at December 31, 1999 includes \$466 related to discontinued operations (\$1,452 at December 31, 1998).

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

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

a) Deferred Development Costs

In the year ended December 31, 1999, the Company deferred \$1,275 of development costs (\$528 in 1998) in accordance with Canadian GAAP. Under U.S. GAAP, these costs would be expensed as incurred as research and development costs.

b) Derivatives and Hedging Activities

The Company has entered into foreign exchange options and forward contracts to manage its exposure to foreign currency fluctuations. Under Canadian GAAP, any gains or losses on these financial instruments would be recognized in the period the underlying anticipated transactions occur. Under U.S. GAAP, these financial instruments would be recorded at fair value at the ending date of each reporting period, resulting in an additional income of \$329 in 1999 and an additional loss of \$308 in 1998 under US principles.

c) Investment in Point, Inc.

The accounts of the Company's investment in Point, Inc. are proportionately consolidated as required under Canadian GAAP. Under U.S. GAAP, proportionate consolidation is not permitted, and the Company's investment in Point, Inc. would be accounted for using the equity method. As permitted by Securities and Exchange Commission guidance, the effects of this difference in accounting principles have not been reflected in the accompanying tables.

d) Post Employment Benefits

The Company provides certain post employment benefits other than pensions to its employees. Such future costs have not been accrued during the period that employees render service as is required by U.S. GAAP; 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 the future liabilities are not material to the ongoing operations of the Company.

e) Income Taxes

Under U.S. principles, deferred income taxes would be recognized, at enacted rates, to reflect the future effects of tax carryforwards 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. GAAP were followed, the Company would also record the tax benefits attributable to the estimated Canadian net operating loss carryforwards, research and development costs and unutilized investment tax credits of approximately \$178 million and U.S. net operating loss carryforwards of approximately US\$38 million, available to offset future taxable income, subject to certain limitations. However, the Company would also have established a full valuation allowance against the calculated tax benefits, since it is uncertain whether any of these tax benefits will be realized. Although management expects future results of operations to be profitable, it has emphasized past performance rather than growth projections and considered the expiration of the carryforward periods and certain other limitations relating thereto, when determining the valuation allowance. Under U.S. GAAP, any subsequent adjustments to the valuation allowance, if deemed appropriate due to changing circumstances, would be recognized as a separate component of the provision for income taxes. As no significant income taxes are currently payable other than large corporation tax, and as a full valuation allowance would be recorded against the deferred tax assets as determined under U.S. GAAP, this difference between Canadian and U.S. GAAP has no effect on the consolidated financial statements as at and for the years ended December 31, 1999 or 1998 or on the consolidated statements of operations, shareholders' equity (deficit) and cash flows for the year ended December 31, 1997.

f) Comprehensive Income

Under U.S. GAAP, during 1998, the Company would have been required to adopt SFAS 130, "Reporting Comprehensive Income". Had the Company adopted SFAS 130 during 1998, it would not have reported any significant items within comprehensive income for the years ended December 31, 1999, 1998 and 1997.

The effects of the above noted differences between Canadian and U.S. GAAP on the statements of operations and on the balance sheets are as follows:

	Year Ended December 31,		
	1999	1998	1997
Net income (loss) from continuing operations			
– Canadian GAAP	\$ (1,983)	\$ (3,634)	\$ 6,723
Adjustments to U.S. GAAP			
Deferred development costs.....	(1,275)	(528)	—
Fair value of financial instruments.....	329	(308)	—
Net loss from continuing operations – U.S. GAAP	<u>\$ (2,929)</u>	<u>\$ (4,470)</u>	<u>\$ 6,723</u>
Net income from discontinued operations – Canadian GAAP..	\$ 949	\$ 1,304	\$ 460
Adjustments to U.S. GAAP	—	—	—
Net income from discontinued operations – U.S. GAAP	<u>\$ 949</u>	<u>\$ 1,304</u>	<u>\$ 460</u>
Net income (loss) – U.S. GAAP	<u>\$ (1,980)</u>	<u>\$ (3,166)</u>	<u>\$ 7,183</u>

	Year Ended December 31,	
	<u>1999</u>	<u>1998</u>
Total Assets		
Canadian GAAP.....	\$29,204	\$29,460
Adjustments to U.S. GAAP		
Deferred development costs.....	(1,803)	(528)
Fair value of financial instruments.....	<u>21</u>	<u>—</u>
U.S. GAAP	<u>\$27,422</u>	<u>\$28,932</u>
Total Shareholders' Equity		
Canadian GAAP.....	\$21,752	\$22,786
Adjustments to U.S. GAAP		
Deferred development costs.....	(1,803)	(528)
Fair value of financial instruments	<u>21</u>	<u>(308)</u>
U.S. GAAP	<u>\$19,970</u>	<u>\$21,950</u>

g) Net Income/Loss per Share

Under Canadian GAAP, the Company's net income (loss) per share is calculated on a "basic" and on a "fully diluted" basis. The fully diluted net income (loss) per share incorporates the potential dilutive effect of the stock options outstanding under the Company's stock option plans.

Under U.S. GAAP, net income (loss) per share is calculated on a "basic" and "diluted" basis. Diluted net income (loss) per share includes the potential dilutive effect of the outstanding stock options under certain conditions, which differ from the conditions applicable under Canadian GAAP.

Net income (loss) per share as computed under Canadian and U.S. principles is as set forth below for the following periods:

	Year Ended December 31,					
	<u>Canadian GAAP</u>			<u>U.S. GAAP</u>		
	Net Income (Loss) per Share – Basic			Net Income (Loss) per Share – Basic		
	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Continuing operations	\$(0.26)	\$(0.47)	\$0.91	\$(0.38)	\$(0.58)	\$0.91
Discontinued operations	<u>0.13</u>	<u>0.17</u>	<u>0.06</u>	<u>0.12</u>	<u>0.17</u>	<u>0.06</u>
Net income (loss) per share	<u>\$(0.13)</u>	<u>\$(0.30)</u>	<u>\$0.97</u>	<u>\$(0.26)</u>	<u>\$(0.41)</u>	<u>\$0.97</u>
	Net Income (Loss) per Share – Fully Diluted			Net Income (Loss) per Share – Diluted		
	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>

Continuing operations	\$(0.26)	\$(0.47)	\$0.86	\$(0.38)	\$(0.58)	\$0.90
Discontinued operations	<u>0.13</u>	<u>0.17</u>	<u>0.06</u>	<u>0.12</u>	<u>0.17</u>	<u>0.06</u>
Net income (loss) per share	<u>\$(0.13)</u>	<u>\$(0.30)</u>	<u>\$0.92</u>	<u>\$(0.26)</u>	<u>\$(0.41)</u>	<u>\$0.96</u>

The weighted average number of shares used in the computation of diluted net income (loss) per share under U.S. principles for the year ended December 31, 1999 would have been increased by 30 shares (31 shares in 1998 and 49 shares in 1997) to reflect the effect of options where the average market price of the Company's common shares exceeded the options' exercise price.

h) Stock-Based Compensation

Statement of Financial Accounting Standards (SFAS) 123 "Accounting for Stock-Based Compensation" establishes a fair value based method of accounting for stock-based compensation. Companies have the option of including the effect of this pronouncement in determining their net income, or alternatively, may continue to apply the accounting provisions of APB Opinion 25, but must comply with the disclosure requirements of SFAS 123. Had the Company prepared its consolidated financial statements in accordance with U.S. GAAP, the Company would have accounted for its stock-based compensation in accordance with APB Opinion 25.

At December 31, 1999, the Company had issued to employees and directors 938 options (892 in 1998 and 854 in 1997) to purchase common shares under its stock-based compensation plans (see Note 11). As the Company applies APB Opinion 25 and related Interpretations in accounting for its plans, no compensation cost would have been recognized within the statement of operations under U.S. principles in 1999, 1998 and 1997. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value of the options at the grant dates, the Company's pro forma net income (loss) from continuing operations and net income (loss) per share would have been as follows:

		<u>1999</u>	<u>1998</u>	<u>1997</u>
Net income (loss) from continuing operations (U.S. GAAP)	As reported	\$(2,929)	\$(4,470)	\$6,723
	Pro forma	\$(4,415)	\$(5,892)	\$4,685
Basic net income (loss) per share from continuing operations (U.S. GAAP)	As reported	\$(0.38)	\$(0.58)	\$0.91
	Pro forma	\$(0.58)	\$(0.77)	\$0.63
Diluted net income (loss) per share from continuing operations (U.S. GAAP)	As reported	\$(0.38)	\$(0.58)	\$0.90
	Pro forma	\$(0.58)	\$(0.77)	\$0.63

The fair value of each option granted is estimated using the Black-Scholes option pricing model with the following weighted-average assumptions used for options granted in 1999, 1998 and 1997: dividend yield of 0%, expected volatility of 66%, expected lives of 10 years and risk free interest rates of 5.0% in 1999, 5.5% in 1998 and 6.5% in 1997.

i) Derivative Instruments and Hedging Activities

In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" effective beginning in the first quarter of 2000. Subsequently, the FASB issued SFAS 137 which amended SFAS 133 and deferred the effective date to the second quarter of 2001. SFAS 133 and 137 establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require companies to recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting under SFAS 133 and 137. The Company is currently evaluating the impact of SFAS 133 and 137 on its financial position and results of operations as disclosed in accordance with U.S. GAAP.



ARTHUR ANDERSEN

REPORT OF INDEPENDENT CHARTERED ACCOUNTANTS

To the Shareholders of NovAtel Inc.:

We have audited in accordance with generally accepted auditing standards in Canada, the consolidated financial statements of NovAtel Inc. included in this Form 20-F and have issued our report thereon dated January 28, 2000. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of valuation and qualifying accounts is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Calgary, Alberta.
January 28, 2000.

Chartered Accountants

SCHEDULE II
Valuation and Qualifying Accounts

<u>1997</u>	<u>Balance at beginning of period</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at end of period</u>
Provision for excess and obsolete inventory	\$ 778	853	(576)	\$ 1,055
Allowance for doubtful accounts	\$ 1,675	15	(1,234)	\$ 456
Provision for future warranty costs	\$ 50	55	(45)	\$ 60
 <u>1998</u>	 <u>Balance at beginning of period</u>	 <u>Additions</u>	 <u>Deductions</u>	 <u>Balance at end of period</u>
Provision for excess and obsolete inventory	\$ 1,055	152	(619)	\$ 588
Allowance for doubtful accounts	\$ 456	211	(158)	\$ 509
Provision for future warranty costs	\$ 60	261	(211)	\$ 110
 <u>1999</u>	 <u>Balance at beginning of period</u>	 <u>Additions</u>	 <u>Deductions</u>	 <u>Balance at end of period</u>
Provision for excess and obsolete inventory	\$ 588	694	(562)	\$ 720
Allowance for doubtful accounts	\$ 509	421	(162)	\$ 768
Provision for future warranty costs	\$ 110	200	(64)	\$ 246

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit</u>	<u>Page</u>
2.1	Agreement of Purchase and Sale of Assets dated November 3, 1995 between NovAtel Communications Ltd. and Harris Corporation.†	
2.2	Asset Purchase Agreement dated July 12, 1996 between NovAtel Communications Ltd., NovAtel Wireless, Inc., NovAtel Wireless Solutions, Inc. and NovAtel Wireless Technology, Inc.†	
2.3	Amendment to the Asset Purchase Agreement dated August 21, 1996 between NovAtel Communications Ltd., NovAtel Wireless, Inc., NovAtel Wireless Solutions, Inc. and NovAtel Wireless Technology, Inc.†	
3.1	Restated Articles of Incorporation of Registrant.†	
3.2	Restated Bylaws of Registrant.†	
4.1	Form of Common Stock Certificate.†	
10.1	Directors Stock Option Plan.†	
10.2	Stock Option Plan with form of stock option agreement.†	
10.3	Form of Indemnification Agreement to be entered into between Registrant and certain directors and officers.†	
10.4	Intellectual Property License and Assignment Agreement dated November 3, 1995 between NovAtel Communications Ltd. and Harris Corporation.†	
10.5	Technology Agreement dated February 27, 1994 between Japan Radio Co., Ltd., JRC Canada Inc., JRC International Inc., Telexel Holding, Ltd., NovAtel Communications Ltd. and NovAtel Carcom, Inc.†	
10.6	Share Purchase Agreement dated May 13, 1992 between her Majesty the Queen in Right of Alberta, 473654 Alberta Ltd., 475342 Alberta Ltd., 496072 Alberta Ltd. and Telexel Holding Limited.†	
10.7	Post Purchase Agreement dated May 29, 1992 between Her Majesty the Queen in Right of Alberta, 496072 Alberta Ltd., Telexel Holding Limited and NovAtel Communications Ltd.†	
10.8	Surplus Systems Assets Agreement dated May 29, 1992 between NovAtel Communications Ltd., 475342 Alberta Ltd. and Her Majesty the Queen in Right of the Province of Alberta.	
10.9	Settlement Agreement dated March 18, 1994 between North West Trust Company, as representative of 496072 Alberta Ltd., Telexel Holding Limited and NovAtel Communications Ltd.†	
10.10	Letter dated February 7, 1997 amending Settlement Agreement. ††	
10.11	Post Purchase Agreement Amending Agreement dated March 18, 1994 between Her Majesty the Queen in Right of Alberta, 496072 Alberta Ltd., Telexel Holding Limited and NovAtel Communications Ltd.†	
10.12	Guarantee of Post Purchase Agreement dated May 29, 1992 by NovAtel Communications Ltd. in favour of Her Majesty the Queen in Right of Alberta (amended by Settlement Agreement dated March 18, 1994, filed hereto as Exhibit 10.15).†	
10.13	Definitive Project Agreement #1 dated July 1, 1998 between Canadian Marconi Company and NovAtel Inc.	
10.14	Reseller and License Agreement dated May 22, 1998 between NovAtel Inc. and Canadian Marconi Company	
10.15	Final Agreement dated December 31, 1997 between ViaSat Geo-Technologie Inc. and NovAtel Inc. ††	
10.16	Lease Agreement dated January 30, 1998 with Hongkong Bank of Canada with Schedule 1 (Computer) and Schedule 2 (Furniture) ††	
10.17	Employment Agreement dated September 11, 1998 between NovAtel Inc. and Doug Reid.	

- 10.18 Employment Agreement dated July 1, 1997 between NovAtel Inc. and Werner Gartner. ††
- 10.19 Employment Agreement dated October 1, 1997 between NovAtel Inc. and Randy Mabbott. ††
- 10.20 Operating Line Credit Facility Letter from The Toronto Dominion Bank dated June 23, 1999.
- 10.21 Lease Agreement (Building) dated January 29, 1999 between Christian Schumacher and NovAtel Inc.
- 10.22 Agreement made effective July 20, 1999 between NovAtel Inc. and Sokkia Co., Ltd.
- 10.23 License Agreement made effective August 1, 1999 between NovAtel Inc., Sokkia Co., Ltd. and Point, Inc.
- 10.24 Operating Loan Credit Facility Letter from HSBC Bank Canada dated November 15, 1999.
- 10.25 Agreement dated January 1, 2000 between NovAtel Inc. and SMTC Manufacturing Corporation of Canada
- 10.26 Loan Agreement made effective March 15, 2000 between NovAtel Inc. and Sokkia Co., Ltd. and Point, Inc.
- 21.1 List of Subsidiaries.†
- 23.1 Consent of Arthur Andersen & Co.

† Incorporated by reference to Registrant's registration statement on Form F-1 (Registration Statement No. 333-6088).

†† Incorporating by reference to Registrant's annual report on Form 20-F for the year ended December 31, 1997.