

**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, 2000

- 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, 2000, Registrant had outstanding 7,678,315 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 119 Sequentially Numbered Pages
Exhibit Index Appears on Page 86

The dollar amounts presented in this Annual Report on Form 20-F are in Canadian currency unless otherwise noted (CDN\$1 = US\$0.6383 on March 23, 2001), and are presented in accordance with accounting principles generally accepted in Canada. Historic rates of exchange appear in Part I, "Item 3 - Key Information, 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 share equity 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 subsidiaries and joint ventures, 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, maintaining technological leadership, timing of revenue recognition in connection with certain contracts, the ability to maintain supply of products from subcontract manufacturers, the procurement of components to build products, and the impact of industry consolidations, together with the other risks and uncertainties described under "Item 3 – Key Information, Risk Factors" in Part I of this Annual Report.

PART I

Item 1 Identity of Directors, Senior Management, Advisers

Not applicable

Item 2 Offer Statistics and Expected Timetable

Not applicable

Item 3 Key Information

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, agriculture and precise timing markets, rather than for applications in low-end markets such as the vehicle navigation and consumer/cellular markets. Unless the context requires otherwise, references herein to "NovAtel" or the "Company" refer to NovAtel Inc., including its subsidiaries and Point, Inc.

A. 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, 1998, 1999 and 2000 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, 1996 and 1997 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 5 – Operating and Financial Review and Prospects" 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>1996 (1)</u>	<u>1997 (1)</u>	<u>1998 (1)</u>	<u>1999 (1)</u>	<u>2000 (1)</u>
	(in thousands, except per share data)				
Revenues	\$ 22,663	\$ 27,049	\$ 21,567	\$24,226	\$24,843
Cost of sales.....	<u>6,469</u>	<u>7,850</u>	<u>8,674</u>	<u>12,646</u>	<u>10,842</u>
Gross profit.....	<u>16,194</u>	<u>19,199</u>	<u>12,893</u>	<u>11,580</u>	<u>14,001</u>
Operating expenses:					
Research and development	5,531	6,077	8,234	6,902	8,161
Selling and marketing.....	2,646	3,196	4,621	3,925	4,527
General and administration.....	<u>2,318</u>	<u>3,541</u>	<u>3,561</u>	<u>2,783</u>	<u>3,661</u>
Total operating expenses	<u>10,495</u>	<u>12,814</u>	<u>16,416</u>	<u>13,610</u>	<u>16,349</u>
Operating income (loss)	5,699	6,385	(3,523)	(2,030)	(2,348)
Interest income (expense).....	(853)	201	212	374	319
Other income (expense).....	<u>17</u>	<u>199</u>	<u>(236)</u>	<u>(204)</u>	<u>(769)</u>
Income (loss) from continuing operations – before income taxes	4,863	6,785	(3,547)	(1,860)	(2,798)
Provision for income taxes	<u>24</u>	<u>62</u>	<u>87</u>	<u>123</u>	<u>13</u>
Net income (loss) from continuing operations	4,839	6,723	(3,634)	(1,983)	(2,811)
Net income (loss) from discontinued operations.....	<u>(2,704)</u>	<u>460</u>	<u>1,304</u>	<u>949</u>	<u>16</u>
Net income (loss)	<u>\$ 2,135</u>	<u>\$ 7,183</u>	<u>\$ (2,330)</u>	<u>\$ (1,034)</u>	<u>\$ (2,795)</u>
Net income (loss) per share (basic):					
Continuing operations	\$ 0.93	\$ 0.91	\$ (0.47)	\$ (0.26)	\$ (0.37)
Discontinued operations.....	<u>(0.52)</u>	<u>0.06</u>	<u>0.17</u>	<u>0.13</u>	<u>0.01</u>
Net income (loss) per share.....	<u>\$ 0.41</u>	<u>\$ 0.97</u>	<u>\$ (0.30)</u>	<u>\$ (0.13)</u>	<u>\$ (0.36)</u>
Weighted average shares outstanding (basic)(2)	<u>5,200</u>	<u>7,420</u>	<u>7,673</u>	<u>7,674</u>	<u>7,676</u>
Net income (loss) per share (fully diluted):					
Continuing operations	\$ 0.93	\$ 0.86	\$ (0.47)	\$ (0.26)	\$ (0.37)
Discontinued operations.....	<u>(0.52)</u>	<u>0.06</u>	<u>0.17</u>	<u>0.13</u>	<u>0.01</u>
Net income (loss) per share.....	<u>\$ 0.41</u>	<u>\$ 0.92</u>	<u>\$ (0.30)</u>	<u>\$ (0.13)</u>	<u>\$ (0.36)</u>
Weighted average shares outstanding (fully diluted)	<u>5,200</u>	<u>8,100</u>	<u>8,509</u>	<u>8,566</u>	<u>8,683</u>

Footnotes appear on pages 5-8

	<u>Year Ended December 31,</u>	
<i>(US\$ equivalent)(3)</i>	<u>1999</u>	<u>2000</u>
	<i>(in thousands, except per share data)</i>	
Revenues	\$ 15,463	\$ 15,857
Cost of sales	<u>8,071</u>	<u>6,920</u>
Gross profit	<u>7,392</u>	<u>8,937</u>
Operating expenses:		
Research and development	4,406	5,209
Selling and marketing	2,505	2,890
General and administration	<u>1,777</u>	<u>2,337</u>
Total operating expenses	<u>8,688</u>	<u>10,436</u>
Operating loss	(1,296)	(1,499)
Interest income	239	204
Other expense	<u>(130)</u>	<u>(491)</u>
Loss from continuing operations before income taxes	(1,187)	(1,786)
Provision for income taxes	<u>79</u>	<u>8</u>
Net loss from continuing operations	(1,266)	(1,794)
Net income from discontinued operations	<u>606</u>	<u>10</u>
Net loss	<u>\$ (660)</u>	<u>\$ (1,784)</u>
Net income (loss) per share (basic):		
Continuing operations	\$ (0.17)	\$ (0.24)
Discontinued operations	<u>0.09</u>	<u>0.01</u>
Net loss per share	<u>\$ (0.08)</u>	<u>\$ (0.23)</u>
Weighted average shares outstanding (basic)(2)	<u>7,674</u>	<u>7,676</u>
Net income (loss) per share (fully diluted):		
Continuing operations	\$ (0.17)	\$ (0.24)
Discontinued operations	<u>0.09</u>	<u>0.01</u>
Net loss per share	<u>\$ (0.08)</u>	<u>\$ (0.23)</u>
Weighted average shares outstanding (fully diluted)	<u>8,566</u>	<u>8,683</u>

	<u>December 31,</u>					<u>US\$ Equivalent</u>
Balance Sheet Data(1):	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>December 31,</u>
<i>(Canadian \$)</i>	<i>(in thousands)</i>					<u>2000(3)</u>
Working capital (deficit)	\$ (11,157)	\$ 10,515	\$ 8,123	\$ 13,957	\$ 11,279	\$ 7,199
Total assets	16,549	32,379	29,460	29,204	28,830	18,402
Bank advances	9,610	—	—	—	—	—
Long-term liabilities	84	—	922	549	307	196
Total shareholders' equity (deficit)	(4,168)	(25,073)	22,786	21,752	18,969	12,108

(1) 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 (\$ thousands):

i) Revenue Recognition

In December 1999, the U.S. Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (“SAB”) 101, Revenue Recognition in Financial Statements, which provides guidance related to revenue recognition based on the interpretations and practices of the SEC. The Company believes that its existing revenue recognition policies are in accordance with the guidance provided in SAB 101.

ii) Deferred Development Costs

In the year ended December 31, 2000, the Company deferred \$757 of development costs (\$1,275 in 1999 and \$528 in 1998) in accordance with Canadian GAAP. Under U.S. GAAP, these costs would be expensed as incurred as research and development costs.

iii) 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 loss of \$21 in 2000, an additional income of \$329 in 1999 and an additional loss of \$308 in 1998 under U.S. principles.

In June 1998, the FASB issued SFAS 133, “Accounting for Derivative Instruments and Hedging Activities” subsequently amended by SFAS 137 and SFAS 138. These pronouncements 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 value of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. Had the Company prepared its consolidated financial statements in accordance with U.S. GAAP, it would have applied the pronouncements of SFAS 133, 137 and 138 effective January 1, 2001, on a prospective basis without restatement of prior period financial statements. The adoption of these accounting standards would not have had a material effect on the Company’s financial position as of January 1, 2001.

iv) Investment in Point, Inc.

The accounts of the Company’s 49% joint venture interest 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 SEC guidance, the effects of this difference in accounting principles have not been reflected in the accompanying tables.

v) Income Taxes

Effective January 1, 2000, the Company adopted the liability method of income tax accounting for Canadian GAAP, which is consistent with the accounting required under U.S. principles. However, in 1999 and 1998, the Company accounted for income taxes for Canadian GAAP under the deferral method. In 1999 and 1998, 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 had been followed in 1999 and 1998, the Company would also have recorded the tax benefits attributable to the estimated Canadian net operating loss carryforwards, research and development costs and unutilised 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 would have been realized. As no significant income taxes were payable other than large corporation tax, and as a full valuation allowance would have been recorded against the deferred tax assets as determined under U.S. GAAP, this difference between Canadian and U.S. GAAP had no effect on the Company's consolidated financial statements presented herein.

vi) 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, 2000, 1999 and 1998.

vii) Summary of the Differences Between Canadian and U.S. GAAP

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>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Net income (loss) from continuing operations – Canadian GAAP.....	\$ 4,839	\$ 6,723	\$ (3,634)	\$ (1,983)	\$ (2,811)
Adjustments to U.S. GAAP					
Deferred development costs.....	—	—	(528)	(1,275)	(757)
Fair value of financial instruments....	—	—	(308)	329	(21)
Net income (loss) from continuing operations – U.S. GAAP.....	<u>\$ 4,839</u>	<u>\$ 6,723</u>	<u>\$ (4,470)</u>	<u>\$ (2,929)</u>	<u>\$ (3,589)</u>
Net income (loss) from discontinued operations – Canadian GAAP.....	\$ (2,704)	\$ 460	\$ 1,304	\$ 949	\$ 16
Adjustments to U.S. GAAP	—	—	—	—	—
Net income (loss) from discontinued operations – U.S. GAAP.....	<u>\$ (2,704)</u>	<u>\$ 460</u>	<u>\$ 1,304</u>	<u>\$ 949</u>	<u>\$ 16</u>
Net income (loss) – U.S. GAAP.....	<u>\$ 2,135</u>	<u>\$ 7,183</u>	<u>\$ (3,166)</u>	<u>\$ (1,980)</u>	<u>\$ (3,573)</u>

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>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Canadian GAAP – basic.....	\$ 0.93	\$ 0.91	\$(0.47)	\$(0.26)	\$(0.37)
U.S. GAAP – basic.....	\$ 0.93	\$ 0.91	\$(0.58)	\$(0.38)	\$(0.47)
Canadian GAAP – fully diluted	\$ 0.93	\$ 0.86	\$(0.47)	\$(0.26)	\$(0.37)
U.S. GAAP – diluted.....	\$ 0.93	\$ 0.90	\$(0.58)	\$(0.38)	\$(0.47)

Net income (loss) per share	Year Ended December 31,				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Canadian GAAP – basic.....	\$ 0.41	\$ 0.97	\$(0.30)	\$(0.13)	\$(0.36)
U.S. GAAP – basic.....	\$ 0.41	\$ 0.97	\$(0.41)	\$(0.26)	\$(0.47)
Canadian GAAP – fully diluted	\$ 0.41	\$ 0.92	\$(0.30)	\$(0.13)	\$(0.36)
U.S. GAAP – diluted.....	\$ 0.41	\$ 0.96	\$(0.41)	\$(0.26)	\$(0.47)

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, 2000 would have been increased by 117 shares (30 shares in 1999, 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>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Total Assets					
Canadian GAAP	\$16,549	\$32,379	\$29,460	\$29,204	\$28,830
Adjustments to U.S. GAAP					
Deferred development costs	—	—	(528)	(1,803)	(2,560)
Fair value of financial instruments.	<u>—</u>	<u>—</u>	<u>—</u>	<u>21</u>	<u>(1)</u>
U.S. GAAP.....	<u>\$16,549</u>	<u>\$32,379</u>	<u>\$28,932</u>	<u>\$27,422</u>	<u>\$26,269</u>
Total Shareholders' Equity (Deficit)					
Canadian GAAP	\$(4,168)	\$25,073	\$22,786	\$21,752	\$18,969
Adjustments to U.S. GAAP					
Deferred development costs	—	—	(528)	(1,803)	(2,560)
Fair value of financial instruments.	<u>—</u>	<u>—</u>	<u>(308)</u>	<u>21</u>	<u>(1)</u>
U.S. GAAP.....	<u>\$(4,168)</u>	<u>\$25,073</u>	<u>\$21,950</u>	<u>\$19,970</u>	<u>\$16,408</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 for all years presented have been translated into U.S. dollars solely for the convenience of the reader at the rate of US\$0.6383 per Cdn\$1.00, which was the exchange rate as of March 23, 2001. 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>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Average.....	\$0.7332	\$ 0.7221	\$ 0.6740	\$ 0.6730	\$ 0.6732
High.....	0.7513	0.7487	0.7105	0.6925	0.6969
Low.....	0.7235	0.6945	0.6341	0.6535	0.6410
Period end....	0.7301	0.6999	0.6504	0.6888	0.6669

<u>Month Ended</u>						
	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>January</u>	<u>February</u>
	<u>2000</u>	<u>2000</u>	<u>2000</u>	<u>2000</u>	<u>2001</u>	<u>2001</u>
High.....	0.6783	0.6687	0.6552	0.6669	0.6692	0.6697
Low.....	0.6636	0.6531	0.6410	0.6469	0.6595	0.6494

On March 23, 2001, the exchange rate was US\$0.6383 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.

B. Capitalization and Indebtedness

Not applicable

C. Reasons for the Offer and Use of Proceeds

Not applicable

D. 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 subsidiaries and joint ventures, 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 in other periods. For example, revenue from the Chinese Satellite Navigation Augmentation System ("SNAS") program accounted for 11% of total revenue in 2000 compared to 0% in 1999.

The Company sells GPS receivers to Point, Inc. ("Point"), which incorporates these receivers into surveying systems that are in turn sold through the Sokkia Co., Ltd. ("Sokkia") distribution channels. The Company's consolidated financial statements include the Company's proportionate 49% joint venture interest in the accounts of Point. Point is subject to similar 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 has a contract to supply modified reference receivers to the European Geostationary Navigation Overlay System ("EGNOS") program. This contract contributed largely to NRE fees increasing from \$99,000 in 1998 to \$863,000 in 1999 to \$863,000 in 2000. In 2001, the Company will complete the majority of the NRE portion of the EGNOS receiver program and anticipates shipping of an initial batch of RIMS-C reference receivers in the fourth quarter. There can be no assurance that the Company will receive any further contracts related to EGNOS.

In January 2001, the Company signed a number of agreements under which the Company acquired a 48.7% equity interest in Mezure, Inc. ("Mezure"). The agreements included a US\$400,000 cash investment, together with R&D and engineering services to facilitate initial product development. Mezure was established in early 2000 and has been working with the Company to develop market applications combining GPS, wireless infrastructure and the Internet. Mezure is currently in product development and at the present time intends to launch its first product within six months. The Company and Mezure have also signed a supply agreement, under which the Company will manufacture products utilizing its GPS receiver for Mezure, as well as a technology license agreement under which the Company would license certain of its technology to Mezure. Mezure is subject to similar types of risks that the Company is subject to. In addition, if Mezure were unable to obtain adequate financing, it would likely not be able to continue operations, which could have a material adverse effect on the Company's business, financial condition and results of operation.

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 had been identified as a region that provided many opportunities for the introduction of GPS technology. Many of the opportunities in Central America have taken longer to materialize than originally anticipated and are also dependent on funding by either government or international aid agencies. Accordingly, as of March 14, 2001, the Company has decided to wind up the GOPS operations, which is not expected to impact the Company's business, financial condition and results of operation.

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 subsidiaries and joint ventures, 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 element of its growth strategy; however, selling survey products through Point could adversely affect the Company's gross margins as a percentage of revenue. 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. See "Item 5 – Operating and Financial Review and Prospects, Operating Results."

Concentration of Stock Ownership

As of March 16, 2001, BAE SYSTEMS CANADA INC. ("BAE Canada") (formerly Canadian Marconi Company) owns approximately 58% of the outstanding Common Shares of the Company. As a result, BAE Canada 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, the controlling interest by BAE Canada has a significant effect on public securities market issues such as analyst coverage and stock price. Currently, BAE SYSTEMS p.l.c. owns approximately 54% of BAE Canada.

On February 2, 2001, BAE SYSTEMS p.l.c. announced its agreement to sell its approximately 54% majority investment in BAE Canada to ONCAP L.P., an investment fund located in Toronto, Canada. The transaction is subject to both Canadian and U.S. regulatory approvals and is expected to close shortly after a special meeting of the shareholders of BAE Canada in April 2001. ONCAP L.P. is a Cdn\$400 million investment partnership established in December 1999 by Onex Corporation and several of Canada's largest pension funds and financial institutions. BAE SYSTEMS p.l.c. is able to exercise significant influence over BAE Canada, and therefore, the Company. Similarly if the proposed transaction with ONCAP is finalized, then ONCAP L.P. would be able to exercise significant influence over BAE Canada and, therefore, the Company.

BAE Canada, 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 7 – Major Shareholders and Related Party Transactions."

Expansion and Development of New Distribution Channels

The Company sells its OEM products directly 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. 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 "Item 4 – Information on the Company, Business Overview - 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 "Item 4 – Information on the Company, Business Overview – Research and Development."

Discontinuance of Older Products

As the Company develops newer products, many of the Company's older products will reach their end of life. As the Company discontinues the manufacturing and sale of these older products, the Company must manage the liquidation of inventory, supplier commitments and customer expectations. If the Company were unable to properly manage the discontinuation of these older products, it could have an adverse effect on the Company's business, financial condition and results of operation.

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 Company's markets, the Company competes with other GPS suppliers such as Trimble Navigation Limited, Magellan Corporation and Leica AG, and to a lesser extent, 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 BAE Canada 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 "Item 4 – Information on the Company, Business Overview – Competition."

Competition; Industry Consolidation

The GPS industry has been going through a consolidation phase over the past several years. GPS companies have been selecting strategic partners to merge, acquire or form joint businesses in an effort to remain cost competitive and meet customer requirements. The Company's formation of Point, a joint venture with Sokkia, one of the largest survey companies in the world, is an example of the consolidation occurring in the GPS industry. The past 12 months has witnessed the joining of Trimble Navigation Limited with Spectra-Precision, Topcon with Javad Positioning Systems (JPS), now known as Topcon Positioning Systems, and Racal Avionics Ltd. with Thomson-CSF to form Thomson-Racal Avionics Ltd, now known as Thales (previously Thomson-CSF). This consolidation phase will continue for the foreseeable future resulting in fewer but larger companies. Industry consolidation, by creating stronger and larger potential competitors, could have a material adverse effect on the Company's business, financial condition and results of operations.

Uncertain Market Development

The Company currently addresses the following markets for the application of GPS technology: surveying and GIS primarily through Point, aerospace, agriculture, precise timing, 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. 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 "Item 6 - Directors, Senior Management and Employees."

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. At this time, all last buy notices have been resolved by placing orders for parts, substituting alternate parts or scheduling the redesign of products to remove such parts prior to exhausting the existing supply. The Company has taken steps to ensure adequate supply of these components and commenced product redesigns, as may be required.

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. The Company currently relies on a primary subcontractor to manufacture the majority of its Circuit Card Assemblies ("CCA"). There can be no assurance that the primary subcontractor 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.

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 recently announced the appointment of Mr. David E. Vaughn to the position of President and Chief Executive Officer, effective February 26, 2001. The Company currently has an employment contract with Werner Gartner, Executive Vice President and Chief Financial Officer and a Consulting Services Agreement with David E. Vaughn for management consulting services. The agreement with Mr. Vaughn has an initial term of six months and expires in August 2001. 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 and GLONASS satellites. NAVSTAR satellites and their ground support systems are complex electronic systems subject to electronic and mechanical failures and possible sabotage. As of February 2001, there were 28 usable satellites, four more than the design requirement. The satellites have a limited design life of between seven 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. Former 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, former Vice President Gore had announced two new civilian signals would 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.

Prior to May 21, 2000, the accuracy of GPS was reduced by the distortion of GPS signals as a result of Selective Availability ("SA"), which was controlled by the U.S. Department of Defense. Selective Availability was the 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 discontinued the use of SA effective May 21, 2000, 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. As of February 26, 2001, GLONASS is not fully operational with only eight satellites on and operating and two satellites declared unusable, but not withdrawn from operations indefinitely. 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 ("Galileo"). The Company has some involvement in Galileo definition activities; undertaking a study on proposed Galileo signal structures and receiver requirements for the European Space Agency (ESA). The Company has also contributed to a Canadian Space Agency (CSA) report on the benefits of Galileo to Canada. 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 4 - Information on the Company, Business Overview - Legal Proceedings."

Historical Losses

The Company had net losses in each of the last three years 1998, 1999 and 2000 while in 1996 and 1997, the Company recorded net incomes. There can be no assurance that the Company will be profitable in the future.

Patents and Proprietary Rights; Patent Litigation

The Company currently holds 14 U.S. patents and 21 related foreign patents which expire at various dates no earlier than November 28, 2010. The Company has also received notices of allowance for two U.S. patents 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 BAE Canada 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 "Item 4 – Information on the Company, Business Overview - Research and Development and Patents, Trademarks and Licenses."

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 "Item 4 – Information on the Company, Business Overview - 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 16, 2001, the Company had 7,694,315 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 16, 2001, there were 187,110 Common Shares and 29,000 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.

Item 4 Information on the Company

A. History and Development of the Company

NovAtel Inc. 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.

Since its inception, the Company has been engaged in several communication businesses. In 1992, the Company was reorganized and sold to Telexel Holding Limited, a Canadian corporation controlled by Horst J. and Barbara Pudwill (the "Pudwills"). 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. ("BAE Canada") (formerly Canadian Marconi Company) purchased approximately 58% of the Company's total shares outstanding from the Company's two principal shareholders. BAE SYSTEMS, p.l.c. owns approximately 54% of BAE Canada.

On February 2, 2001, BAE SYSTEMS, p.l.c. announced its agreement to sell its approximately 54% majority investment in BAE Canada to ONCAP L.P., an investment fund located in Toronto, Canada. The transaction is subject to both Canadian and U.S. regulatory approvals and is expected to close shortly after a special meeting of the shareholders in BAE Canada in April 2001. ONCAP L.P. is a Cdn \$400 million investment partnership established in December 1999 by Onex Corporation and several of Canada's largest pension funds and financial institutions.

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.

The Company's principal capital expenditures over the last three years were \$1.5 million in 2000, \$1.2 million in 1999 and \$4.5 million in 1998. During these years, the Company's capital expenditures were focused on equipment for research and development, computer equipment and software and patents/trademarks. In addition, in 1998, capital expenditures also included \$1.6 million related to the sale/leaseback of certain equipment and furnishings in the Company's Calgary facility.

While there were no significant divestitures in the 1998, 1999 and 2000 years, the Company received \$710,000 in 1998 and paid \$423,000 in 2000 related to prior years' divestitures. The Company expects its capital expenditures in 2001 to be internally financed and to be similar to those of 2000, with the exception of the investment in Mezure, which is more fully described below.

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 region that provided many opportunities for the introduction of GPS technology for the maintenance, refurbishing and expansion of the region's existing infrastructure. Many of the opportunities in Central America have taken longer to materialize than originally anticipated and are also dependent on funding by either government or international aid agencies. Accordingly, as of March 14, 2001, the Company has decided to wind up the GOPS operations, which is not expected to impact the Company's business, financial condition and results of operations.

On July 20, 1999, the Company entered into an agreement with Sokkia Co., Ltd. ("Sokkia") to form a joint venture 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 former 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.

In January 2001, the Company signed a number of agreements under which the Company acquired a 48.7% equity interest in Mezure. The agreements included a US\$400,000 cash investment, together with R&D and engineering services to facilitate initial product development. Mezure was established in early 2000 and has been working with the Company to develop market applications combining GPS, wireless infrastructure and the Internet. Mezure is currently in product development and at the present time intends to launch its first product within six months. The Company and Mezure have also signed a supply agreement, under which the Company will manufacture products utilizing its GPS receivers for Mezure, as well as a technology license agreement under which the Company would license certain of its technology to Mezure.

B. Business Overview

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, and precise timing, rather than for applications in low-end markets such as the vehicle navigation and consumer/cellular markets.

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 Technologies, U.S. Department of Commerce ("DoC"), the worldwide civilian market for GPS receiver systems was projected to exceed US\$8.0 billion in sales revenue in 2000 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\$3 billion in 2000 and forecasted sales revenues from these markets is expected to

approach US\$8 billion by the year 2003. Forward Concepts estimated 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 was able to deteriorate 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 U.S. Government has discontinued the use of SA effective May 21, 2000. 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. Former U.S. Vice President Al Gore had announced that two new civilian signals would 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, agriculture and precise timing 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 technology combined with its commitment to research and development, position the Company well to compete in the high-end GPS markets. The Company has spent an average of approximately 33% 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.

Convergence of GPS, Wireless and Internet Technologies. In January 2001, the Company signed a number of agreements under which the Company acquired a 48.7% equity interest in Mezure. The agreements included a US\$400,000 cash investment, together with R&D and engineering services to facilitate initial product development. Mezure was established in early 2000 and has been working with the Company to develop market applications combining GPS, wireless infrastructure and the Internet. Mezure is currently in product development and at the present time intends to launch its first product within six months. The Company and Mezure have also signed a supply agreement, under which the Company will manufacture products utilizing its GPS receiver for Mezure, as well as a technology license agreement under which the Company would license certain of its technology to Mezure.

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 joint venture 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.

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 ground reference receivers to the United States Federal Aviation Administration ("FAA") Wide Area Augmentation System ("WAAS"), Japan's Multi-Functional Transport Satellite-based Augmentation System ("MSAS") and China's Satellite Navigation Augmentation System ("SNAS"). To date the Company has delivered more than 250 receivers to be installed at WAAS, MSAS and SNAS sites around the United States, Japan and China. A similar GPS/GLONASS based navigation system is being developed in Europe known as European Geostationary Overlay System ("EGNOS"). Other countries planning WAAS or a similar system include Canada, Mexico, Australia and Chile. The 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 used 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 and provide GPS precision approach and landing guidance at airports through the U.S. and worldwide. 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 being jointly developed by the Company and BAE Canada is intended for use by Honeywell for the airborne market and the LAAS program. BAE Canada and Honeywell recently signed a supply agreement for the CMA-4024 receiver developed in collaboration with the Company. The Company believes that it is well positioned to participate with Raytheon and other ground systems suppliers 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 agriculture, robotics, 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. The Special Apps business is weighted heavily towards entrepreneurial endeavours and the support and growth of emerging markets. The Company's receivers are designed to provide the highest degree of flexibility addressing the widest possible range of applications. From this emerge new strategic customers and markets.

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 2000, the Company derived approximately 48% of its total revenues from the sale of its products to countries outside the United States and Canada, an increase from 46% in 1999. Total dollar revenues from international sales increased from \$11.1 million in 1999 to \$12.0 million in 2000.

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, GIS, and mining and machine control applications primarily through Point, and aerospace, agriculture, precise timing and GPS/INS 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.

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 one 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. Similarly, a GPS/GLONASS based navigation system known as EGNOS is being developed in Europe and a GPS based navigation system known as SNAS is being developed in China. The positional accuracy requirements for aviation applications range from 100 meters for enroute navigation to less than one 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. The 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 used for operations anywhere in the NAS.

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 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 or better 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.

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 three 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. An OEM4 receiver can be configured as L1, L1 real-time kinematic ("RTK"), L1/L2 or L1/L2 RTK through software command. This product also features Pulsed Aperture Correlation ("PAC").

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 seven 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 SA. 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 seven milliradian RTK 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. Single frequency GPS receivers in PC-ISA bus compatible format are no longer in production and will be discontinued once existing receiver inventory is depleted. 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:

Antennas

GPS-600. In January 2000, the Company introduced the GPS-600 antenna, a new dual frequency 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. Other GPS-600 antennas include:

GPS-600-L1 – a L1 only antenna

GPS-600-G – a GLONASS antenna

GPS-600-T – a high gain antenna specifically designed for use with Trimble GPS receivers.

All of the above feature the Company's patent pending Pinwheel aperture coupled slot array technology.

Aviation Products

WAAS Reference Receiver. The WAAS GPS Reference Receiver is a custom GPS receiver 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 and in 2000 several systems were supplied to the Chinese SNAS network. 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 WAAS-specific performance.

Other related products include a *Test Bed Receiver* and *mini-WAAS receiver*, both used in ground reference networks. The Company has also recently introduced a *Multipath Assessment Tool (MAT)* software which is used in reference site antenna location. The Company also has access to the GNSSA certified receiver developed jointly with BAE Canada, for non-airborne applications.

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 RTK and post processing applications.

Stratus. An easy to learn, simple to use, cable free GPS survey system for high accuracy, high productivity applications. Stratus 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 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 two 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 seven milliradian RTK 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.

In September 2000, the Company introduced its new Pulse Aperture Correlation (PAC) technology. Available exclusively on the Company’s OEM4 product line, PAC technology implements the latest digital signal processing techniques to provide superior tracking capability in the presence of multipath. PAC technology effectively doubles the pseudorange accuracy of the Narrow Correlator tracking technology and increases multipath rejection characteristics by up to a factor of eight. PAC technology virtually eliminates the effect of multipath between 0.1 and 0.9 C/A code chips.

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 \$8.2 million, \$6.9 million and \$8.2 million, representing approximately 38%, 28% and 33% of total revenues in 1998, 1999 and 2000, respectively, on research and development.

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 \$0.8 million of development costs in 2000, \$1.3 million in 1999 and \$0.5

million in 1998 related to the development of a certified aviation GPS receiver. The Company expects to start amortizing these deferred costs in 2001, once the product is available for sale.

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. 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 or improve 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 existing products. No assurance can be given that announcements of currently planned or other new products will not cause customers to defer or stop purchasing the Company's products until the Company's or its competitors' new products become available. Certain of the Company's 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 key customers (outside of Point/Sokkia), Shenzhen Shenyuan, Agsystems and Steve Lieber & Associates, accounted for 10.7%, 7.1% and 5.5%, respectively, of the Company's total revenues in 2000. In comparison, 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.

The Company's revenue also included the Company's sales to Point, net of intercompany eliminations, and the Company's proportionate share of sales by Point. Sales to Point, net of intercompany eliminations, accounted for 6.8% of total revenues in 2000 compared to 4.2% of total revenues in 1999. The Company's proportionate share of revenues from Point accounted for 23.1% of total revenues in 2000 compared to 12.0% of total revenues in 1999. See "Item 5 – Operating and Financial Review and Prospects, Operating Results."

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 2000. 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 survey and GIS 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, and 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. 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.

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 in anticipation and in response 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 48%, 54% and 52% of its total revenues in 1998, 1999 and 2000, 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 increased from 46% in 1999 to 48% in 2000. Total dollar revenues from international sales increased slightly from \$11.1 million in 1999 to \$12.0 million in 2000. 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 competes with other GPS suppliers such as Trimble Navigation Limited, Magellan Corporation and Leica AG, and to a lesser extent, 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 BAE Canada 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 circuit card assembly ("CCA") level while configuring and assembling the receivers in-house. The number of basic CCA-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 CCAs, configures the CCAs by loading the appropriate software and, for some products, mounts the CCAs in different enclosures. The configurability of the receivers by software load allows the Company to maintain a reduced inventory level of semi-finished goods and provide quick order turnaround.

The Company currently uses subcontractors for CCA manufacturing, the primary one being Raven Industries Inc. of Sioux Falls, South Dakota. The Company had sourced a second subcontractor, SMTC Manufacturing Corporation of Canada of Markham, Ontario, Canada, to manufacture its products. Notice to terminate the relationship was given to SMTC in September 2000 with termination 180 days thereafter. Results of the termination have been a temporary increase in both component and assembly inventory as CCAs were stockpiled and the manufacture of product moved to Raven Industries Inc. and other contract manufacturers. 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. 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.

Patents, Trademarks and Licenses

The Company currently holds 14 U.S. patents and 21 related foreign patents which expire at various dates no earlier than November 28, 2010. The Company has also received notices of allowance for two U.S. patents 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 34 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 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 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 BAE Canada acquired control in April 1998.

Legal Proceedings

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 claimed unspecified compensation. In January 2001, the matter was settled between the parties.

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 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") was seeking a judgment for \$35,000 for lost wages, \$10,000 for punitive damages and \$1,000,000 for breach of contract. Confederation Life Insurance (now known as Manulife Financial) was also a defendant in the action. The lawsuit was largely inactive until 2000. Prior to Discoveries taking place in November 2000, settlement discussions were held and the matter was settled at that time. The Company's portion of the settlement was \$12,500. A Discontinuance of Action has been filed with the Court of Queen's Bench (Lethbridge/MacLeod).

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 was 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 was filed 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. The Court of Appeal dismissed the appeal in June 2000.

The Company believes that it has meritorious defenses and claims with respect to outstanding 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.

C. Organizational Structure

On April 17, 1998, BAE SYSTEMS CANADA INC. (“BAE Canada”) (formerly Canadian Marconi Company) purchased approximately 58% of the Company’s total shares outstanding from the Company’s two principal shareholders. BAE SYSTEMS, p.l.c. owns approximately 54% of BAE Canada.

On February 2, 2001, BAE SYSTEMS p.l.c. announced its agreement to sell its approximately 54% majority investment in BAE Canada to ONCAP L.P., an investment fund located in Toronto, Canada. The transaction is subject to both Canadian and U.S. regulatory approvals and is expected to close shortly after a special meeting of the shareholders of BAE Canada in April 2001. ONCAP L.P. is a Cdn\$400 million investment partnership established in December 1999 by Onex Corporation and several of Canada’s largest pension funds and financial institutions.

D. Property, Plant and Equipment

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 believes that its facilities are adequate to support its current and anticipated near term future operations.

Item 5 Operating and Financial Review and Prospects

A. Operating Results

Overview

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, geographical information systems (“GIS”), aviation, marine, mining and machine control, agriculture and precise timing markets, rather than for applications in low-end markets such as the vehicle navigation and consumer/cellular markets. Unless the context requires otherwise, references herein to “NovAtel” or the “Company” refer to NovAtel, Inc., including its subsidiaries and Point, Inc.

The Company was incorporated in 1978 and since that time has been engaged in several communications businesses. In 1992, the Company was reorganized and sold to Telexel Holding Limited. The Company divested all of its non-GPS businesses in a series of transactions beginning in March 1994 and ending in August 1996. As a result of these divestitures, the Company now focuses exclusively on the GPS business.

The various divested and discontinued businesses of the Company are accounted for as discontinued operations. Accordingly, the operating results of these discontinued businesses have been segregated from the operating results of the GPS business and reported as 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, Inc. (“Point”) accounts as required under Canadian GAAP. The Company sells its products to Point which incorporates them into surveying systems that are in turn sold through the Sokkia Co., Ltd. (“Sokkia”) distribution channels. 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, 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, 1999 and 2000. 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, mainly as a result of lower Wide Area Augmentation Systems ("WAAS") program revenues, and the Company incurred a loss from continuing operations of \$3.6 million. After the sales decline in 1998, the Company's revenues increased to \$24.2 million in 1999 and \$24.8 million in 2000. The Company incurred a net loss from continuing operations of \$2.0 million in 1999 and \$2.8 million in 2000. 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 subsidiaries and joint ventures, 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 and income levels when compared to revenues and income in other periods. For example, revenue from the Chinese Satellite Navigation Augmentation System ("SNAS") program accounted for 11% of total revenue in 2000 compared to 0% in 1999. The Company currently has no commitments for future sales of its Wide WAAS receivers in any further implementations of the SNAS 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 has a contract to supply modified reference receivers to the European Geostationary Overlay System ("EGNOS") program. This contributed largely to NRE fees increasing from \$99,000 in 1998 to \$863,000 in 1999 and \$863,000 in 2000. There can be no assurance that the Company will receive any further contracts 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 subsidiaries and joint ventures, 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 subsidiaries and joint ventures, 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 products generally have higher gross margins. The Company's original equipment manufacturer ("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 generally 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.

Results of Operations

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

	Year Ended December 31,		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
Revenues	100.0%	100.0%	100.0%
Gross profit	<u>59.8</u>	<u>47.8</u>	<u>56.4</u>
Operating expenses:			
Research and development	38.2	28.5	32.9
Selling and marketing	21.4	16.2	18.2
General and administration	<u>16.5</u>	<u>11.5</u>	<u>14.7</u>
Total operating expenses	<u>76.1</u>	<u>56.2</u>	<u>65.8</u>
Operating income (loss)	(16.3)	(8.4)	(9.4)
Interest income	1.0	1.5	1.3
Other expense	<u>(1.1)</u>	<u>(0.8)</u>	<u>(3.2)</u>
Income (loss) from continuing operations before income taxes	(16.4)	(7.7)	(11.3)
Provision for income taxes	<u>0.4</u>	<u>0.5</u>	<u>0.0</u>
Net income (loss) from continuing operations	<u>(16.8)%</u>	<u>(8.2)%</u>	<u>(11.3)%</u>

2000 Compared to 1999

Revenues. Revenues include product sales and non-recurring engineering ("NRE") fees. Product sales revenues consist primarily of sales of original equipment manufacturer ("OEM") boards, software, software upgrades, Wide Area Augmentation System ("WAAS") type receivers and end user products for the GIS and survey markets. The Company categorizes its revenues into the following three market sectors: 1) Geomatics; 2) Aerospace and Defense; and 3) Special Apps.

Total revenues increased 2.5% from \$24.2 million in 1999 to \$24.8 million in 2000. The following table sets forth revenue by market sector for 2000 and 1999.

	2000		1999		Change	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
Geomatics	\$ 8,513	34%	\$ 8,246	34%	\$ 267	3%
Aerospace & Defense	4,969	20%	5,770	24%	(801)	(14%)
Special Applications	11,128	45%	8,925	37%	2,203	25%
Other	<u>233</u>	<u>1%</u>	<u>1,285</u>	<u>5%</u>	<u>(1,052)</u>	<u>(82%)</u>
TOTAL	<u>\$24,843</u>	<u>100%</u>	<u>\$24,226</u>	<u>100%</u>	<u>\$ 617</u>	<u>100%</u>

Geomatics

The Geomatics sector is made up of the surveying and GIS markets. In 2000, Geomatics revenues were largely comprised of the Company's sales to Point, net of intercompany eliminations, and the Company's proportionate share of sales by Point. In 1999, prior to the formation of Point, Geomatics revenues also included substantial revenues from Nikon and Carl Zeiss GmbH.

In July 1999, the Company transitioned to a new GPS surveying partner, Sokkia, 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 joint venture known as 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 provides 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.

Geomatics revenues increased 3% from \$8.2 million in 1999 to \$8.5 million in 2000. Revenues attributed to Point, including both the Company's sales to Point and the company's proportionate share of Point revenues, increased from \$4.0 million in 1999 to \$7.4 million in 2000. Point was only active for five months in 1999. While the partnership with Sokkia resulted in new geomatics revenues for the Company, it also caused reduced revenues from the Company's previous key geomatics customers, Nikon and Carl Zeiss GmbH, whose combined revenues fell from \$2.7 million in 1999 to \$0.3 million in 2000.

Aerospace and Defense

The Aerospace and Defense sector is made up of aviation, space and defense markets. Revenues from the Aerospace and Defense sector are highly dependent on the timing of large government funded programs. Aerospace and Defense sales were \$5.0 million in 2000 compared to \$5.8 million for 1999, a decrease of 14%. 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"), the Chinese Satellite Navigation Augmentation System ("SNAS") and to the European Geostationary Overlay System ("EGNOS").

Shipments for phase 1 of the Chinese SNAS program were completed in 2000 and accounted for \$2.7 million or 54% of this market sector's revenue compared to \$0 in the prior year. Conversely, revenue from the Japanese MSAS program fell from \$1.6 million in 1999 to \$126,000 in 2000.

The Company is teamed with Thales Avionics Limited (formerly Racal Avionics Ltd.) ("Thales") to supply one section of the EGNOS Remote Integrity Monitoring System ("RIMS-C"). The Thales/NovAtel RIMS-C channel will provide integrity and correction data within the EGNOS ground network. Under the initial contract, which was completed in March 2000, the Company developed new GPS receiver processing for Satellite Failure Detection and began software qualification. In addition the Company 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. In October 2000, the Company was awarded a full contract to complete software proving and qualification activities and to 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. The 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 used 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 and provide precision approach landing guidance using GPS. 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 being jointly developed by the Company and BAE Canada is intended for use by Honeywell for both airborne applications 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. 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 agriculture, robotics, scientific, dealers (other than those that can be identified with a particular market sector) and miscellaneous markets. Special Apps revenues were \$11.1 million in 2000 compared to \$8.9 million in 1999, an increase of 25% largely due to higher shipments of OEM receivers to certain customers.

In September 1999, the Company launched its latest generation receiver, the OEM4, 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. Volumes for these products grew through 2000, and the Company anticipates this growth to continue through 2001. The Company anticipates new revenues from these products in 2001, but there can be no assurances that these products will result in increased revenues in any of the market sectors.

In 2000, the Company derived approximately 48% of its total revenues from the sale of its products to countries outside the United States and Canada, compared to 46% in 1999. Revenues from international sales increased from \$11.1 million in 1999 to \$12.0 million in 2000.

Gross Profit. Gross profit as a percentage of total revenues increased from 47.8% in 1999 to 56.4% in 2000. The increase in gross margin as a percentage of revenue is attributable to improved product mix, including the beneficial impact of reduced sales of low margin manufacturing components, and lower provisions for inventory obsolescence.

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 increased 18.2% from \$6.9 million in 1999 to \$8.2 million in 2000 and increased as a percentage of total revenues from 28.5% in 1999 to 32.9% in 2000. In 1999, the Company and Sokkia funded Point for engineering work conducted on their behalf which resulted in negligible net research and development expenses at Point in 1999. The increase in research and development expense in 2000 is primarily related to the inclusion of Point's operating results for 12 months in 2000 compared to only five months in 1999, and the inclusion of \$340,000 in product development costs for Mezure, Inc. ("Mezure").

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 increased 15.3% from \$3.9 million in 1999 to \$4.5 million in 2000 and increased as a percentage of total revenues from 16.2% in 1999 to 18.2% in 2000. The consolidated proportionate share of Point's selling and marketing expenses was included in the Company's selling and marketing expenses for both 1999 and 2000, however in 1999, Point had only five months activity versus a full year in 2000. Other factors leading to increased expense in 2000 were the \$628,000 in sales commission relating to the China SNAS contract and \$340,000 in business development costs for Mezure.

General and administration. General and administration expenses consist primarily of salaries of administrative personnel, corporate overhead and facilities expenses. General and administration expenses increased 31.5% from \$2.8 million in 1999 to \$3.7 million in 2000 and increased as a percentage of total revenues from 11.5% in 1999 to 14.7% in 2000. The consolidated proportionate share of Point's general and administration expenses was included in the Company's general and administration expenses for both 1999 and 2000; however, in 1999, Point had only five months activity versus a full year in 2000. The inclusion of Point's expenses was the main factor leading to higher general and administration expenses in 2000.

Interest income. The Company earned net interest income of \$319,000 in 2000 compared with \$374,000 in 1999. 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 \$769,000 in 2000, mainly comprised of \$548,000 related to the reorganization of the Company's senior management and \$147,000 as a result of a minor workforce reduction at

Point. Other expense was \$204,000 in 1999 and was 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 land.

Provision for income taxes. The provision for income taxes which consists primarily of Canadian federal large corporations tax and the proportionate share of income taxes related to Point, decreased from \$123,000 in 1999 to \$13,000 in 2000. In 2000, Point recorded a recovery of previously recorded income taxes, accounting for the decrease.

Discontinued operations. The Company recorded net income from discontinued operations of \$16,000 in 2000 compared to \$949,000 in 1999. 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.

1999 Compared to 1998

Revenues. In July 1999, the Company commenced a transition to a new GPS surveying partner, Sokkia, a world leader in surveying. 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 former 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 provided Sokkia's global marketing organization with advanced measurement solutions for the fields of surveying, mapping, geographical information systems (GIS), construction and construction machine control. Point's newly developed GPS survey product was launched and began moving through the Sokkia distribution channels in October 1999.

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, sales to Carl Zeiss Jena GmbH, Nikon Corporation ("Nikon Japan") and Nikon Inc. ("Nikon U.S."). Geomatics sales were \$8.2 million in 1999 compared to \$4.9 million in 1998, an increase of 67%. The Nikon U.S. 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 were delivered through the Sokkia distribution channels.

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"), 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 is teamed with Thales Avionics Limited (formerly Racal Avionics Ltd.) ("Thales") to supply one section of the EGNOS Remote Integrity Monitoring System ("RIMS-C"). The Thales/NovAtel RIMS-C channel will provide integrity and correction data within the EGNOS ground network. Under the initial contract, the Company developed new GPS receiver processing for Satellite Failure Detection and began software qualification. In addition,

the Company 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.

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%.

In September 1999, the Company launched its latest generation receiver, the OEM4, the smallest 24 channel dual frequency receiver on the market.

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 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 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.

Selling and marketing. 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.

General and administration. 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.

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 were invested in short term interest bearing instruments.

Other income(expense). 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.

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							
	1999				2000			
	March 31	June 26	Oct. 2	Dec. 31	March 31	July 1	Sept. 30	Dec. 31
	(in thousands)							
Revenues	\$ 5,270	\$ 3,307	\$ 7,510	\$ 8,139	\$ 6,293	\$ 6,470	\$ 6,314	\$ 5,766
Cost of sales.....	2,579	1,763	3,756	4,548	3,110	2,538	2,583	2,611
Gross profit.....	2,691	1,544	3,754	3,591	3,183	3,932	3,731	3,155
Operating expenses:								
Research and								
development.....	1,885	1,680	1,860	1,477	1,932	2,121	2,122	1,986
Selling and marketing .	973	965	1,014	973	994	1,256	1,350	927
General and								
administration.....	616	630	808	729	900	1,036	844	881
Total operating								
expenses.....	3,474	3,275	3,682	3,179	3,826	4,413	4,316	3,794
Operating income (loss).	(783)	(1,731)	72	412	(643)	(481)	(585)	(639)
Interest income	94	105	88	87	76	67	98	78
Other income (expense).	(60)	(27)	(60)	(57)	42	(41)	(3)	(767)
Income (loss) from								
continuing operations								
before income taxes....	(749)	(1,653)	100	442	(525)	(455)	(490)	(1,328)
Provision for (recovery								
of) income taxes.....	21	21	21	60	(18)	(6)	16	21
Net income (loss) from								
continuing operations..	\$ (770)	\$ (1,674)	\$ 79	\$ 382	\$ (507)	\$ (449)	\$ (506)	\$ (1,349)

	Quarter Ended							
	1999				2000			
	March 31	June 26	Oct. 2	Dec. 31	March 31	July 1	Sept. 30	Dec. 31
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit.....	51.1	46.7	50.0	44.1	50.6	60.8	59.1	54.7
Operating expenses:								
Research and								
development.....	35.8	50.8	24.8	18.1	30.7	32.8	33.6	34.4
Selling and marketing .	18.5	29.2	13.5	12.0	15.8	19.4	21.4	16.1
General and								
administration.....	11.7	19.0	10.7	9.0	14.3	16.0	13.4	15.3
Total operating								
expenses.....	66.0	99.0	49.0	39.1	60.8	68.2	68.4	65.8
Operating income (loss).	(14.9)	(52.3)	1.0	5.1	(10.2)	(7.4)	(9.3)	(11.1)
Interest income.....	1.8	3.1	1.1	1.0	1.2	1.0	1.5	1.4
Other income (expense).	(1.1)	(0.8)	(0.8)	(0.7)	0.7	(0.6)	—	(13.3)
Income (loss) from								
continuing operations								
before income taxes....	(14.2)	(50.0)	1.3	5.4	(8.3)	(7.0)	(7.8)	(23.0)
Provision for (recovery								
of) income taxes.....	0.4	0.6	0.3	0.7	(0.3)	(0.1)	0.2	0.4
Net income (loss) from								
continuing operations..	(14.6)%	(50.6)%	1.0%	4.7%	(8.0)%	(6.9)%	(8.0)%	(23.4)%

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

	Quarter Ended							
	1999				2000			
	March 31	June 26	Oct. 2	Dec. 31	March 31	July 1	Sept.30	Dec.31
	(in thousands)							
Geomatics	\$ 1,838	\$ 958	\$ 1,938	\$ 3,512	\$ 1,955	\$ 2,622	\$ 1,773	\$ 2,163
Special Apps	2,423	1,759	2,462	2,281	3,406	2,359	2,676	2,687
Aerospace and Defense.....	772	403	2,926	1,669	743	1,472	1,860	894
Manufacturing components.....	237	187	184	677	189	17	5	22
Total revenues.....	<u>\$5,270</u>	<u>\$ 3,307</u>	<u>\$ 7,510</u>	<u>\$ 8,139</u>	<u>\$ 6,293</u>	<u>\$ 6,470</u>	<u>\$ 6,314</u>	<u>\$ 5,766</u>

The Company's quarterly results 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, revenue from the Chinese SNAS program accounted for 11% of the Company's total revenue in 2000 compared to 0% in 1999. During 2000, sales of the Company's WAAS receivers to the WAAS and MSAS programs accounted for approximately 1% of the Company's total revenues compared to approximately 10% in 1999. The Company currently has no commitments for future sales of its WAAS receivers in any further implementations of the WAAS, MSAS or SNAS 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.

In 2000, quarterly operating expenses fluctuated due to the impact of changes in staffing levels, recovery of research and development expenses from NRE fees, deferral of research and development expenses related to the certified aviation receiver project, commissions related to the Chinese SNAS program and the business development/product development costs related to Mezure. The Company expects operating expenses to decrease in 2001 by approximately 1% - 3%, primarily as a result of reduced staffing levels at Point, reduced external commissions, reduced business/product development costs for Mezure, partially offset by higher salaries and the proportionate consolidation of the operating expenses at Mezure. The Company expects operating expense as a percentage of revenue to decline to approximately 53% in 2001 from 66% in 2000, mostly as a result of increased revenue. 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 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, 2000, 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 BAE Canada in 1998, BAE SYSTEMS p.l.c.'s indirect acquisition of the majority of the common shares of BAE Canada in November 1999 and ONCAP L.P.'s proposed indirect acquisition of the majority of the common shares of BAE

Canada in April 2001 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.

B. Liquidity and Capital Resources

In 2000, cash provided by operations was \$673,000, compared to cash used in operations of \$895,000 in 1999. Cash provided by operations in 2000 consisted primarily of the \$2.8 million loss from continuing operations, \$2.7 million in amortization and a decrease in non-cash working capital of \$1.0 million.

In 2000, cash used in financing activities was \$376,000, related primarily to payments under the Company's capital leases. In the comparable period in 1999, \$349,000 cash was used in financing activities, also related to the capital lease obligations.

In 2000, cash used in investing activities was \$2.5 million, primarily related to capital expenditures of \$1.5 million, deferred development expenditures of \$757,000 related to the development of a certified aviation GPS receiver, and payment to Harris Canada Inc. related to the settlement of the purchase price of the Company's former wireless access product group divested in 1995. 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, 2000, the Company had cash and short term investments of \$6.1 million. The Company has credit agreements with the HSBC Bank Canada and the Toronto Dominion Bank where the Company can borrow up to \$1.7 million for day-to-day operating requirements and \$2.8 million to support the margin requirement related to the purchase of up to US\$7.5 million foreign exchange contracts. The lines of credit are payable on demand and are secured by certain of the Company's assets. At December 31, 2000, portions of the lines of credit were utilized to support \$219,000 of letters of credit (\$665,000 at December 31, 1999) and the margin requirements on US\$3.5 million in forward exchange contracts leaving \$1.4 million available for day-to-day operating requirements and the margin capacity necessary to enter into an additional US\$4.0 million in forward exchange contracts.

On January 26, 2001, the Company revised its credit line with the HSBC Bank Canada which reduced the Company's aggregate limit for purchasing forward foreign exchange contracts to US\$6.5 million from US\$7.5 million.

From March 15, 2000 to March 13, 2001, the Company and Sokkia collectively loaned Point US\$4.0 million, the Company's share being US\$1.96 million. The loans are secured by Point's assets and bear interest at the U.S. Prime Rate during 2000 and at a rate of 6% during 2001. In January 2001, the Company and Sokkia extended the due date of the loans to December 31, 2001.

In January 2001, the Company signed a number of agreements under which the Company acquired a 48.7% equity interest in Mezure. The agreements included a US\$400,000 cash investment. The Company also committed to loan to Mezure US\$200,000 from January 5 to March 31, 2001, of which US\$160,000 had been advanced as of March 23, 2001. This was in addition to US\$65,000 previously advanced in October 2000. The US\$265,000 in loans are secured by Mezure's assets, bear interest at the U.S. Prime Rate and are due in May and June 2001.

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.

C. Research and Development, Patents and Licences, etc.

See "Item 4 – Information on the Company, Business Overview - Research and Development."

Patents, Trademarks and Licenses

See "Item 4 – Information on the Company, Business Overview - Patents, Trademarks and Licenses."

D. Trend Information

See "Item 5 – A. Operating Results" above.

Item 6 Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth certain information, as of March 16, 2001, 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	54	Chairman of the Board	1998	—
David E. Vaughn	55	President and Chief Executive Officer	—	2001
Werner Gartner	44	Executive Vice President and Chief Financial Officer	—	1995
Pierre Y. Ducros	61	Director	1998	—
Richard D. Orman	52	Vice Chairman of the Board	1994	—
Horst J. Pudwill	56	Director	1992	—
Gregory A. Yeldon	41	Director	1998	—
Joel A. Schleicher	49	Director	1997	—
Key Employees				
Patrick C. Fenton	43	Vice President, Technology	—	—
Graham C. Purves	38	Vice President, Sales and Marketing	—	—
Anthony J. Murfin	53	Director, Aviation Group	—	—
Michael McAloney	43	Director, Business Operations	—	—
Bruce Johnsson	42	Director, Information Technologies and Facilities	—	—

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.

David E. Vaughn has served as President and Chief Executive Officer to the Company since February 26, 2001. From January 1999 to December 2000, Mr. Vaughn was Senior Vice President and Chief Operations Officer with Magellan Corporation. Also with Magellan, Mr. Vaughn served as Senior Vice President, Strategic Business Alliances from August 1998 to January 1999. From May 1991 to July 1998, Mr. Vaughn was with Trimble Navigation Limited in a variety of positions including Executive Vice President, Tracking and Communications Products Division and, most recently, as Executive Vice President, Corporate Business Development.

Werner Gartner has served as Executive Vice President and Chief Financial Officer of the Company since October 1996 and was a Director of the Company from November 1995 until April 1998. From November 6, 2000 to February 26, 2001 Mr. Gartner, in addition to his regular duties, served as Acting Interim President and Chief Executive Officer. 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.

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 has been 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., National Bank Financial and Manulife Financial.

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 Hemisphere International Inc. in Calgary, Canada, which he founded in July 2000. 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.

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.

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.

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.

Patrick C. Fenton has served as Vice President, Technology since October 1998 having previously 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 BAE Canada. From September 1977 until January 1980 Mr. Murfin was employed at CAE Electronics.

Michael McAloney has served as Director, Business Operations since August 2000 having served as Director, Quality and Technical Services since January 1, 1999. Mr. McAloney was previously Director, Technical Services from January 1, 1998 to January 1, 1999 and Programs Manager for Product Development from June 1994 to December 1997. From April 1990 to March 1994 Mr. McAloney was Systems Engineering Manager for Micronav International Incorporated.

Bruce Johnsson has served as Director, Information Systems and Facilities since January 2001. Mr. Johnsson was previously Senior Manager, Information Systems and assumed additional responsibility for Facilities in August 2000. Mr. Johnsson has managed the Information Systems group since November 1995 and has served in a variety of capacities in the Engineering and Information Systems groups since 1985.

B. Compensation

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. Directors are also paid \$1,000 per meeting of the Compensation and Audit and Finance Committee. Notwithstanding the foregoing, James Close, Gregory Yeldon and Pierre Ducros being representatives of BAE Canada, 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 or accrued by the Company to all officers and directors as a group during fiscal 2000 was \$919,707.

The following Summary Compensation Table sets forth the compensation earned during each of the three years ended December 31, 2000 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)				
Chief Executive Officer and President;	2000	\$ 199,748	\$ —	\$220,000(4)
Executive Vice President and	1999	\$ 230,649	\$ —	\$ —
Chief Operating Officer	1998	\$ 208,586	\$ —	\$ —
Werner Gartner	2000	\$ 157,404	\$ —	\$17,500(5)
Executive Vice President and	1999	\$ 157,407	\$ —	\$ —
Chief Financial Officer	1998	\$ 157,500	\$ —	\$ —
Randy R. Mabbott (2).....	2000	\$ 131,755	\$ —	\$145,000(4)
Senior Vice President, Corporate Affairs	1999	\$ 152,250	\$ —	\$ —
General Counsel and Corporate Secretary	1998	\$ 152,250	\$ —	\$ —
All directors and executive officers as a group	2000	\$ 537,207	\$ —	\$382,500
(nine persons in 2000, nine persons in 1999, and	1999	\$ 589,156	\$ —	\$ —
thirteen persons in 1998 (3)).....	1998	\$ 826,276	\$ —	\$ —

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- (1) Mr. Reid resigned as Chief Executive Officer and President in November 2000.
 - (2) Mr. Mabbott resigned as Senior Vice President, Corporate Affairs, General Counsel and Corporate Secretary in November 2000.
 - (3) Included in 1998, are Rodger Conner and William B. Patton, Jr. who resigned as Directors in May 1998, Pascal E. Spothelfer who resigned in September 1998 and William Turner who resigned in December 1998.
 - (4) Severance amounts for Messrs. Reid and Mabbott.
 - (5) Compensation for Mr. Gartner for assuming, in addition to his regular duties, the duties of Acting Interim President and Chief Executive Officer, after Mr. Reid's resignation in November 2000.

Stock Option Plans

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. Both Plans provide an opportunity for eligible participants of the Company to acquire Common Shares of the Company. Under the Plans, eligible employees of the Company and non-employees who have some relationship with the Company may receive grants of options to purchase Common Shares. The prices for the Common Shares are as specified in the various option agreements governing the issuance of such Common Shares. Such prices are determined in relation to the market price of the Common Shares on the respective dates upon which such options are granted.

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 16, 2001:

<u>Title - Stock Options</u>	<u>Total Amount</u>	<u>Purchase Price (1)</u>	<u>Expiration Date</u>
David E. Vaughn.....	30,000	US\$2.00	8/15/2004
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
	12,000	US\$1.6875	1/11/2011
W. James Close (2).....	—	—	—
Pierre Y. Ducros (2).....	—	—	—
Gregory A. Yeldon (2).....	—	—	—
Horst J. Pudwill (2).....	7,000	US\$1.375	3/28/2009
	7,000	US\$1.6875	1/11/2011
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
	7,000	US\$1.6875	1/11/2011
Joel A. Schleicher.....	20,000	US\$7.50	3/19/2007
	7,000	US\$1.375	3/28/2009
	7,000	US\$1.6875	1/11/2011
All directors and executive officers as a group (nine persons).....	223,000		

(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 otherwise be entitled to receive.

C. Board Practices

All directors hold office until the next annual meeting of the Company's shareholders, which has been in July for the past several years, or until their respective successors are duly appointed by the board of directors or their positions are earlier vacated by resignation or otherwise.

Executive officers are appointed by the board of directors on an annual basis and serve until the next annual meeting of the board of directors or until their respective successors are duly appointed or their positions are earlier vacated by resignation or otherwise.

Board Committees

The Audit and Finance Committee makes recommendations to the Board of Directors with respect to the engagement or discharge of independent auditors, to review with the independent auditors the plan and results of the auditing engagement, to review the Company's internal auditing procedures, system of internal accounting controls and financial management and to make inquiries into matters within the scope of its functions. The members of the Audit and Finance Committee were Richard D. Orman, Joel A. Schleicher and Gregory A. Yeldon.

The Compensation Committee reviews and makes recommendations to the Board of Directors concerning the compensation of the key management employees of the Company and the administration of the Company's stock

option plans. The members of the Compensation Committee were Richard D. Orman, W. James Close and Pierre Y. Ducros.

D. Employees

As of December 31, 2000 the Company, not including Point, employed 102 permanent persons (96 in 1999), including 49 in research and product development (42 in 1999), 11 in sales and marketing (10 in 1999), 24 in operations (18 in 1999) and 24 in administration and finance (26 in 1999). The number of temporary and contract personnel was six as of December 31, 2000 (five in 1999). Separately, Point employed 52 permanent staff at December 31, 2000 compared to 64 at December 31, 1999.

The Company's (excluding Point) staff turnover rate for 2000 was 16% (not including involuntary separations). 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.

E. Share Ownership

The following table sets forth as of March 16, 2001, 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
W. James Close(1)(2)	4,694,500	61.0%
Pierre Y. Ducros(1)(2).....	4,694,500	61.0%
Gregory A. Yeldon(1)(2).....	4,694,500	61.0%
David E. Vaughn.....	0	*
Werner Gartner(3).....	98,750	1.3%
Richard D. Orman(3).....	19,600	*
Horst J. Pudwill(2)(4).....	221,750	2.9%
Joel A. Schleicher.....	16,750	*
All directors and executive officers as a group (nine persons)(5).....	4,831,350	62.8%

* Less than 1%.

(1) Represents 4,694,500 Common Shares held by BAE Canada with whom Messrs. Close, Ducros and Yeldon are affiliated.

(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 BAE Canada and Telexel Holding Limited ("Telexel" – see note 4). The Option Agreement provides for (i) a right of first refusal through April 17, 2003 granting BAE Canada the right to acquire the 220,000 Common Shares (the "Remaining Shares") of the Company which were not sold by Telexel to BAE Canada on the same terms and conditions as those offered to a third party and (ii) a call option through April 17, 2008 granting BAE Canada the right to purchase, at the price specified therein, the Remaining Shares if such purchase is necessary to allow BAE Canada 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 BAE Canada 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.

- (3) The amounts shown represent vested stock options to purchase Common Shares of the Company except Messrs. Orman and Gartner who, in addition, beneficially own 1,000 Common Shares and 19,000 Common Shares, respectively.
- (4) The registered owner of 220,000 of these shares is Digicom Cellular International Co., Ltd. (“Digicom”). Telexel transferred the shares to Digicom in July 2000. Mr. Pudwill is the beneficial owner of these shares subject to the rights granted to BAE Canada referred to in note 2.
- (5) Includes vested stock options to purchase 116,850 Common Shares of the Company.

Item 7 Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth as of March 16, 2001 those persons known to the Company to be owners of more than 5% of the Company's Common Shares:

Name	Shares Beneficially Owned	
	Shares	Percent
BAE SYSTEMS CANADA INC.(1)(2)	4,694,500	61.0%

- (1) The address of BAE SYSTEMS CANADA INC. (“BAE Canada”) (formerly Canadian Marconi Company) is 600 Dr. Frederick Philips Boulevard, Ville Saint-Laurent, Quebec, Canada H4M 2S9. BAE Canada 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 BAE Canada and Telexel Holding Limited (“Telexel” – see note 5). The Option Agreement provides for (i) a right of first refusal through April 17, 2003 granting BAE Canada the right to acquire the 220,000 Common Shares (the “Remaining Shares”) of the Company which were not sold by Telexel to BAE Canada on the same terms and conditions as those offered to a third party and (ii) a call option through April 17, 2008 granting BAE Canada the right to purchase, at the price specified therein, the Remaining Shares if such purchase is necessary to allow BAE Canada 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 BAE Canada 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.

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 5% or more of the outstanding shares of common stock of the Company.

On April 17, 1998, BAE Canada 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.

B. Related Party Transactions

The Company is an authorized reseller of certain BAE Canada GPS products. In 2000, the Company purchased \$41,000 of products from BAE Canada. In addition in 2000, the Company purchased \$320,000 of contracted engineering services and \$39,000 of miscellaneous services from BAE Canada.

In 2000, the Company sold \$3.4 million of product to Point, the Company's joint venture with Sokkia. In addition, the Company provided \$522,000 in facilities, computer systems support and research and development support to Point and earned \$287,000 in royalties on Point product sales. The above financial transaction between the Company and Point are on a gross basis, before intercompany eliminations.

From March 15, 2000 to March 13, 2001, the Company and Sokkia collectively loaned Point US\$4.0 million, the Company's share being US\$1.96 million. The loans are secured by Point's assets and bear interest at the U.S. Prime Rate during 2000 and at a rate of 6% during 2001. In January 2001, the Company and Sokkia extended the due date of the loans to December 31, 2001.

In January 2001, the Company signed a number of agreements under which the Company acquired a 48.7% equity interest in Mezure. The agreements included a US\$400,000 cash investment. The Company also committed to loan to Mezure US\$200,000 from January 5 to March 31, 2001, of which US\$160,000 had been advanced as of March 23, 2001. This was in addition to US\$65,000 previously advanced in October 2000. The US\$265,000 in loans are secured by Mezure's assets, bear interest at the U.S. Prime Rate and are due in May and June 2001.

C. Interests of Experts and Counsel

Not applicable

Item 8 Financial Information

A. Consolidated Statements and Other Financial Information

See Item 18 "Financial Statements" and "Item 4 - Information on the Company, Business Overview - Legal Proceedings."

Item 9 The Offer and Listing

A. Offer and Listing Details

The Company's common shares have been listed on The Nasdaq Stock Market since February 7, 1997. The following are the price ranges as reported by The Nasdaq Stock Market for the periods indicated.

		US \$	
		<u>High</u>	<u>Low</u>
Annual	2000	\$10.500	\$1.188
	1999	\$3.813	\$1.000
	1998	\$10.750	\$1.313
	1997 (Feb - Dec)	\$12.375	\$4.500
Quarterly	Q4 - 2000	\$4.000	\$1.188
	Q3 - 2000	\$6.625	\$3.094
	Q2 - 2000	\$5.750	\$2.500
	Q1 - 2000	\$10.500	\$2.500
	Q4 - 1999	\$3.813	\$1.313

Q3 – 1999	\$2.000	\$1.000
Q2 – 1999	\$2.750	\$1.250
Q1 – 1999	\$2.750	\$1.250

Monthly

February 2001	\$2.688	\$1.438
January 2001	\$2.313	\$1.375
December 2000	\$2.563	\$1.188
November 2000	\$3.500	\$1.906
October 2000	\$4.000	\$2.250
September 2000	\$5.000	\$3.625

B. Plan of Distribution

Not applicable

C. Markets

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'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 1, 2001, there were 12 shareholders of record resident in the United States, including Cede & Co., holding approximately 2,990,270 shares, representing 38.9% of the Company's shares then outstanding. In total the Company has in excess of 22 shareholders of record.

D. Selling Shareholders

Not applicable

E. Dilution

Not applicable

F. Expenses of the Issue

Not applicable

Item 10 Additional Information

A. Share Capital

Not applicable

B. Articles and By-laws

The Corporation is registered under the *Canada Business Corporations Act* ("CBCA" or the "Act") as corporation number 076226-1 and has the capacity and, subject to the provisions of the Act, the rights, powers and privileges of a natural person.

Powers of Directors

Subject to any unanimous shareholder agreement, the directors shall manage or supervise the management of the business and affairs of the Corporation and may exercise all such powers and do all such acts and things as may be exercised or done by the Corporation and are not by the Act, the articles, the by-laws, any special resolution of the Corporation, a unanimous shareholder agreement or by statute expressly directed or required to be done in some other manner. Notwithstanding any vacancy among the directors, the remaining directors may exercise all the powers of the board so long as a quorum of the board remains in office.

The Act requires every director who is a party to a material contract or a proposed material contract with the Corporation, or who is a director or officer of or has a material interest in any person who is a party to a material contract or a proposed material contract with the Corporation to disclose in writing to the Corporation or request to have entered in the minutes of meetings of directors the nature and extent of his or her interest, and refrain from voting in respect of the material contract or proposed material contract if and when prohibited by the CBCA. However, a director who is prohibited by the CBCA from voting on a material contract or proposed material contract will be counted in determining whether a quorum is present for the purpose of the resolution. The articles and by-laws do not require an independent quorum to enable the directors to vote compensation to themselves or any member of their body.

Unless the articles or by-laws of or a unanimous shareholder agreement relating to the Corporation otherwise provide, the articles of the Corporation are deemed to state that the directors of the Corporation may, without authorization of the shareholders, (a) borrow money on the credit of the Corporation, (b) issue, reissue, sell or pledge debt obligations of the Corporation, (c) to the extent permitted by the CBCA, give financial assistance to anyone by means of a loan, guarantee or otherwise to secure performance of an obligation of such person, and (d) mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of the Corporation, owned or subsequently acquired, to secure any obligation of the Corporation. The Corporation does not have a unanimous shareholder agreement and its articles and by-laws do not limit the above powers.

Directors of the Corporation are not required to own shares of the Corporation in order to qualify as a director and the directors are not required to retire upon reaching a specified age.

Description of Securities

The Corporation is authorized to issue an unlimited number of Common Shares and an unlimited number of First Preference Shares.

Holders of Common Shares are entitled to receive notice of and to attend all meetings of the shareholders of the Corporation, except meetings at which holders of another specified class of shares are exclusively entitled to vote, and are entitled to one vote for each Common Share held on all votes taken at such meetings. The holders of Common Shares are entitled to receive such dividends as the directors may in their discretion declare, regardless of whether dividends are declared on any other class of shares. Upon liquidation, dissolution or wind-up of the Corporation, the holders of Common Shares are entitled to receive any remaining property after payment of any amount required to redeem or retract the issued and outstanding First Preference Shares.

The First Preference Shares may be issued in one or more series with each series to consist of such number of shares as may, before the issue of the series, be fixed by the directors of the Corporation. The directors are authorized, before the issue of the series, to determine the designation, rights, privileges, restrictions and conditions attaching to the First Preference Shares of each series.

The First Preference Shares of each series rank equally with respect to the payment of dividends and the distribution of assets or return of capital in the event of liquidation, dissolution or winding-up and in priority to the Common Shares and any other shares of the Corporation ranking junior to the First Preference Shares. In addition, if any amount of cumulative dividend or declared non-cumulative dividend or an amount payable on return of capital in respect of shares of a series of First Preference Shares is not paid in full, the shares of the series are entitled to participate rateably with the shares of any other series of the same class in respect of such amounts.

Shareholder Meetings

There are two types of shareholder meetings: the regular annual meeting and the special meeting. Pursuant to the CBCA, the annual shareholder meeting shall be held not less than 15 months after holding the last preceding annual meeting. The Directors may at any time call a special meeting of shareholders.

A notice stating the day, hour and place of meeting and, if special business is to be transacted details of the nature of the business, must be served by sending such notice to each person who is entitled to notice of such meeting and who on the record date for notice appears on the records of the Corporation or its transfer agent as a shareholder entitled to vote at the meeting and to each director of the Corporation and to the auditor of the Corporation by prepaid mail not less than 21 days and not more than 50 days before the meeting unless such requirement is otherwise waived. The Corporation must fix a record date in advance of the meeting for the purpose of determining shareholders entitled to notice of the meeting. Only shareholders of record on such date will be entitled to notice of the meeting.

Votes at meetings of shareholders may be given either personally or by proxy. Every shareholder, including a shareholder that is a body corporate, entitled to vote at a meeting of shareholders may by means of a proxy appoint a proxyholder or one or more alternate proxyholders, who need not be shareholders, as his nominee to attend and act at the meeting in the manner, to the extent and with the authority conferred by the proxy.

C. Material Contracts

In the past two years the Company has not entered into any material contracts other than contracts entered into in the ordinary course of business. See "Item 4 - Information on the Company."

D. Exchange Controls

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 10 - Additional Information, 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 \$192 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.

E. 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.

F. Dividends and Paying Agents

Not applicable

G. Statement by Experts

Not applicable

H. Documents on Display

Documents concerning the Company referred to in this Annual Report may be inspected at its headquarters at 1120 – 68th Avenue N.E., Calgary, Alberta, T2E 8S5, CANADA.

The Corporation's SEC filings, and the exhibits thereto, are available for inspection and copying at the public reference facilities maintained by the Commission in Room 1024, 450 Fifth Street N.W., Washington, D.C., 20549 and the Commission's regional offices located in New York, New York and Chicago, Illinois. Copies of these filings may be obtained from these offices after the payment of prescribed fees. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms.

As a foreign private issuer, the Corporation is exempt from the rules under the Securities Exchange Act of 1934, as amended, prescribing the furnishing and content of proxy statements to shareholders. As the Corporation is a foreign private issuer, the Corporation's directors and officers are also exempt from the shortswing profit recovery and disclosure regime of section 16 of the Exchange Act.

I. Subsidiary Information

Not applicable

Item 11 Quantitative and Qualitative Disclosures about Market Risk

Most of the Company's revenues (over 97% in 2000) 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 to Canadian dollar exchange rates. At December 31, 2000, the Company has foreign currency options and forward foreign currency contracts to sell US \$3,500 between January 1, 2001 and June 29, 2001 at rates between \$0.6622 and \$0.6814. In addition, at December 31, 2000, the Company has entered into forward foreign currency contracts obligating it to buy US\$2,500 between March 31, 2001 and June 29, 2001 at rates between \$0.6476 and \$0.6775. 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 following table sets forth the potential gains on losses that would arise on the Company's foreign currency options and forward foreign currency contracts as of December 31, 2000, under various hypothetical US dollar to Canadian dollar exchange rates:

<u>US\$ vs. CDN\$</u>	<u>Gain/(loss)</u> <u>CDN\$</u>
\$0.62	(\$356,000)
0.64	(180,000)
0.66	(67,000)
0.68	66,000
0.70	205,000
0.72	344,000

The Company is not subject to significant interest rate risk due to the short-term maturities of its outstanding loans.

Item 12 Description of Securities other than Equity Securities

Not applicable

PART II

Item 13 Defaults, Dividend Arrearages and Delinquencies

Not applicable.

Item 14 Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable.

Item 15 [Reserved]

Not applicable

Item 16 [Reserved]

Not applicable

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. ††
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- 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 July 1, 1997 between NovAtel Inc. and Werner Gartner. ††
- 10.18 Operating Line Credit Facility Letter from The Toronto Dominion Bank dated June 23, 1999.
- 10.19 Lease Agreement (Building) dated January 29, 1999 between Christian Schumacher and NovAtel Inc.
- 10.20 Agreement made effective July 20, 1999 between NovAtel Inc. and Sokkia Co., Ltd.
- 10.21 License Agreement made effective August 1, 1999 between NovAtel Inc., Sokkia Co., Ltd. and Point, Inc.
- 10.22 Agreement dated June 28, 2000 between NovAtel Inc. and Raven Industries Inc.
- 10.23 Operating Loan Credit Facility Letter from HSBC Bank Canada made effective November 6, 2000.

- 10.24 Amendment No. 1 to Definitive Project Agreement made effective November 15, 2000 between NovAtel Inc. and BAE Systems Canada Inc.
- 10.25 Amendment made effective January 26, 2001 to Operating Loan Credit Facility Letter from HSBC Bank Canada.
- 10.26 Amendment dated February 2, 2001 to the Agreement between NovAtel Inc. and Raven Industries Inc.
- 10.27 Consulting Services Agreement dated February 19, 2001 between NovAtel Inc. and David E. Vaughn.
- 21.1 List of Subsidiaries.†
- 23.1 Consent of Arthur Andersen & Co.

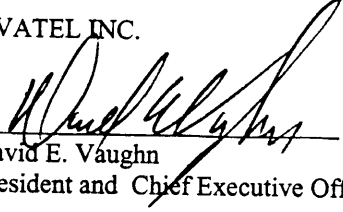
† Incorporated by reference to Registrant's registration statement on Form F-1 (Registration Statement No. 333-6088).

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

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

NOVATEL INC.

By 
David E. Vaughn
President and Chief Executive Officer

Date: March 29, 2001

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, 2000 and 1999 and the consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. 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 and the United States. 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, 2000 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Calgary, Canada
February 2, 2001



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 and the United States, the consolidated financial statements of **NOVATEL INC.** included in this Form 20-F and have issued our report thereon dated February 2, 2001. 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.

Chartered Accountants

Calgary, Canada
February 2, 2001

SCHEDULE II
Valuation and Qualifying Accounts

<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
 <u>2000</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	\$ 720	116	(35)	\$ 801
Allowance for doubtful accounts	\$ 768	13	(242)	\$ 539
Provision for future warranty costs	\$ 246	78	(56)	\$ 268

EXHIBIT INDEX

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