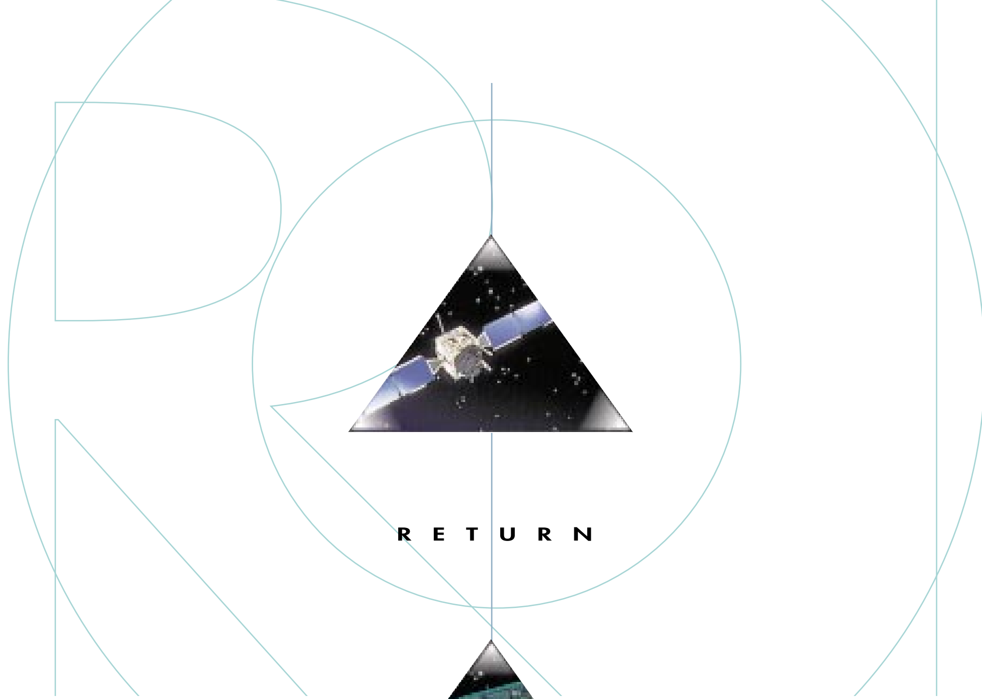
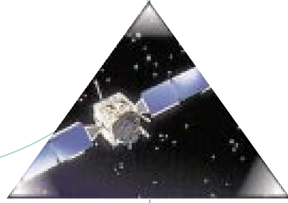
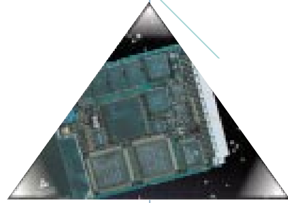




RETURN



ON

INNOVATION

NOVATEL

NovAtel designs, markets and supports a broad range of products that determine precise geographic locations using the Global Positioning System (GPS).

The Company focuses on high-end GPS applications such as surveying, geographic information systems (GIS), aviation, marine, mining and machine control and agriculture with technologically innovative products that provide high levels of accuracy, real-time positioning and reliability. NovAtel common stock trades on the Nasdaq Stock Market under the symbol NGPSF.

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, certification and market acceptance of the Company's new products, impact and timing of large orders, pricing pressures in the market and other competitive factors and maintaining technological leadership, together with the other risks and uncertainties described in public filings.

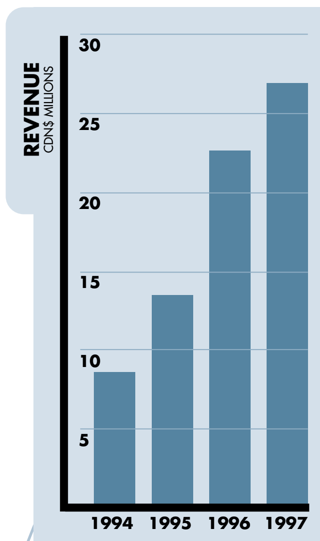
The dollar amounts presented in this Annual Report are in Canadian currency unless otherwise noted and are presented in accordance with accounting principles generally accepted in Canada.

1997 Highlights:

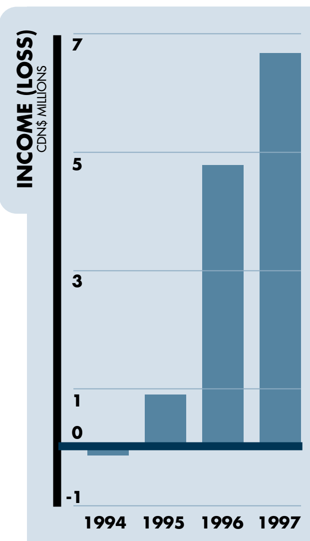
- Reported record sales and earnings.
- Expanded North American/Latin American distribution relationship with Nikon Inc. to more than 25 dealers in the US and another 10 in Latin America.
- Formed an alliance with Canadian Marconi Company to co-develop high performance certified GPS receivers for use in aviation applications.
- Introduced *BeeLine*, a real-time azimuth determination and kinematic positioning system.
- Using NovAtel's technology, NovAtel customers won top honours at the GPSWorld Applications Contest and International Aerial Robotics Competition.
- Completed initial public offering generating US$16.4 million in net proceeds.

"NovAtel," "Narrow Correlator," "MET," "GPStation," "SoftSurv," "Propak," "Your Source," and "Outrider" are registered trademarks of the Company. "MEDLL," "RT-20," "AG-20," "GISMO," "GIS MObile," "GPSDredger," "Hydrographic Surveyor," "Powerpak," "MiLLennium," "RT-2," "GPSolution" and "BeeLine" are trademarks of the Company.

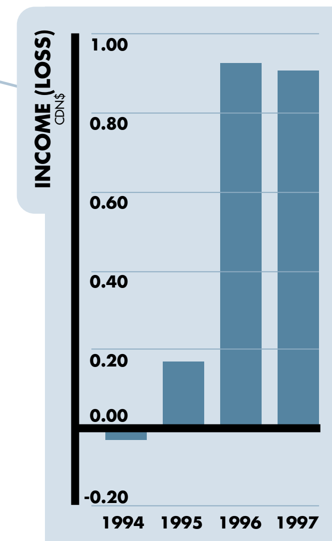
FINANCIAL HIGHLIGHTS



REVENUE



INCOME (LOSS) FROM CONTINUING OPERATIONS



INCOME (LOSS) FROM CONTINUING OPERATIONS PER SHARE

(in thousands, except per share data or unless otherwise noted)	1997	1996
Revenues	$ 27,049	$ 22,663
Gross margin – $	$ 19,199	$ 16,194
Gross margin – %	71%	71%
Income from continuing operations	$ 6,723	$ 4,839
Income from continuing operations – per share (basic)	$ 0.91	$ 0.93
Income from continuing operations – per share (fully diluted)	$ 0.86	$ 0.93
Net income	$ 7,183	$ 2,135
Net income – per share (basic)	$ 0.97	$ 0.41
Net income – per share (fully diluted)	$ 0.92	$ 0.41
Weighted average shares outstanding (basic)	7,420	5,200
Weighted average shares outstanding (fully diluted)	8,100	5,200
Working capital	$ 10,515	$ (11,157)
Shareholders' equity	$ 25,073	$ (4,168)

TO OUR SHAREHOLDERS

Nineteen ninety-seven was a productive year for NovAtel. It began with a successful initial public offering of common stock in February that generated net proceeds of US$16.4 million to the Company. We then made excellent progress during the course of the year building our presence in the end-user segment of the market, and we broadened our core business in board-level GPS receivers for original equipment manufacturers (OEMs) into new applications and markets. We introduced several new products and product enhancements that reinforced NovAtel's position as a technology leader in high-end GPS receivers. And we continued to strengthen our capabilities in the growing market for GPS in advanced aviation applications.

Finally, in April 1998, Canadian Marconi Company (CMC) acquired a 58.3% equity stake in NovAtel from existing shareholders. This is an excellent partnership for the Company, offering an array of valuable technological synergies, access to the aviation markets, and opportunities for accelerated technology/product development in 1998 and beyond.

Solid Financial Performance

For the year, our revenues rose 19% to $27.0 million. Income was $7.2 million versus $2.1 million in 1996, which included a loss of $2.7 million from discontinued operations. Our 1997 earnings also include a $460,000 gain from discontinued operations. Income per share from continuing operations was $0.91 in 1997 on 7.4 million shares outstanding, compared to $0.93 in 1996 on 5.2 million shares outstanding before the initial public offering. Gross margin for the year remained steady at 71%.

Our sales growth was driven by strong demand in the end-user segment, especially survey and GIS customers, as well as by increased shipments of GPS receivers to Raytheon (formerly Hughes Information Systems), which is implementing the Wide Area Augmentation System (WAAS) for the US Federal Aviation Administration. OEM sales continued to be a solid revenue foundation for NovAtel.

OEM: Building on Strength

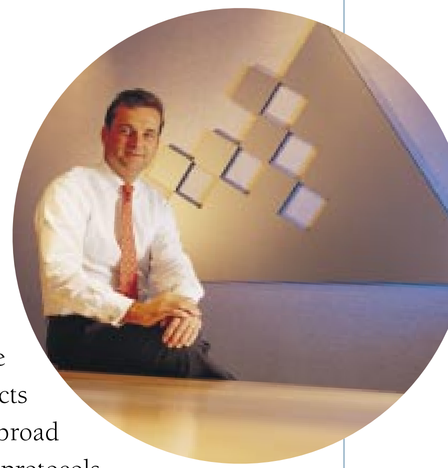
NovAtel sells GPS receivers to more than 300 OEM customers. This is our core business, and over the years we have built a reputation for technological expertise and customer responsiveness. NovAtel's engineering advances include our patented Narrow Correlator and multipath mitigation technologies and our pioneering single board/dual frequency products. Our boards are designed for easy integration into existing system designs, and we are known for developing products that meet the particular needs of our OEM customers and the markets they serve.

The most recent example of this responsive, customer-focused product strategy is our *BeeLine* real-time azimuth determination and kinematic positioning system. *BeeLine* gives OEMs a single-card GPS solution that provides excellent performance with the flexibility to be integrated into a variety of custom applications. In 1998, we will continue to respond to customer needs with enhancements to existing board-level products, continuing our tradition of innovative leadership.

Custom Products: Establishing a Presence

Developing custom products for end-users is a natural complement to and an outgrowth of our OEM business. While we have been selling end-user products for less than two years, they are already recognized as high quality, cost-effective GPS tools.

In 1997, we continued to strengthen our ability to reach end-users through our distribution agreement with Nikon covering the United States and Latin America. While this relationship initially required time-consuming dealer training and software adjustments, Nikon's network of nearly 40 dealers are now actively



promoting our *Outrider* and *GISMO* products to customers in the surveying and geographic information systems market segments.

Early in 1998, we extended our collaboration with Nikon to include a distribution agreement in Japan, where Nikon has an extensive network of distributors serving both OEM and end-user customers. We are now finalizing development of an end-user surveying product specifically targeting the Japanese market, that will be sold by dealers under the Nikon brand name in Japan. Given the large size of the Japanese surveying market, our expanded relationship with Nikon leaves NovAtel well positioned for accelerated growth in end-user product sales.

As we develop into what we believe will be a leading role in the GPS survey market, we may encounter setbacks as we did in the first quarter of 1998. Nonetheless, we are fully committed to our long-term goal of becoming a leading player in this field.

Aviation: A Significant Opportunity

In addition to the OEM and Custom Products businesses, NovAtel is building a strong presence in a specific vertical market: aviation. Over the past three years, we have gained valuable experience supplying the GPS receivers used in the WAAS implementation, delivering more than 150 receivers to be installed at WAAS sites around the United States. While no deliveries are currently planned for the rest of 1998, we are working towards the next program phase for implementation in 1999/2000, which we expect to participate in.

With similar GPS or GPS/GLONASS-based air traffic systems planned for Japan and Europe, NovAtel is well placed to win contracts in the Japanese MSAS and European EGNOS programs. Other countries also planning WAAS or similar systems include Canada, Mexico, Australia and Chile.

Through our closer involvement with CMC – a company with a very strong track record in airborne receivers, avionics technology and certification – we believe we can expand the type and scope of aviation products that we sell. CMC has broad experience in system testing protocols, process design and the documentation skills needed for government certification of advanced GPS applications used in civil aviation. Together, we are combining our strengths to create world-class airborne GPS receivers.

Looking Forward

New OEM products, a growing presence in the end-user markets of surveying and GIS, continuing WAAS deliveries and the strategic alliance with CMC were all steps that strengthened NovAtel in 1997. We will continue to build on these strengths in 1998 to position the Company for sustained, long term success.

Also in 1998 we will maintain and extend the strong commitment to customers for which NovAtel is known. Through a recent internal reorganization, each of our product departments – OEM, Custom Products and Aviation – now include marketing resources to ensure that customer needs and market expectations are incorporated at every stage of the development process. And we intend to open a new office in Great Britain to provide more responsive sales and technical support to NovAtel customers and distributors in Europe.

In closing, we want to once again welcome each of our new shareholders to NovAtel. We appreciate your support and your interest. We feel the future is bright for your company, and we look forward to reporting on our continued progress.

Sincerely,

PASCAL E. SPOTHELFER
President & Chief Executive Officer
May 7, 1998

RETURN ON INNOVATION

At NovAtel, technology is only the beginning. Our technological leadership in the high-end GPS receiver market is not solely based on our engineering expertise. It is based on our application of these skills to create products that address real market needs. For example, recognizing that users needed greater accuracy, we developed our patented Narrow Correlator technology that enables more precise tracking of satellite signals for sub-meter precision.

NovAtel also designed faster and more reliable signal reception hardware, developed software that reduces multipath effects, and engineered integrated chip sets and circuit boards that perform under even the most dynamic environments, from the middle of the North Sea to the middle of the Indonesian jungle. And we have achieved these advances while simplifying manufacturing complexity and enhancing the adaptability of our products for different OEM systems – a clear illustration of the customer-focused technology that is a NovAtel hallmark.

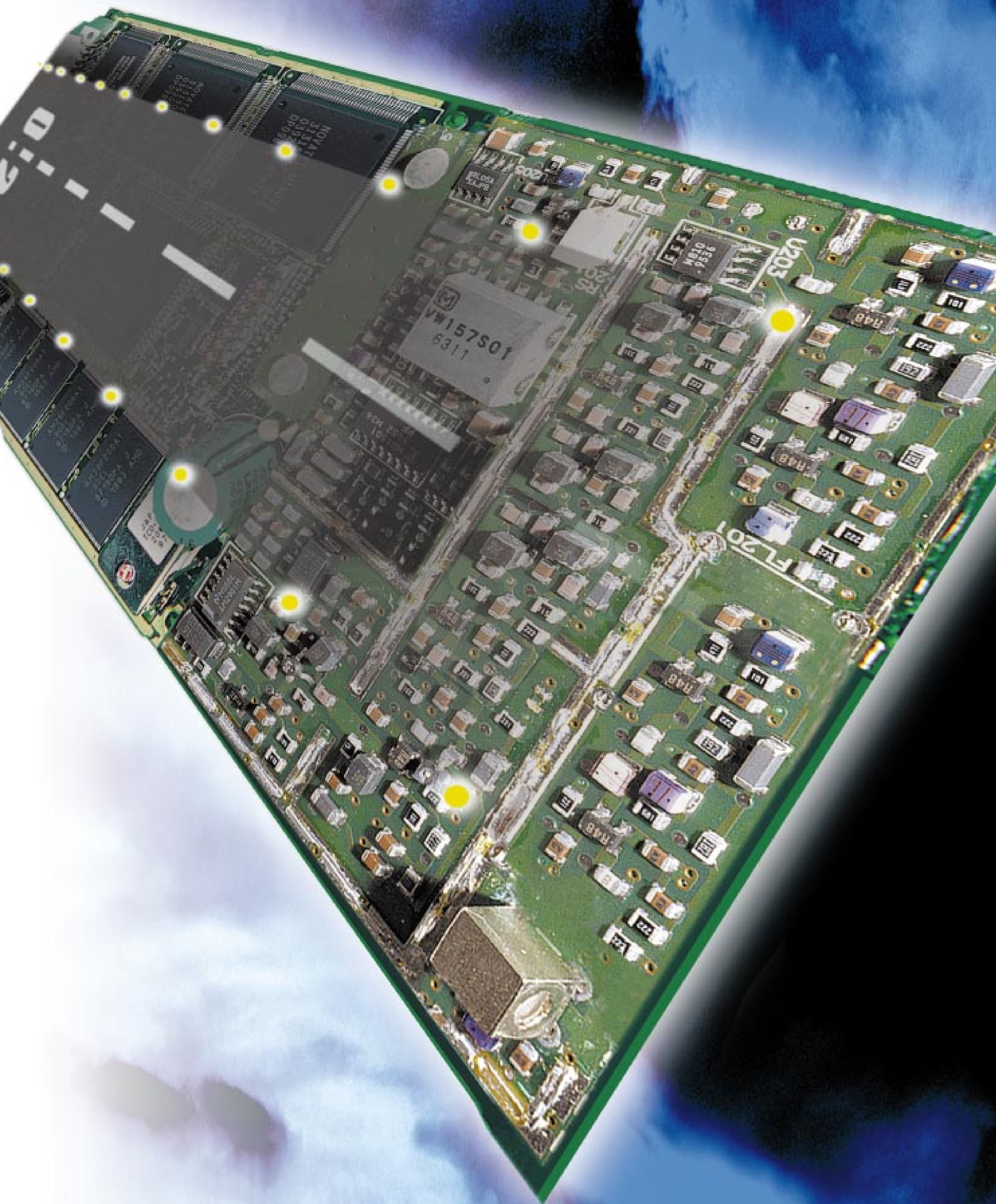
Setting the Technology Standard in High-End GPS Products

RETURN ON INGENUITY

NovAtel's core product line is comprised of high performance GPS receivers that can be integrated into comprehensive and often highly complex navigational systems. These boards combine proprietary hardware and software to provide OEMs with tremendous functionality and the flexibility to fit specific applications. Our single boards also lie at the heart of end-user products, such as *Outrider*, our self-contained GPS survey system that combines receiver, software, GPS antenna and hand-held controller in a backpack carrying unit. With our *SoftSurv* post-processing software, we offer customers a complete surveying solution.

Because of the high performance and accuracy designed into our board-level and end-user products, NovAtel's technology is at use in a wide array of markets, including aviation (traffic control, landing guidance), surveying (construction, geodetic research), GIS (utility infrastructure, resource management), mining (automated machine control and positioning), and agriculture (yield monitoring, terrain analysis and guidance).

Building a Family of Products for a Wide Array of GPS Applications



RETURN ON INVOLVEMENT

NovAtel develops strong, mutually beneficial relationships with its customers, strategic partners and dealers. Close involvement with our OEM customers allows us to anticipate market trends and ensure that our product development efforts are truly focused on the needs of users. In fact, each of our product teams works closely with our marketing staff to keep an open line of communication between GPS users in the field and our development engineers.

NovAtel has very strong strategic partners who rely on us. Experience has taught us the importance of value-added corporate collaborations. We are committed to being the best marketing, technology and product development strategic partners in the GPS industry.

Similarly, we work closely with our distributors and dealers to ensure that they are well trained in our products and have strong sales support as they extend NovAtel's presence into new markets. Today, we sell our end-user products through more than 30 dealers and resellers in 23 countries, and we are committed to giving each of them the technical and marketing support they need to succeed with NovAtel products.

Establishing a Strong Presence with OEMs, End-Users and Strategic Partners

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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

The Company was incorporated in 1978 and since that time has been engaged in several communications businesses. In 1992, the Company was reorganized with certain assets sold to third parties, certain assets retained by the Province of Alberta and the cellular telephone business, along with the small division working on GPS technology, transferred with the shares of the Company to Telexel Holding Limited. The Company divested all of its non-GPS businesses in a series of transactions beginning in March 1994 and ending in August 1996. As a result of these divestitures, the Company now focuses exclusively on the GPS business. On April 6, 1998, Canadian Marconi Company signed agreements with each of the Company's two principal shareholders to acquire approximately 58.3% of the Company's total shares outstanding. These transactions closed on April 17, 1998.

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

Including the results of the discontinued operations, the Company incurred losses in each of 1993, 1994 and 1995, computed in accordance with generally accepted accounting principles in Canada. Despite these losses on a consolidated basis, the GPS unit has increased its sales since the introduction of its first products from $456,000 in 1992, $4.9 million in 1993, $8.6 million in 1994, $13.5 million in 1995, $22.7 million in 1996 to $27.0 million in 1997 and had profits in 1993, 1995, 1996 and 1997. There can be no assurance that the Company will be able to sustain profitability.

The Company's results of operations have fluctuated and can be expected to continue to fluctuate on a quarterly basis as a result of a number of factors which affect revenue, gross margin and operating expenses. Quarterly revenues have fluctuated because of a number of factors, including revenue generated from major contracts, new product introduction, fluctuations in non-recurring engineering ("NRE") fees, seasonality of customer purchase patterns and the timing of industry trade shows. Shipments under a major contract could result in unusually high revenue levels when compared to revenues and income in other

periods. For example, during 1997, sales of the Company's products in connection with the United States Federal Aviation Administration's ("FAA") WAAS program accounted for approximately 31% of the Company's total revenues compared with 27% in 1996. The Company currently has no commitments for future sales of its products in any further implementation of the WAAS program. The FAA has recently announced that it has merged phases 2 and 3 of the WAAS program into a new phase E. This will push out potential deliveries of additional WAAS receivers by the Company into 1999 and onwards. There can be no assurance that the Company will sell any of its products in connection with the WAAS program or receive major contracts in the future, and the failure to do so could have a material adverse effect on the Company's business, financial condition and results of operations. The Company has seen revenues from NRE fees decrease from $2.3 million in 1995 to $528,000 in 1996 to $154,000 in 1997. The Company currently has no significant contracts for NRE services. Revenues can be expected to vary significantly as a result of lack of a significant order backlog, fluctuations in demand for existing products, the rate of development of new markets, the degree of market acceptance of new products, increased competition and the general strength of domestic and international economic conditions. For example, sales to Nikon US were strong in the first half of 1997 but significantly slowed in the second half of the year. In addition, the Company expects to experience some negative impact from the Asian economic crisis. Furthermore, if the Company were unable to deliver sufficient quantities of products in a timely manner, due to factors such as parts supply shortages or customs delays, the Company's revenues could be adversely affected.

Gross margin varies primarily as a result of product sales mix, changes in materials and contract manufacturing costs and for the years prior to 1996, absorption of fixed manufacturing costs. Historically, the Company's gross margin relating to NRE fees has been somewhat lower than its gross margin relating to product sales. Accordingly, any increase in NRE fees as a percentage of total revenues may have a negative impact on gross margins. As revenues derived from sales of WAAS receivers decrease as a percentage of total revenues, gross margin may be adversely affected as these sales generally have higher gross margins. The Company's OEM products typically have higher gross margins than end-user products. The Company believes the sale of custom products is an important growth strategy; however, selling end-user products could adversely affect the Company's gross margins. In light of its growing fixed quarterly expense structure based on anticipated revenue, a shortfall from anticipated revenue could adversely affect results of operations and income per share. In addition, if the Company were to receive a major contract, it would likely increase its expenditures to support such a contract. If revenue from the contract were delayed for any reason, including cancellation or deferral of the contract, the Company's results of operations could be adversely affected.

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

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

Year 2000 and GPS Week Rollover Issues

The Company is addressing the Year 2000 issue. The issue is that some computer systems and software were designed to recognize dates using only the last two digits of a year. These programs were designed and developed without considering the impact of the upcoming change in the century. GPS suppliers are experiencing a similar issue arising from GPS week rollover. The GPS system

contains a field called a week number. At the end of each GPS cycle the receiver is required to reset the week number to zero to navigate and correctly display and use time. This reset will next occur on August 21, 1999. GPS receivers were not designed to automatically reset the week number to zero.

The Company is currently implementing a process for testing software used in its receivers with respect to both the Year 2000 and GPS rollover issues. The Company currently anticipates that some modification to portions of its software will be required to make it Year 2000 and GPS week rollover compliant. The Company is also in the process of implementing a complete review of software used for its operations and by its external suppliers. The costs incurred with respect to these issues will be expensed as incurred. The Company, based on its initial assessments, believes that Year 2000 and GPS rollover issues will not have a material adverse financial impact. The Company presently anticipates that it will be able to correct any Year 2000 or GPS rollover issues by the end of 1998; however, there can be no assurance that the Company will be able to modify its software in a timely and reliable manner. The failure of the Company to modify its software in a timely and reliable manner could have a material adverse effect on the Company's business, financial condition and results of operations.

Recent Developments

On April 17, 1998, Canadian Marconi Company ("Canadian Marconi") acquired approximately 58.3% of the outstanding Common Shares of the Company. Canadian Marconi acquired 1,560,000 Common Shares from Deutsche Effekten-und Wechsel-Beteilungsgesellschaft AG ("DEWB") representing all of DEWB's interest in the Company. Canadian Marconi also acquired 2,914,500 Common Shares from Telexel Holding Limited ("Telexel"). Telexel now owns 220,000 Common Shares or 2.9% of the outstanding Common Shares of the Company. The aggregate number of Common Shares beneficially owned by Canadian Marconi as of May 1, 1998 is 4,694,500 shares, representing 61.2% of the total outstanding Common Shares of the Company (including 220,000 Common Shares owned by Telexel subject to the right of first refusal, call option and pledge agreements).

Canadian Marconi reports that its purpose with respect to the acquisition of the Common Shares referred to above was to acquire a controlling interest in the Company. Canadian Marconi shall seek such representation on the Board of Directors of the Company and make such changes in the Company's business or corporate structure, or otherwise exercise control of the Company in such manner, as they deem appropriate. The size of the Company's Board of Directors is to be reduced from nine to seven directors and three persons designated by Canadian Marconi are to be elected to the Board of Directors.

On April 29, 1998 the Company announced first quarter 1998 revenues of $4.8 million and a loss from continuing operations of $0.15 per share. However, income overall, including gains from discontinued operations, was $0.01 per share. Full details of the first quarter results may be found in Form 6K filed in May 1998 by the Company with the Securities and Exchange Commission.

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,		
	1995	1996	1997
Revenues	100.0%	100.0%	100.0%
Product sales	83.2	97.7	99.4
NRE fees	16.8	2.3	0.6
Gross profit	68.5	71.5	71.0
Operating expenses			
Research & development	24.5	24.4	22.5
Selling and marketing	12.2	11.7	11.8
General & administration	16.5	10.3	13.3
Total operating expenses	53.3	46.4	47.6
Operating income	15.2	25.0	23.4
Interest income (expense)	(5.8)	(3.8)	0.7
Other income (expense)	(2.8)	0.1	0.7
Income from continuing operations	6.6%	21.4%	24.9%

1997 Compared to 1996

Revenues. Total revenues include product sales and NRE fees. Product sales revenues consist primarily of sales of OEM boards, end-user products, software, software upgrades, and for 1996 and 1997, sales of WAAS receivers. NRE fees consist of revenues from development contracts. Total revenues increased 19.4% from $22.7 million in 1996 to $27.0 million in 1997. Revenues from product sales increased 21.5% from $22.1 million in 1996 to $26.9 million in 1997. The increase in product sales revenues was primarily due to

$8.5 million in sales of WAAS receivers in connection with the FAA WAAS program and higher end-user sales. Revenues from end-user products increased 159% from $3.0 million in 1996 to $7.9 million in 1997. OEM sales continue to be a solid revenue foundation for the Company. Overall the Company diversified its revenues across OEM, end-user and aviation products.

Sales of WAAS receivers accounted for approximately 31% of the Company's total revenues in 1997 as compared to 27% in 1996. The Company delivered another $601,000 of WAAS receivers in the first quarter 1998 but currently has no commitments for future sales of its WAAS receivers in any further implementations of the WAAS program. Wide Area Augmentation programs have been initiated in Europe with EGNOS and in Japan with MSAS. The Company believes that it is well positioned to pursue these international opportunities. In addition, with the expertise that the Company has developed as a result of the WAAS project, the Company believes it is well positioned to continue serving the growing market for high-performance avionics GPS receivers. The Company believes this market will be part of the Company's product and revenue mix for the remainder of the WAAS rollout and beyond. The Company recently announced a new alliance with Canadian Marconi Company to combine respective technology and marketing strengths to develop and bring to market a new generation of certified, high performance GPS receiver for use in airborne and ground applications. The Company does not anticipate revenues from this alliance in 1998.

Nikon US has a network of over 30 dealers to carry the Company's GISMO and Outrider products in the United States and Latin America. Nikon US has completed training sessions with its dealers. After slow sales from Nikon US in the last half of the year in 1997, deliveries have resumed, although a significant improvement is not expected until the second quarter 1998 as the Nikon US fiscal year end is the end of March. In addition, Nikon Japan signed an agreement in January 1998 to distribute NovAtel's current GPS product family in Japan along with products that are being customized to suit the Japanese survey market. The customized GPS products are being jointly developed by Nikon Japan and NovAtel and are expected to be available by mid-1998.

NRE revenues decreased from $528,000 in 1996 to $154,000 in 1997 as a result of the completion of certain projects. NRE revenues for 1997 reflect that there are currently no significant development programs being funded by outside parties. The Company does not expect to generate significant NRE fees in the future.

In 1996 and 1997, the Company derived approximately 28% of its total revenues from the sale of its products to countries outside of the United States and Canada. However, total dollar revenues from international sales increased 15.4% from $6.4 million in 1996 to $7.4 million in 1997. The Company anticipates some negative impact to international sales in 1998 because of decreased sales of the Company's Outrider product in Asia due to the Asian economic situation.

Gross profit. Gross profit as a percentage of total revenues decreased marginally from 71.5% in 1996 to 71.0% in 1997. The decrease was due to price pressures and mix of OEM and end-user products partially offset by higher margin aviation revenues. The Company believes that the increasing percentage of revenues derived from sales of end-user products and competitive price pressure in the market will adversely affect gross margins.

Research and development. Research and development expenses consist primarily of engineering personnel expenses, contracted research and development expenses, facilities and equipment costs. Research and development expenses increased 9.9% from $5.5 million in 1996 to $6.1 million in 1997 and decreased as a percentage of total revenues from 24.4% in 1996 to 22.5% in 1997. The dollar increase in research and development expenses is primarily due to an increase in engineering personnel from 45 at December 31, 1996 to 59 at December 31, 1997, and salary increases. To December 31, 1997, the Company had charged all research and development costs to operations as incurred. The Company believes that significant investments in research and development are required to maintain its technological leadership and compete in its business. The Company expects that research and development expenses will increase in absolute dollars in 1998 over the prior year as a result of product development efforts and salary increases for engineering personnel. For 1998, expenses are expected to range between 20% and 22% of total revenues.

Selling and marketing. Selling and marketing expenses consist primarily of compensation of sales and marketing personnel as well as expenses for advertising and promotion, trade shows, facilities and other expenses related to the sales of the Company's products. Selling and marketing expenses increased 20.8% from $2.6 million in 1996 to $3.2 million in 1997 and remained relatively constant as a percentage of total

revenues, 11.7% in 1996 versus 11.8% in 1997. The dollar increase was due principally to expenses associated with promotional spending, advertising and trade shows. The Company believes that selling and marketing expenses will grow in dollars to support the Company's increased sales and marketing efforts primarily in connection with sales of end-user products.

General and administration. General and administration expenses consist primarily of salaries of administrative personnel, corporate overhead and facilities expenses. General and administration expenses increased by 53.8% from $2.3 million in 1996 to $3.6 million in 1997, and increased as a percentage of total revenues from 10.3% in 1996 to 13.3% in 1997. The additional costs are primarily related to the incremental costs of being a public company and to costs related to unused space in the new facility. The Company anticipates that general and administration costs will decline as a percentage of revenue as the Company's revenues increase.

Interest income (expense). Interest expense was incurred by the Company under its bank lines of credit prior to the initial public offering in 1997. The Company used part of the net proceeds of its initial public offering along with cash from operations to pay off its existing credit facility, after which the Company earned net interest income on its cash balances and short-term interest bearing investments. The Company had net interest income of $201,000 in 1997 compared to interest expense of $853,000 in 1996.

Other income (expense). Other income (expense) consists primarily of foreign currency exchange income and miscellaneous items. Other income increased from $17,000 in 1996 to $199,000 in 1997.

Income (loss) from discontinued operations. In 1997, the Company earned income from discontinued operations of $460,000, mainly from the sale of the 15% equity interest in NovAtel Wireless, Inc. (NWI) and the collection of notes receivable related to the sale of the Company's former Personal Communications Products (PCP) division to a group of companies controlled by NWI, partially offset by additional provisions established for the liquidation of residual PCP inventory and the purchase price adjustment claimed by Harris Canada Inc. In 1996, the loss from discontinued operations of $2.7 million related primarily to the operations of the former PCP division.

1996 Compared to 1995

Revenues. Total revenues increased 67.8% from $13.5 million in 1995 to $22.7 million in 1996. Revenues from product sales increased 96.9% from $11.2 million in 1995 to $22.1 million in 1996. The increase in product sales revenues was primarily due to $6.2 million in sales of WAAS receivers. Sales of WAAS receivers accounted for approximately 27% of the Company's total revenues in 1996 as compared to no shipments in 1995. NRE revenues decreased 76.7% from $2.3 million in 1995 to $528,000 in 1996. The decrease in NRE fees was due to the completion of certain projects and the transition of the WAAS program from the development stage to actual deliveries.

Gross profit. Gross profit as a percentage of total revenues increased from 68.5% in 1995 to 71.5% in 1996. The increase was due to sales of the Company's WAAS receivers and increased sales of dual frequency products, both of which have high gross margins, and by a decrease in NRE fees, which have lower gross margins. These effects offset the lower prices received for the Company's single frequency product lines in 1996.

Research and development. Research and development expenses increased 67.0% from $3.3 million in 1995 to $5.5 million in 1996 and remained almost constant as a percentage of total revenues of 24.5% in 1995 compared to 24.4% in 1996. The dollar increase in research and development expenses was due to an increase in engineering personnel from 36 at December 31, 1995 to 45 at December 31, 1996, and increased contracted research and development expenses related to software development. The Company charged all research and development costs to operations as incurred.

Selling and marketing. Selling and marketing expenses increased 60.3% from $1.7 million in 1995 to $2.6 million in 1996 and decreased as a percentage of total revenues from 12.2% in 1995 to 11.7% in 1996. The dollar increase was due principally to expenses associated with an increase in the number of sales and marketing personnel, as well as increases in advertising, promotions, trade shows and marketing materials.

General and administration. General and administration expenses increased by 4.9% from $2.2 million in 1995 to $2.3 million in 1996, but decreased as a percentage of total revenues from 16.5% in 1995 to 10.3% in 1996.

Interest expense. Interest expense was incurred by the Company principally under its bank line of credit. Interest expense increased from $780,000 in 1995 to $853,000 in 1996. The increase was a result of an increase in the amount borrowed by the Company under its credit facility partially offset by a decrease in the interest rate charged to the Company under its credit facility.

Other income (expense). Other expense was $379,000 in 1995 and other income was $17,000 in 1996.

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							
	1996				1997			
	March 30	June 30	Sept. 28	Dec. 31	March 29	June 28	Sept. 27	Dec. 31
(in thousands)								
Revenues								
Product sales	$5,880	$6,232	$5,567	$4,456	$5,403	$6,585	$7,337	$7,570
NRE fees	348	78	–	102	3	74	68	9
Total revenues	6,228	6,310	5,567	4,558	5,406	6,659	7,405	7,579
Cost of sales								
Cost of product sales	1,540	1,549	1,648	1,389	1,789	1,905	2,105	1,972
Cost of NRE fees	249	50	–	44	2	28	45	4
Total cost of sales	1,789	1,599	1,648	1,433	1,791	1,933	2,150	1,976
Gross profit	4,439	4,711	3,919	3,125	3,615	4,726	5,255	5,603
Operating expenses								
Research and development	1,323	1,483	1,417	1,308	1,400	1,465	1,613	1,599
Selling and marketing	616	625	742	663	745	766	838	847
General and administration	591	587	435	729	827	975	933	868
Total operating expenses	2,530	2,695	2,594	2,700	2,972	3,206	3,384	3,314
Operating income	1,909	2,016	1,325	425	643	1,520	1,871	2,289
Interest income/(expense)	(179)	(260)	(256)	(158)	7	66	42	86
Other income/(expense)	28	55	(46)	(20)	50	25	(13)	137
Income from continuing operations	$1,758	$1,811	$1,023	$ 247	$ 700	$1,611	$1,900	$2,512

	Quarter Ended							
	1996				1997			
	March 30	June 30	Sept. 28	Dec. 31	March 29	June 28	Sept. 27	Dec. 31
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Product sales	94.4	98.8	100.0	97.8	99.9	98.9	99.1	99.9
NRE fees	5.6	1.2	–	2.2	0.1	1.1	0.9	0.1
Gross profit	71.3	74.7	70.4	68.6	66.9	71.0	71.0	73.9
Operating expenses								
Research and development	21.2	23.5	25.5	28.7	25.9	22.0	21.8	21.1
Selling and marketing	9.9	9.9	13.3	14.5	13.8	11.5	11.3	11.2
General and administration	9.5	9.3	7.8	16.0	15.3	14.6	12.6	11.4
Total operating expenses	40.6	42.7	46.6	59.2	55.0	48.1	45.7	43.7
Operating income	30.7	31.9	23.8	9.3	11.9	22.8	25.3	30.2
Interest income/(expense)	(2.9)	(4.1)	(4.6)	(3.5)	0.1	1.0	0.6	1.1
Other income/(expense)	0.4	0.9	(0.8)	(0.4)	0.9	0.4	(0.2)	1.8
Income from continuing operations	28.2%	28.7%	18.4%	5.4%	12.9%	24.2%	25.7%	33.1%

The following table sets forth revenues from sales of the Company's products and NRE for each of OEM, end-user and aviation for the last eight quarters.

	Quarter Ended							
	1996				1997			
	March 30	June 30	Sept. 28	Dec. 31	March 29	June 28	Sept. 27	Dec. 31
(in thousands)								
OEM	$3,235	$2,383	$2,675	$2,594	$2,220	$2,304	$1,903	$2,054
End-user	323	692	777	1,237	2,165	2,803	2,096	793
Aviation	2,670	3,235	2,115	727	1,021	1,552	3,406	4,732
Total revenues	$6,228	$6,310	$5,567	$4,558	$5,406	$6,659	$7,405	$7,579

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, fluctuations in NRE fees, seasonality of customer purchase patterns and the timing of industry trade shows.

For example, during the four quarters of 1997, sales of the Company's WAAS receivers accounted for 0%, 13.5%, 39.1% and 61.9% of the Company's total revenues, respectively. The Company currently has no commitments beyond the first quarter of 1998 for future sales of its products in further implementations of the WAAS program. The FAA has recently announced that it has merged phases 2 and 3 of the WAAS program into a new phase E. This will push out potential deliveries of additional WAAS receivers by the Company into 1999 and onwards. 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 lack of a significant order backlog, fluctuations in demand for existing products, the rate of development of new markets, the degree of market acceptance of new products, increased competition and the general strength of domestic and international economic conditions. Furthermore, if the Company were unable to deliver sufficient quantities of products in a timely manner, due to factors such as parts supply shortages or customs delays, the Company's revenues could be adversely affected.

Operating expenses increased during the first, second and third quarters of 1997 as the Company continued to make significant investments to support anticipated revenue growth. In light of its growing fixed quarterly expense structure based on anticipated revenues, a shortfall from anticipated revenues could adversely affect results of operations and earnings per share. In addition, if the Company were to receive a major contract, it would likely increase its expenditures to support such contract. If recognition of the revenues from the contract was delayed for any reason, including cancellation or deferral of the contract, the Company's results of operations could be adversely affected as it attempted to adjust its expenditures downward.

Taxes

The Company has not recorded a provision for income taxes due to previously incurred losses, credits and costs. As of December 31, 1997, losses, which can be carried forward, investment tax credits, depreciation and research and development costs may be used to reduce future taxable income in Canada. The ultimate availability and amount of these losses, credits and costs may be dependent upon future Revenue Canada, Taxation audits. See Note 14 of Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

For 1997, cash provided by operations was $5.6 million, compared to $2.3 million in 1996. This improvement resulted from the elimination of funding for the discontinued operations in the latter half of 1996, partially offset by an increase in working capital due to the reduction of accounts payable to 45 days.

In 1997, cash provided by financing activities was $13.0 million compared to $1.0 million in 1996. In February 1997, the Company raised $22.1 million, net of offering costs, from its initial public offering of 2,470,000 Common Shares. The Company repaid all advances and borrowings under its lines of credit with the Hongkong Bank of Canada using proceeds of the public offering and operating cash. The Company intends to use the remaining proceeds for general corporate purposes, including additions to working capital and future acquisitions. The Company has no agreements or commitments, and is not currently engaged in any negotiations with respect to future acquisitions;

however, the Company is considering and reviewing certain opportunities that could result in an acquisition.

In 1997, the Company used $8.0 million cash in investing activities, consisting of $10.3 million for capital assets, including $5.7 million for the new facility and related furnishings, partially offset by $1.9 million in deferred proceeds from the sale of the Company's discontinued operations. The $1.9 million includes $483,000 from the sale of the Company's 15% equity interest in NovAtel Wireless, Inc.

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

At December 31, 1997, the Company had cash and term deposits of $10.7 million. In April 1997, the Company entered into a new credit agreement with the Hongkong Bank of Canada whereby the Company can borrow up to $1.0 million for day-to-day operating requirements and US$1.0 million to support the margin requirement related to the purchase of foreign exchange contracts. The lines of credit are payable on demand and are secured by certain of the Company's assets.

On January 30, 1998, the Company entered into sale/leaseback arrangements in which capital assets, comprised mainly of furniture and computer equipment, were sold to the Hongkong Bank of Canada for proceeds of $1.7 million resulting in a gain of $175,000. At the same time, the Company entered into lease agreements with terms of between 39 and 65 months and with aggregate lease payments of $1.9 million. The leases will be accounted for as capital leases, and the gain on the original sale will be deferred and amortized over the terms of the respective leases.

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

Effects of Foreign Currency Exchange Rates and Inflation

Most of the Company's revenues (96% in 1997) were earned in currencies other than the Canadian dollar, principally the US 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 US dollar and other foreign currencies and the Canadian dollar could materially affect the Company's results of operations. The Company uses foreign currency options and forward foreign currency contracts to reduce its exposure to fluctuations in the US dollar. The Company has purchased foreign exchange contracts to sell US$5.0 million between January 30, 1998 and June 30, 1998 at rates between $0.7017 and $0.7363. In January 1998, the Company purchased foreign currency options to sell US$5.0 million between October 30 and December 31, 1998 at a rate of $0.6993. These contracts represent approximately 90% of net US dollar operating cash flows during the period. Hedging instruments are not used for speculative purposes. There can be no assurance that the Company will be successful in such hedging activities.

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

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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, 1997 and 1996 and the consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in accordance with generally accepted accounting principles in Canada.

ARTHUR ANDERSEN & CO.
Chartered Accountants

Calgary, Alberta,
January 30, 1998, except as to Note 23,
which is as of April 6, 1998.

CONSOLIDATED BALANCE SHEETS

(in thousands)	December 31, 1997	1996
ASSETS (Notes 8 and 21)		
Current assets:		
Cash and term deposits	$ 10,732	$ 61
Accounts receivable (Notes 3 and 12)	4,892	5,790
Related party receivables and advances (Note 15)	–	476
Inventories (Note 4)	2,066	2,518
Prepaid expenses and deposits	131	148
Total current assets	17,821	8,993
Capital assets (Note 5)	10,610	4,468
Intangible assets (Note 6)	3,948	1,898
Deferred charges (Note 7)	–	707
Equity investment in NovAtel Wireless, Inc. (Notes 15 and 20)	–	483
Total assets	$ 32,379	$ 16,549
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT) (Note 21)		
Current liabilities:		
Bank advances (Note 8)	$ –	$ 9,610
Accounts payable and accrued liabilities	7,246	9,928
Customer deposits	–	219
Related party payables and advances (Note 15)	–	279
Provision for future warranty costs	60	50
Mortgage payable	–	4
Capital lease obligation	–	60
Total current liabilities	7,306	20,150
Mortgage payable	–	84
Deferred gain (Note 20)	–	483
Total liabilities	7,306	20,717
Shareholders' equity (deficit) (Note 11):		
Capital stock	35,559	13,501
Deficit	(10,486)	(17,669)
Total shareholders' equity (deficit)	25,073	(4,168)
Total liabilities and shareholders' equity (deficit)	$ 32,379	$ 16,549

On behalf of the Board of Directors,

Werner Gartner, Director

Douglas R. Reid, Director

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	1997	1996	1995
Revenues (Notes 12 and 15)			
Product sales	$ 26,895	$ 22,135	$ 11,239
NRE fees	154	528	2,263
Total revenues	27,049	22,663	13,502
Cost of sales (Note 15)			
Cost of product sales	7,771	6,126	3,227
Cost of NRE fees	79	343	1,029
Total cost of sales	7,850	6,469	4,256
Gross profit	19,199	16,194	9,246
Operating expenses			
Research and development	6,077	5,531	3,312
Selling and marketing	3,196	2,646	1,651
General and administration	3,603	2,342	2,232
Total operating expenses	12,876	10,519	7,195
Operating income	6,323	5,675	2,051
Interest income/(expense)	201	(853)	(780)
Other income/(expense) (Note 13)	199	17	(379)
Income from continuing operations	6,723	4,839	892
Income (loss) from discontinued operations (Note 21)	460	(2,704)	(11,584)
Income (loss)	$ 7,183	$ 2,135	$(10,692)
Income (loss) per share (basic) (Note 11):			
Continuing operations	$ 0.91	$ 0.93	$ 0.17
Discontinued operations	0.06	(0.52)	(2.23)
Income (loss) per share	$ 0.97	$ 0.41	$ (2.06)
Weighted average shares outstanding (basic) (Note 11)	7,420	5,200	5,200
Income (loss) per share (fully-diluted) (Note 11):			
Continuing operations	$ 0.86	$ 0.93	$ 0.17
Discontinued operations	0.06	(0.52)	(2.23)
Income (loss) per share	$ 0.92	$ 0.41	$ (2.06)
Weighted average shares outstanding (fully-diluted) (Note 11)	8,100	5,200	5,200

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

(in thousands)	Common Shares (Note 11) Number	Common Shares (Note 11) Amount	Deficit	Total Shareholders' Equity (Deficit)
December 31, 1994	5,200	$13,501	$ (9,112)	$ 4,389
Loss	–	–	(10,692)	(10,692)
December 31, 1995	5,200	13,501	(19,804)	(6,303)
Income	–	–	2,135	2,135
December 31, 1996	5,200	13,501	(17,669)	(4,168)
Initial public offering of common shares	2,470	22,058	–	22,058
Income	–	–	7,183	7,183
December 31, 1997	7,670	$35,559	$(10,486)	$25,073

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Year Ended December 31,		
	1997	1996	1995
Operating activities			
Income from continuing operations	$ 6,723	$ 4,839	$ 892
Income (loss) from discontinued operations	460	(2,704)	(11,584)
Add charges and credits to operations not involving an outlay of cash:			
Amortization	1,419	952	2,593
Loss (gain) on disposal of capital assets	258	(59)	751
Gain on divestitures	(1,093)	(767)	(2,605)
Net change in non-cash working capital related to operations (Note 22)	(2,134)	55	2,822
Cash provided by (used in) operating activities	5,633	2,316	(7,131)
Financing activities			
Proceeds from initial public offering (Note 11)	22,058	–	–
(Decrease) increase in bank advances	(9,610)	1,836	(11,980)
(Decrease) increase in capital lease obligation	(60)	(84)	230
Decrease in mortgage payable	(88)	(4)	(4)
Decrease (increase) in deferred charges	707	(707)	–
Cash provided by (used in) financing activities	13,007	1,041	(11,754)
Increase (decrease) in cash before investing activities	18,640	3,357	(18,885)
Investing activities			
Purchase of capital and intangible assets	(10,304)	(4,787)	(3,672)
Proceeds on disposal of capital assets	435	50	1,876
Proceeds on divestitures	1,900	1,419	19,947
Net change in accounts payable and accrued liabilities related to investing activities	–	–	201
Cash (used in) provided by investing activities	(7,969)	(3,318)	18,352
Increase (decrease) in cash and term deposits	10,671	39	(533)
Cash and term deposits, beginning of year	61	22	555
Cash and term deposits, end of year	$10,732	$ 61	$ 22
Cash and term deposits consisted of			
Cash	$ 5,482	$ 61	$ 22
Cash equivalents (term deposits with original maturities of 90 days or less)	750	–	–
Cash and cash equivalents	6,232	61	22
Term deposits (original maturities of greater than 90 days)	4,500	–	–
	$10,732	$ 61	$ 22

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data and unless otherwise stated)

Note 1 Nature of Business

NovAtel Inc. (NovAtel or the Company) is incorporated under the laws of Canada and was acquired by Telexel Holding Limited (Telexel) on May 29, 1992. Subsequent to Telexel's acquisition, the Company divested its non-global positioning systems businesses in a series of transactions between March 1994 and August 1996 (see Notes 16 to 21) after which the Company focused on its remaining business, the development and marketing of global positioning systems (GPS) equipment.

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

On April 6, 1998, Canadian Marconi Company (CMC) entered into agreements with Telexel and Deutsche Effekten-und Wechsel-Beteilungsgesellschaft AG (DEWB), the Company's two principal shareholders, to acquire 58.3% of the outstanding common shares. The transaction is expected to close on April 17, 1998 subject to standard closing conditions (see Note 23).

Note 2 Significant Accounting Policies

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada (Canadian GAAP) and are stated in Canadian dollars. With respect to the consolidated financial statements, there are no material differences between Canadian and United States of America (US) generally accepted accounting principles (US GAAP), except as described in Note 24. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

a) Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its majority-owned controlled subsidiaries.

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

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

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

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

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

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

Buildings	20 years
Computer and ancillary equipment	4 years
Test equipment	4 years
Production equipment	5 years
Furniture and fixtures	10 years
Product tooling	2 years
Leasehold improvements	Over term of leases
Patents and other intangibles	10 years

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

f) Research and Development Costs. Research costs are charged to operations as incurred. Development costs, including software development costs, are charged to operations as incurred except when the Company has indicated its intention to use the process and the costs associated with the process are identifiable. In these circumstances, the costs are deferred and amortized on a systematic basis, subject to recoverability. No development costs have been capitalized in the consolidated statements of operations for each of the three years in the period ended December 31, 1997. There are no deferred development costs included on the consolidated balance sheets at December 31, 1997 or 1996.

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

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

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

Note 3 Accounts Receivable

	December 31, 1997	December 31, 1996
Trade receivables, net	$ 4,640	$ 3,603
Goods and Services Tax receivable	196	399
Divestiture proceeds receivable	56	1,788
	$ 4,892	$ 5,790

The receivable balances are net of an allowance for doubtful accounts of $456 at December 31, 1997 and $1,675 at December 31, 1996.

Note 4 Inventories

	December 31, 1997	December 31, 1996
Raw materials and components	$ 465	$ 942
Work-in-progress	57	77
Finished goods	1,544	1,499
	$ 2,066	$ 2,518

The inventory balances are net of a provision for excess and obsolete inventory of $1,055 at December 31, 1997 and $778 at December 31, 1996.

Note 5 Capital Assets

	December 31, 1997			December 31, 1996		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land and buildings	$ 6,481	$ 178	$ 6,303	$ 2,391	$ 38	$ 2,353
Computer and ancillary	3,509	1,356	2,153	1,934	755	1,179
Production/test equipment	1,112	393	719	564	202	362
Furniture and fixtures	1,470	168	1,302	795	305	490
Product tooling	439	306	133	302	218	84
Capital leased equipment	–	–	–	165	165	–
	$ 13,011	$ 2,401	$ 10,610	$ 6,151	$ 1,683	$ 4,468

Note 6 Intangible Assets

Intangible assets, comprised primarily of patents and purchased technology, are net of accumulated amortization of $430 at December 31, 1997 and $210 at December 31, 1996.

Note 7 Deferred Charges

The deferred charges of $707 as of December 31, 1996, incurred in relation to the Company's initial public offering, completed on February 7, 1997, have been offset against the proceeds of that offering (see Note 11).

Note 8 Bank Advances and Mortgage Payable

In the first quarter of 1997, the Company paid down its borrowings under its existing lines of credit with the Hongkong Bank of Canada, and the lines of credit were cancelled. Interest relating to the bank advances was paid in the amounts of $56 in 1997, $739 in 1996 and $1,755 in 1995.

On April 18, 1997, the Company entered into a new credit agreement with the Hongkong Bank of Canada whereby the Company can borrow up to $1.0 million for day-to-day operating requirements and US $1.0 million to support the margin requirement related to the purchase of foreign exchange contracts. The lines of credit are payable on demand and are secured by certain of the Company's assets. At December 31, 1997, portions of the lines of credit were utilized to support $87 of letters of credit ($137 at December 31, 1996) and the margin requirement on US $5,000 in forward foreign exchange contracts, leaving $913 available for use by the Company. Interest was chargeable at the bank's prime rate on Canadian dollar advances. No interest was charged under the new lines of credit in 1997.

Interest in the amount of $42 incurred to finance the construction of the Company's new facility was capitalized in the year ended December 31, 1997. No interest was capitalized in 1996 or 1995.

Note 9 Commitments and Contingencies

a) At December 31, 1997, purchase commitments were outstanding for $3,816 pertaining primarily to the acquisition of inventory, supplies and services.

b) Certain of the Company's equipment, mainly computer hardware and office equipment, are leased for various periods up to 2002. Rental payments under the leasing arrangements are as follows:

	Operating Leases
1998	$ 55
1999	39
2000	33
2001	17
2002	12
	$ 156

c) On January 30, 1998, the Company entered into sale/leaseback arrangements in which capital assets, comprised mainly of furniture and computer equipment, were sold to the Hongkong Bank of Canada for proceeds of $1,664 resulting in a gain of $175. At the same time, the Company entered into lease agreements with terms of between 39 and 65 months and with aggregate lease payments of $1,929. The leases will be accounted for as capital leases, and the gain on the original sale will be deferred and amortized over the terms of the respective leases.

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

e) Telexel, a major shareholder of the Company, is required to pay approximately $5,500 to the Province of Alberta by April 1, 1999, as deferred consideration for the acquisition of the Company. Telexel may be required to make installment payments based on NovAtel's net income. NovAtel has no obligation with regard to this liability of Telexel unless NovAtel were to default on its own obligations under the settlement agreement with the Province of Alberta, at which point the Company has provided a guarantee of Telexel's liability. NovAtel's obligations under the settlement agreement relate to the maintenance of certain employment levels and other nonfinancial administrative matters. The Company believes it is currently in compliance with these obligations.

Note 10 Financial Instruments

In the normal course of business, the Company uses foreign currency options and forward foreign currency contracts to reduce its exposure to fluctuations in the US dollar to Canadian dollar exchange rates. At December 31, 1997, the Company has purchased forward foreign currency contracts to sell US $5,000 between January 30, 1998 and June 30, 1998 at rates between $0.7017 and $0.7363. Had these contracts been settled on December 31, 1997, a cost of $238 would have been incurred.

The carrying value of other financial instruments, which include term deposits, accounts receivable and accounts payable, approximates their fair values because of the near-term maturity of these instruments.

Note 11 Shareholders' Equity

Authorized and Issued Capital Stock:

	December 31, 1997		December 31, 1996 and 1995	
	Number Authorized	Number Issued	Number Authorized	Number Issued
Common Shares	Unlimited	7,670	Unlimited	5,200

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

Income per share figures presented in the Company's financial statements are based upon the weighted average number of shares outstanding. Fully diluted income per share figures assume the exercise of options, if dilutive, effective on their dates of issue and that the funds derived therefrom would have been invested at an annual rate of return of 3.6%.

The Board of Directors approved stock option plans, effective upon completion of the initial public offering, which provide for the issuance of up to 851 common shares. As of December 31, 1997 the following options were outstanding:

Option Plan	Date of Grant	Number of Options	Exercise Price (US $)	Vesting Period	% Vested per Year	Expiry Date
Employee	Feb. 7, 1997	579	$ 7.50	3 years	40/30/30	Feb. 6, 2007
Employee	July 1, 1997	96	$ 7.50	4 years	25/25/25/25	June 30, 2007
Employee	July 1, 1997	81*	$ 7.50	4 years	25/25/25/25	June 30, 2007
Employee	Aug. 12, 1997	6	$ 7.50	3 years	40/30/30	Aug. 11, 2007
Employee	Oct. 2, 1997	7	$10.75	4 years	25/25/25/25	Oct. 1, 2007
Employee	Oct. 6, 1997	5	$11.25	4 years	25/25/25/25	Oct. 5, 2007
		774				
Directors'	Feb. 7, 1997	7	$ 7.50	4 years	25/25/25/25	Feb. 6, 2007
Directors'	Mar. 20, 1997	73	$ 7.50	4 years	25/25/25/25	Mar. 19, 2007
Total options		854				

* Conditionally granted, subject to shareholder approval

In January 1998, the Company issued approximately 107 options with an exercise price of US $8.00 to employees under the long-term employee incentive program, subject to shareholder approval. In addition 10 options with an exercise price of US $8.156 were granted in January 1998 to members of the Company's Technology Advisory Committee.

Note 12 Major Customers, Export Sales and Suppliers

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

Sales by Major Customer

	Year Ended December 31,		
	1997	1996	1995
Customer A	$ 8,677	$ 2,929	$ –
Customer B	2,676	–	–
Customer C	2,675	1,189	356
Customer D	–	3,463	1,656
Customer E	46	–	1,443
	$ 14,074	$ 7,581	$ 3,455
Percentage of total revenue	52%	33%	26%

Accounts receivable related to these major customers were $1,816 in 1997, $483 in 1996, and $498 in 1995.

Sales by Geographic Market

	Year Ended December 31,					
	1997		1996		1995	
	$	%	$	%	$	%
U.S.A.	$17,149	63%	$13,407	59%	$ 8,417	62%
Europe	4,228	16%	3,244	14%	1,358	10%
Asia/Australia	3,120	12%	2,709	12%	1,226	9%
Canada	2,479	9%	2,824	13%	2,422	18%
Other	73	–	479	2%	79	1%
	$27,049	100%	$22,663	100%	$13,502	100%

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

Note 13 Other Income (Expense)

	Year Ended December 31,		
	1997	1996	1995
Foreign exchange	$ 178	$ (35)	$ (313)
Miscellaneous	21	52	(66)
	$ 199	$ 17	$ (379)

Note 14 Taxes

a) Canadian Taxes. At December 31, 1997, losses were available for Canadian income tax purposes to be carried forward to reduce future Canadian taxable income. The benefit of these losses has not been recognized in the consolidated financial statements. These losses expire as follows:

1998	$ 2,500
1999	–
2000	7,400
2001	–
2002	2,200
2003	–
	$12,100

In addition, no recognition has been given in the consolidated financial statements for the potential income tax benefits related to approximately $155.0 million of research and development and depreciation costs deducted in the accounts, in excess of amounts claimed for Canadian income tax purposes.

The Company has unutilized investment tax credits of $16.5 million available to reduce future Canadian income taxes. The potential benefit of these credits has not been recognized in the consolidated financial statements. These credits expire on December 31 as follows:

1998	$ 2,300
1999	5,700
2000	2,400
2001	900
2002	800
2003	–
2004	1,200
2005	1,600
2006	900
2007	700
	$16,500

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

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

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

Note 15 Related Party Transactions

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

	December 31, 1997	December 31, 1996	December 31, 1995
Sales to affiliates	$ –	$ –	$ 1,869
Purchases from affiliates	–	4	4,333
Lease expense charged by Telexel	–	–	495
Management fees charged to Telexel	–	–	204
Management fees charged by affiliate	–	63	151
Administration fee (WAP Hong Kong operations)	–	(32)	409
Hong Kong office costs	60	–	–
Fees paid by affiliate for shareholder guarantee of bank advances	11	106	334
Facilitation fee (WAP divestiture) charged by affiliate	–	–	655
Expense of settlement of payables and receivables held by US and U.K. discontinued operations	–	–	397

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

	December 31, 1997	December 31, 1996
Trade receivables from affiliates	$ –	$ 31
Advances to Telexel	–	445
Advances to affiliate	–	–
Total related party receivables and advances	$ –	$ 476
Trade payables to affiliates	$ –	$ 29
Advances from affiliates	–	250
Total related party payables	$ –	$ 279

All advances were short-term, unsecured, non-interest bearing and had no fixed terms of repayment. The $445 advance to Telexel and the $250 advance from affiliate as of December 31, 1996 were paid in February 1997.

In 1995, consulting fees of $60 were paid to a company owned by a member of the Board of Directors. No such fees were incurred in the years ended December 31, 1997 or December 31, 1996.

The Company paid legal fees of $8, $31 and $21 in 1997, 1996 and 1995 respectively, to a legal firm whose partnership included a person who became a member of the Board of Directors in March 1997.

On November 19, 1996, the Company's 15% equity interest in NWI was sold for $483 to Telexel, with closure of such sale made effective upon completion of the initial public offering discussed in Note 11.

Note 16 Consumer Products Group (CPG) Divestiture

On March 26, 1994, the Company sold its Consumer Products Group division. The purchaser assumed all CPG warranty obligations and purchase commitments, as well as the lease and certain employment obligations for the Company's Lethbridge, Alberta and Fort Worth, Texas locations.

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

Note 17 Investment in NovAtel Communications (Europe) GmbH

In 1994, the Company wrote off its $1,500 investment in NovAtel Communications (Europe) GmbH as the Company entered into negotiations to sell its 49% interest to Deutsche Effekten-und Wechsel-Beteilungsgesellschaft AG [formerly known as Jenotad Verwaltungs GmbH] (Jenotad), a shareholder of the Company. The shares of NovAtel Communications (Europe) GmbH were subsequently sold to Jenotad on March 20, 1996 for a nominal amount.

Note 18 NovAtel Communications (U.K.) Limited Wind-Down

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

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

The residual assets and liabilities of the U.K. operations are reflected in the consolidated financial statements at liquidation values.

Note 19 Wireless Access Products (WAP) and Manufacturing Operations Divestiture

On November 3, 1995, the Company sold its Wireless Access Products division and its manufacturing operations in Calgary to Harris Canada, Inc. (Harris). The net gain on the divestiture is expected to be approximately $1,700, after consulting fees and restructuring costs, subject to post-closing adjustments, warranties and indemnification provisions. The purchase price is subject to an adjustment based on a post-closing audit of the balance sheet of the divested operations. Harris has claimed a purchase price adjustment of $3,320. As there can be no assurance as to how this matter will be resolved, the Company has provided for Harris' claim.

Note 20 Personal Communications Products (PCP) Divestiture

On August 21, 1996, the Company sold the inventory, prepaid expenses, capital assets and technology related to the PCP group to a group of companies controlled by NovAtel Wireless, Inc. (NWI), an unrelated party. The purchaser assumed all PCP warranty obligations, purchase order commitments and certain customer commitments.

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

The sale agreement provides for US $500 in contingent consideration which the Company has deferred recognition of until reasonable assurance of collectibility is established.

Note 21 Discontinued Operations

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

	Discontinued Operations		
	December 31, 1997	December 31, 1996	December 31, 1995
Revenues	$ –	$ 442	$ 21,045
Cost of sales	572	765	16,616
Research and development expenses	–	1,785	7,646
Selling and marketing expenses	–	355	4,370
General and administration expenses	8	973	4,624
Other expense	53	35	1,978
Loss before gain on divestitures	(633)	(3,471)	(14,189)
Gain on divestitures	1,093	767	2,605
Income (loss) from discontinued operations	$ 460	$ (2,704)	$ (11,584)

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

	December 31, 1997		
	As Presented	Related to Discontinued Operations	Related to Continuing Operations
Accounts receivable	$ 4,892	$ 56	$ 4,836
Accounts payable and accrued liabilities	7,246	1,649	5,597

	December 31, 1996		
	As Presented	Related to Discontinued Operations	Related to Continuing Operations
Cash	$ 61	$ 12	$ 49
Accounts receivable	5,790	1,837	3,953
Inventories	2,518	483	2,035
Capital assets	4,468	101	4,367
Accounts payable and accrued liabilities	9,928	3,203	6,725
Customer deposits	219	78	141

Note 22 Consolidated Statements of Cash Flows

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

	Year ended December 31,		
	1997	1996	1995
(Increase) decrease in accounts receivable	$ (43)	$ 3,960	$ 8,104
(Increase) decrease in inventories	(120)	(1,794)	11,706
Decrease in prepaid expenses and deposits	17	107	57
Decrease in accounts payable and accrued liabilities	(2,338)	(875)	(4,997)
Decrease in customer deposits	(219)	–	(534)
Increase (decrease) in provision for future warranty costs	10	18	(209)
Net change in non-cash working capital	(2,693)	1,416	14,127
Non-cash working capital items related to divestitures	559	(1,361)	(11,104)
Net change in accounts payable and accrued liabilities related to investing activities	–	–	(201)
Net change in non-cash working capital related to operations	$ (2,134)	$ 55	$ 2,822

Note 23 Events Subsequent to December 31, 1997

On April 6, 1998, Telexel and Deutsche Effekten-und Wechsel-Beteilungsgesellschaft AG reached agreement to sell 4,475 shares to Canadian Marconi Company (CMC). The transaction, which is scheduled to close on April 17, 1998, would give CMC approximately 58.3% of the outstanding common shares of the Company. The Company believes that CMC's share acquisition will not have a material effect on the Company's financial position or reported results of operations as at December 31, 1997, with the possible exception of the following:

a) Income taxes. The Company has determined that CMC's acquisition of a majority of the common shares of the Company would 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. Further, the net operating loss carryforwards of approximately US $38.0 million available for US tax purposes may also be subject to limitations due to the CMC share acquisition. As the Company has not recognized the income tax benefit of the above-noted items, there would be no differences in the Company's financial position or reported results of operations for the year ended December 31, 1997, should availability of these items be subject to limitation.

b) Employee stock options. As at December 31, 1997, the Company had issued 854 stock options (including 81 conditionally granted stock options) under the Company's stock option plans. In connection with CMC's share acquisition, the Company's stock option plans provide for accelerated vesting of non-vested options for a period of 45 days subsequent to the change of control, unless the Company's Board of Directors approves CMC becoming the beneficial owner of 50% or more of the outstanding shares of the Company. Should the Board of Directors not approve the ownership change, there would be no differences in the Company's financial position or reported results of operations for the year ended December 31, 1997. However, recognition of the Company's stock-based compensation expense related to these options, determined for US GAAP purposes as described further in Note 24, may be accelerated in future periods.

c) Intangible assets. As at December 31, 1997, intangible assets included $1,182 related to the Company's settlement agreement with Trimble Navigation Limited (Trimble). This settlement agreement with Trimble includes a provision that Trimble may, at its sole option, terminate the licenses and rights granted should the Company undergo a change in control. The Company believes that Trimble will not terminate these licenses and rights. Accordingly, the Company has determined that there has been no impairment of these intangible assets as a result of this transaction.

Note 24 Differences Between Canadian and United States Generally Accepted Accounting Principles

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

a) Under US 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 US principles were followed, the Company would record the tax benefit attributable to the estimated Canadian net operating loss carryforwards, research and development costs, depreciation and unutilized investment tax credits of approximately $180 million and US net operating loss carryforwards of approximately US $38 million, available to offset future taxable income, subject to certain limitations. However, the Company would also establish a full valuation allowance against the calculated benefit of tax losses, since it is uncertain whether the full amount of operating loss carryforwards will be utilized. Although management expects future results of operations to be profitable, it has emphasized past performance rather than growth projections and considered the expiration of the carryforward periods and certain other limitations relating thereto, when determining the valuation allowance. Under US principles, any subsequent adjustments to the valuation allowance, if deemed appropriate due to changing circumstances, would be recognized as a separate component of the provision for income taxes. As no income taxes are currently payable and a full valuation allowance would be recorded against the deferred tax assets as determined under US principles, this difference between Canadian and US principles has no effect on the consolidated financial statements as at and for the years ended December 31, 1997 or 1996 or on the consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 1995.

b) Under US principles, development costs would be expensed as incurred. As the Company has not deferred any development expenses through December 31, 1997 this difference between US and Canadian accounting principles has no impact on the consolidated financial statements as at and for the years ended December 31, 1997 or 1996 or on the consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 1995.

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

d) At December 31, 1996, the Company held equity securities in the amount of $483 which would be classified as "available for sale securities" under US principles and which would be revalued to their current market values with the unrealized gains and losses being reported in a separate component of shareholders' equity. These securities were sold at their book value in 1997.

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

Under US principles, income per share is calculated on a "basic" and "diluted" basis. Diluted income per share includes the potential dilutive effect of the outstanding stock options under certain conditions.

Income per share as computed under Canadian and US principles is as set forth below for the following periods:

	Year Ended December 31,					
	Canadian GAAP			US GAAP		
	Income per Share – Basic			Income per Share – Basic		
	1997	1996	1995	1997	1996	1995
Continuing operations	$0.91	$0.93	$0.17	$0.91	$0.93	$0.17
Discontinued operations	0.06	(0.52)	(2.23)	0.06	(0.52)	(2.23)
Income (loss) per share	$0.97	$0.41	$(2.06)	$0.97	$0.41	$(2.06)

	Income per Share – Fully Diluted			Income per Share – Diluted		
	1997	1996	1995	1997	1996	1995
Continuing operations	$0.86	$0.93	$0.17	$0.90	$0.93	$0.17
Discontinued operations	0.06	(0.52)	(2.23)	0.06	(0.52)	(2.23)
Income (loss) per share	$0.92	$0.41	$(2.06)	$0.96	$0.41	$(2.06)

The weighted average number of shares used in the computation of diluted income per share under US GAAP for the year ended December 31, 1997 has been increased by 49 shares to reflect the effect of options where the average market price of the Company's common shares exceeded the options' exercise price.

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

At December 31, 1997, the Company had issued 854 options to purchase common shares under its stock-based compensation plans to employees and directors (see Note 11). As the Company applies APB Opinion 25 and related Interpretations in accounting for its plans, no compensation cost would have been recognized within the statement of operations under US GAAP in 1997. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of Statement of Financial Accounting Standards Number 123, the Company's pro forma income from continuing operations and income per share would have been as follows:

		1997	1996	1995
Income from continuing operations (US GAAP)	As reported	$6,723	$4,839	$ 892
	Pro forma	$4,685	$4,839	$ 892
Basic income per share from continuing operations (US GAAP)	As reported	$ 0.91	$ 0.93	$0.17
	Pro forma	$ 0.63	$ 0.93	$0.17
Diluted income per share from continuing operations (US GAAP)	As reported	$ 0.90	$ 0.93	$0.17
	Pro forma	$ 0.63	$ 0.93	$0.17

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

SHAREHOLDER INFORMATION

DIRECTORS AND EXECUTIVE OFFICERS ◊
(as of December 31, 1997)

Horst J. Pudwill
Chairman of the Board

Pascal E. Spothelfer +
President, Chief Executive Officer and Director

Douglas R. Reid
Executive Vice President, Chief Operating Officer and Director

Werner Gartner
Executive Vice President, Chief Financial Officer and Director

Randy R. Mabbott
Senior Vice President, Corporate Affairs
General Counsel and Corporate Secretary

Richard D. Orman +*
Vice Chairman and Director
(Chairman and Chief Executive Officer,
Kappa Energy Company Inc.)

Alexander von Witzleben
Director
(Chief Financial Officer, Jenoptik AG)

William B. Patton, Jr. +*
Director
(Principal, PFT Investments)

Rodger D. Conner +*
Director
(Conner and Conner Law Firm)

Joel A. Schleicher +
Director

* Audit and Finance Committee

\+ Compensation and Operations Committee

◊ Messrs. Reid, Gartner, von Witzleben and Conner resigned as directors in April/May 1998 and three nominees are to be named by Canadian Marconi Company.

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TDD for Hearing Impaired 800-231-5469
Foreign Shareholders: 201-329-8660
www.chasemellon.com

STOCK EXCHANGE LISTING
Nasdaq Stock Market
Stock Symbol: NGPSF

INDEPENDENT AUDITOR
Arthur Andersen & Co.
Chartered Accountants
Calgary, Alberta, Canada

ANNUAL MEETING
Monday, July 27, 1998
NovAtel Inc.
1120 – 68th Avenue N.E.
Calgary, Alberta, Canada

MARKET INFORMATION
The Company's initial public offering was completed in February 1997. Prior to February 1997, no public market existed for the Company's common stock.

The following table sets forth, for the periods indicated, the high and low closing prices for the Company's common stock as reported by the Nasdaq National Market System.

Year Ended December 31, 1997	High	Low
First Quarter (from 2/4/97)	$ 7.75	$ 5.50
Second Quarter	$ 7.75	$ 4.50
Third Quarter	$ 11.00	$ 6.25
Fourth Quarter	$ 12.125	$ 6.313

The Company has not historically paid cash dividends. The Company does not anticipate paying any cash dividends in the foreseeable future. There were approximately 15 stockholders of record and approximately 1,136 beneficial owners at December 31, 1997.

Printed in Canada on recycled paper.
Designed and Produced by The Alligator Group.

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