1998 ANNUAL REPORT

Our foundation is secure.

Our future is infinite.

NovAtel

NOVATEL INC.

PROFILE & HIGHLIGHTS

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 NGPS.

1998 HIGHLIGHTS

- Introduced three new products into the marketplace: the MiLLennium WAAS receiver, the MiLLennium GLONASS receiver and the DL (data logging) Series of GPS receiver.
- Supplied receiver subsystems for the Japanese augmentation system (MSAS), which are similar to those supplied for the US FAA WAAS network.
- Received government approval for a new survey product for the Japanese market.
- Canadian Marconi Company acquired approximately 58% of NovAtel's total shares outstanding on April 17, 1998, strengthening NovAtel's growing aviation business and overall market competitiveness.
- Enhanced customer support and improved market position with the opening of offices in the US and Europe.
- Continued to supply quality products for winning entries in the sixth annual GPSWorld applications contest.
- Twice recognized as one of the fastest growing companies in the Canadian technology sector. "30 Fastest Growing Companies in Alberta" *(Alberta Venture Magazine)* and "1998 Technology Fast 55 Award" *(Financial Post/Deloitte & Touche).*

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 have been prepared in accordance with generally accepted accounting principles in Canada.

FINANCIAL

HIGHLIGHTS

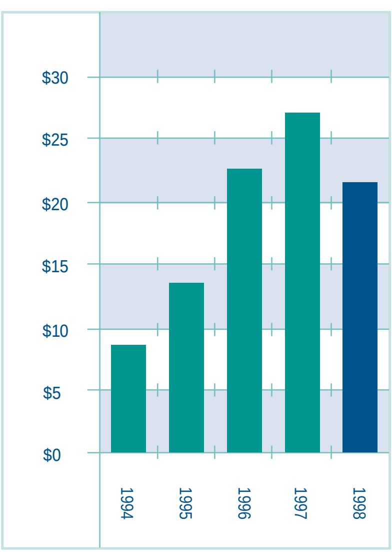
1998

(IN THOUSANDS, EXCEPT PER SHARE DATA OR UNLESS OTHERWISE NOTED)

	1998	1997	1996
Revenues	$ 21,567	$ 27,049	$ 22,663
Gross margin – $	$ 12,893	$ 19,199	$ 16,194
Gross margin – %	60%	71%	71%
Net income (loss) from continuing operations	$ (3,634)	$ 6,723	$ 4,839
Net income (loss) from continuing operations – per share (basic)	$ (0.47)	$ 0.91	$ 0.93
Net income (loss) from continuing operations – per share (fully diluted)	$ (0.47)	$ 0.86	$ 0.93
Net income (loss)	$ (2,330)	$ 7,183	$ 2,135
Net income (loss) – per share (basic)	$ (0.30)	$ 0.97	$ 0.41
Net income (loss) – per share (fully diluted)	$ (0.30)	$ 0.92	$ 0.41
Weighted average shares outstanding (basic)	7,673	7,420	5,200
Weighted average shares outstanding (fully diluted)	8,509	8,100	5,200
Working capital	$ 8,081	$ 10,515	$ (11,157)
Shareholders' equity	$ 22,786	$ 25,073	$ (4,168)

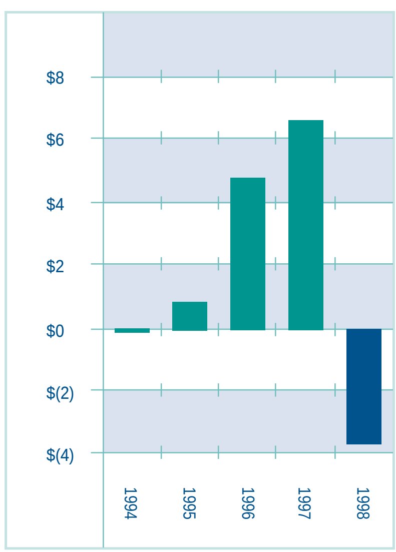
REVENUES

CDN$ MILLIONS



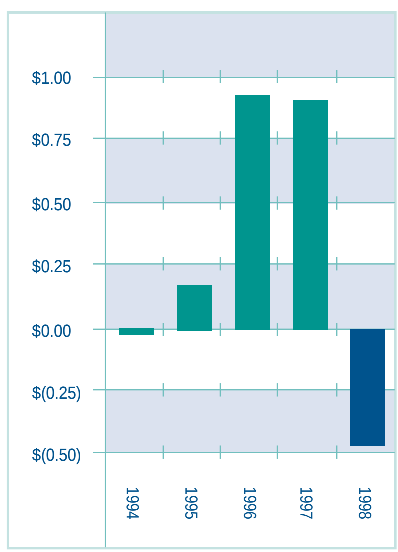
NET INCOME (LOSS) FROM CONTINUING OPERATIONS

CDN$ MILLIONS



NET INCOME (LOSS) FROM CONTINUING OPERATIONS – PER SHARE (BASIC)

CDN$



PRESIDENT'S LETTER TO SHAREHOLDERS

WHILE DISSATISFIED WITH OUR RESULTS, WE ARE NOT DISCOURAGED. OUR GOAL FOR 1999 AND BEYOND IS TO MAXIMIZE OUR STRENGTHS AND TAKE FULL ADVANTAGE OF THE STILL-SIGNIFICANT OPPORTUNITIES IN THE GROWING MARKET FOR HIGH-END GPS TECHNOLOGY.

Nineteen ninety-eight was a challenging and transitional year for all companies in the GPS industry. New alliances and leadership changes occurred and, based on the information available to us, our industry in general was not profitable. NovAtel's experiences during the year mirrored these industry trends. Reflecting weak sales to OEMs, increasingly competitive pricing and unexpected delays in implementing the next phase of the FAA's Wide Area Augmentation System (WAAS), our sales for the year declined, for the first time, to CDN$21.6 million (US$14.2 million) and we recorded a net loss of CDN$2.3 million (US$1.5 million).

While dissatisfied with our results, we are not discouraged. NovAtel remains a preeminent supplier of *high-end* GPS receivers, and this focus on high-end products is a clear and compelling differentiator in a market increasingly reliant on customized, technologically advanced solutions. The Company is also especially well positioned to weather the current market cycle – which persists today – as we continue to diversify our product/sales mix and establish a broader geographic presence. Our goal for 1999 and beyond is to maximize our strengths and take full advantage of the still-significant opportunities in the growing market for high-end GPS technology.

For example, in the OEM segment of our market we are responding to more competition – including growing price competition – by strengthening the development relationships with our customers. As end-users perform increasingly demanding applications, OEMs must provide more customized solutions. With our high-end technology and strong customer service track record, NovAtel is especially well equipped to meet OEM development needs.

Importantly, our OEM sales, which have comprised as much as 95% of our total sales in the past, now represent approximately 30% of yearly revenues, moderating the impact of this part of our business on NovAtel's overall performance. Much of this increased diversity in sales mix has come from our growing strength in the aviation market, where NovAtel has been a leading supplier in recent years to the WAAS and Japanese MSAS programs. The recent delays in the WAAS program notwithstanding, our ground-based receiver technology has proven itself, and we remain extremely well-placed for the eventual resumption of the WAAS program, as well as the planned implementation of similar aviation traffic control systems in Europe and elsewhere in the years ahead.

The aviation market also offers other possibilities for our technology. For example, our majority shareholder, Canadian Marconi Company, is a leading player in the airborne GPS market. Working with Canadian Marconi, we are able to leverage our skills in high-end ground based GPS technology and expand NovAtel's presence in the broader aviation market.

In addition to our strength in the OEM and aviation market segments, NovAtel is an emerging leader of high-end portable survey products. We have had good initial success building our market presence with end-users through Nikon dealers in the US, Central and South America and, most recently, Japan. We are especially encouraged by our strong 1998 performance in Japan despite the economic slowdown there. We are expanding into other overseas markets and building on the momentum we have established.

We are also working hard to strengthen our existing customer relationships. In 1998 we opened sales and support offices in the United States and Great Britain, and we are evolving our network of leading independent distributors throughout Asia. Again, as the GPS market grows more competitive, the differentiating factors for NovAtel will be our technology, our product track record, and our customer service. These are areas where we will continue to invest to maintain our leadership. This said, we are also focusing our R&D resources on only those product development efforts where we see the greatest market opportunity.

In closing, we want to thank our shareholders for their support and patience. This is my first letter as President and Chief Executive Officer and I wish my report was uniformly positive. Unfortunately, our 1998 performance was undeniably disappointing. Looking forward, though, I see reasons for optimism despite the tough GPS climate we are now in. We have a strong balance sheet, long-standing customer relationships, a roster of high quality products, a growing distribution presence and a motivated workforce. Nineteen ninety-nine is shaping up as another challenge, but I believe NovAtel is ready to meet it, and I look forward to reporting our progress.

Sincerely,

Doug Reid
President and Chief Executive Officer
May 11, 1999

LOOKING FORWARD, THOUGH, I SEE REASONS FOR OPTIMISM DESPITE THE TOUGH GPS CLIMATE WE ARE NOW IN. WE HAVE A STRONG BALANCE SHEET, LONG-STANDING CUSTOMER RELATIONSHIPS, A ROSTER OF HIGH QUALITY PRODUCTS, A GROWING DISTRIBUTION PRESENCE AND A MOTIVATED WORKFORCE.

OUR TECHNOLOGY IS OFTEN USED IN APPLICATIONS WE HAVE NOT EVEN BEGUN TO IMAGINE. THAT'S WHY WE WORK CLOSELY WITH OUR CUSTOMERS TO UNDERSTAND THEIR BUSINESS AND TO DEVELOP PRODUCTS THAT BEST MEET THEIR NEEDS. SHOWN HERE ARE FIVE INNOVATIVE APPLICATIONS WHICH RELIED ON NOVATEL TECHNOLOGY FOR THEIR SUCCESS.

POSTCARDS FROM THE FIELD

CYCLING GEOPHYSICISTS

Greetings from San Antonio, Texas! Here at the Center for Nuclear Waste Regulatory Analyses at the Southwest Research Institute, we turned a bicycle into an effective geophysical tool with the help of a real-time kinematic differential GPS (RTK DGPS). We developed an all-terrain bicycle geomagnetic mapping system by

mounting onto a bicycle a cesium-vapor magnetometer, a NovAtel 12-channel, L1, C/A-code receiver, and telemetry systems for real-time corrections from a GPS base station. A magnetometer station, near the GPS base, provided baseline magnetic readings. The data was used to generate magnetic anomaly maps, which in our tests successfully detected buried utility pipelines and mapped buried faults quickly. By instantly tying data collected on a moving vehicle to a precise location, RTK DGPS is changing the way geophysicists are mapping the earth.

Courtesy of Peter C. LaFemina, SwRI
6220 Culebra Road,
San Antonio, Texas, USA 78238
Email: plafemina@swri.org
www.swri.org

NOVATEL PRODUCT NAME:

RT-20

RADIOLOGICALLY ON THE FLY

Hello from the field. Over the past few years, we've been using NovAtel's RT-20, a kinematic 12-channel, L1, C/A-code DGPS receiver, to conduct environmental surveys on areas of land suspected of being contaminated by radiation throughout the US, averaging two to three different areas per month. In 1998, we surveyed more than 750 acres for radiological contamination using GPS. The RT-20 has provided real-time position accuracy within 20 centimeters and has enabled our team to improve the quality of the survey by allowing the crew to re-direct the survey design where necessary, and to acquire higher density data from sensitive areas.

Courtesy of Charles R. Flynn,
Chemrad Tennessee Corporation
Oak Ridge, Tennessee, USA

NOVATEL PRODUCT NAME:

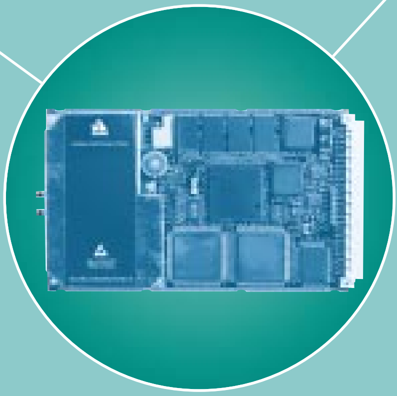
RT-20

ROBOTIC ROVER

Hello from Westminster, Maryland! For the past five years, we have been developing a prototype security robot for the U.S. Army's Physical Security Equipment Management Office. Known as MDARS-E (Mobile Detection, Assessment, and Response System – Exterior), the system is based on robotic technology and provides a means to conduct random patrols, assess barriers, detect intruders, and inventory products for theft prevention purposes. The MDARS-E incorporates cutting-edge technology in many areas, including navigation. Each unit navigates using a precise system consisting of a NovAtel 12-channel, L1/L2, C/A-code differential GPS receiver integrated with inertial and landmark referencing sensors. The prototypes have demonstrated a navigational accuracy of 0.6 centimeters. The MDARS-E prototypes have the capabilities to improve a commander's ability to counter threats, lessen risks to personnel, and reduce manpower requirements.

Courtesy of Jay Kurtr, Robotic Systems Inc.
Westminster, Maryland, USA

NOVATEL PRODUCT NAME:
MILLENNIUM



SEEING THE FOREST

Wish you were here! It's August 1997, and we've travelled from Calgary, Alberta, Canada to the rain forests of French Guyana to map a 600-hectare site for land use studies and to profile a 35 kilometer corridor for road development. Forests are a difficult area to profile, but we saw this as an opportunity to use the latest technologies, including GPS. We integrated a NovAtel 12-channel, L1, C/A-code GPS card into our own helicopter system, and into a base station broadcast unit located nine kilometers from the site. The system used a laser to produce multiple surface reflections when passing through foliage. The reflections were analyzed and digitized to create a digital terrain mapping surface model. Video cameras and recorders were also used to store imagery, each frame time tagged for co-ordination with the GPS positions. The video imagery was used with the surface model for feature extraction.

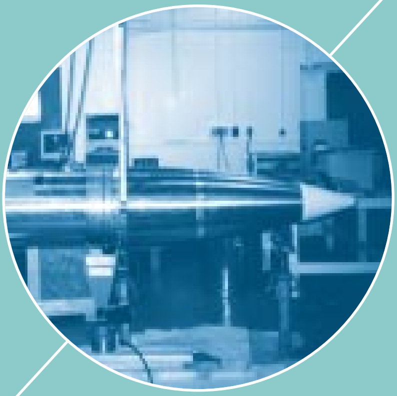
The GPS units performed well, yielding real-time accuracies of one to five meters and post-processed kinematic position accuracies of 10 to 20 centimeters. In the end, it only took eight, three-hour flights to complete this challenging job.

Courtesy of Tony Tubman,
Nortech Geomatics International
Calgary, Alberta, Canada

NOVATEL PRODUCT NAME:
RT-20

TRACKING ROCKETS

Hey team! Thought we'd drop you a line from Churchill, Manitoba, Canada where we're using NovAtel's BeeLine in a privately sponsored rocket launch. It's been an interesting project as we've had an opportunity to customize the BeeLine in a variety of ways, all of which are GPS firsts for high-speed sounding rockets. Ultimately, we're here to discover a viable means to use GPS systems to locate the rockets after the landing and monitor the flight. The launch used a two-stage vehicle with an ex-US Navy Terrier first stage and a Bristol Aerospace Black Brant



9 second stage. We've customized the BeeLine specifically for the Black Brant using two separate receivers, each fed by two antennas spaced 180° apart around the fuselage. The two systems will reconstruct the satellite signals by detecting and tracking the rotation frequency of the rocket. We also developed a CRT display for the Launch Control blockhouse, to provide a continuous, almost three-dimensional, real-time display of the rocket in flight, clearly showing its spin rate attitude, altitude, velocity and downrange position.

Courtesy Pat Fenton, NovAtel Inc.
Calgary, Alberta, Canada
Email: gps@novatel.ca
www.novatel.ca

NOVATEL PRODUCT NAME:
BEELINE

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATION

OVERVIEW

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

The Company was incorporated in 1978 and since that time has been engaged in several communications businesses. In 1992, the Company was reorganized with certain assets sold to third parties, certain assets retained by the Province of Alberta and the cellular telephone business, along with the small division working on GPS technology, transferred with the shares of the Company to Telexel Holding Limited. The Company divested all of its non-GPS businesses in a series of transactions beginning in March 1994 and ending in August 1996. As a result of these divestitures, the Company now focuses exclusively on the GPS business. On April 17, 1998, Canadian Marconi purchased approximately 58% of the Company's total shares outstanding from the Company's two principal shareholders. Canadian Marconi is owned 51% by the General Electric Company, P.L.C. ("GEC"). The Company's and Canadian Marconi's operations form a part of Marconi North America, a division of GEC's Marconi Electronic Systems. GEC and British Aerospace P.L.C. ("BAe") recently announced that they have entered into an agreement in which GEC's Marconi Electronic Systems will merge with BAe to form a new business with leading positions in the global aerospace and defence markets. The deal is subject to approval of both the UK and U.S. governments as well as the shareholders of both corporations. While there can be no assurance that this transaction will be completed, the parties are targeting a closing in the second half of 1999.

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

The Company's 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 have been separately classified and presented in the accompanying financial statements both within continuing operations and discontinued operations to reflect the estimated 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, 1995 and 1998. Despite these losses on a consolidated basis, the GPS business unit has increased its sales since the introduction of its first products from $456,000 in 1992 to $27.0 million in 1997 and had profits in 1993, 1995, 1996 and 1997. However, in 1998, revenues declined to $21.6 million and the Company incurred a loss from continuing operations of $3.6 million. There can be no assurance that the Company will be able to increase revenues or generate profits.

The Company's results of operations have fluctuated and can be expected to continue to fluctuate on a periodic basis as a result of a number of factors which affect revenue, gross margin and operating expenses. Annual and quarterly revenues have fluctuated because of a number of factors, including revenue generated from major contracts, 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 and income levels when compared to revenues and income in other periods. For example, during 1998, sales of the Company's products in connection with the United States Federal Aviation Administration's ("FAA") WAAS program accounted for approximately 3% of the Company's total revenues compared with 31% in 1997 and sales to the Japanese MSAS program accounted for approximately 24% of the Company's total revenues in 1998 compared with 0% in 1997. The Company currently has no commitments for future sales of its products in any further implementation of the WAAS or MSAS programs. Potential deliveries of additional WAAS receivers by the Company for either the WAAS or MSAS program are not expected before the year 2000. There can be no assurance that the Company will sell any of its products in connection with the WAAS or MSAS programs 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 currently has no significant contracts for NRE services. Revenues can be expected to vary significantly as a result of a lack of a significant order backlog, fluctuations in demand for existing products, the rate of development of new markets, the degree of market acceptance of new products, increased competition and the general strength of domestic and international economic conditions. The Company has experienced some negative impact from the Asian economic crisis, although sales to Japan were strong with sales to the MSAS program and the survey market. Furthermore, if the Company were unable to deliver sufficient quantities of products in a timely manner, due to factors such as parts supply shortages or customs delays, the Company's revenues could be adversely affected.

In 1998, the Company initiated a number of actions to reduce overall expenses. In November and December, the workforce was reduced by approximately 20%. It is anticipated that there will be cost savings of approximately $2.0 million in 1999 as a result of this initiative. Research and development projects were reviewed and reprioritized to ensure that the Company could maximize the impact from its engineering resources. Tighter controls were put on operating expenses. The Company has also been able to reduce certain operating expenses by utilizing Canadian Marconi's buying power. As a result, savings have been achieved with respect to insurance, telephone, travel, software licensing and other such costs.

Gross margin as a percentage of revenue varies primarily as a result of product sales mix, changes in materials, contract manufacturing costs, absorption of fixed manufacturing costs and sales of low margin manufacturing components. 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 end user products is an important growth strategy; however, selling end user products could adversely affect the Company's gross margins. Since the Company's expense structure is based on anticipated revenue, a shortfall from anticipated revenue, such as occurred in 1998, could adversely affect results of operations and income (loss) per share. In addition, if the Company were to receive a major contract, it would likely increase its expenditures to support such a contract. If revenue from the contract were delayed for any reason, including cancellation or deferral of the contract, the Company's results of operations could be adversely affected.

The Company faces competition from a variety of competitors. Prices of the Company's products have declined since their introduction due to competitive pressures. The Company expects competition to increase, which is expected to result in further price decreases and lower gross margins for the Company's products. In addition, the Company's success will depend to a substantial degree upon its ability to develop and introduce in a timely manner new products and product enhancements to its existing GPS product portfolio. The Company expects to make significant investments in research and development to continue to enhance existing products, develop new products which incorporate new and existing technologies, and achieve market acceptance for such products. There can be no assurance that the Company will be successful in such efforts. In connection with the 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 have been derived principally from product sales. Revenues from product sales are recognized upon shipment. The Company generally ships its products promptly after acceptance of a purchase order. Accordingly, the Company does not maintain product backlog, nor does the Company consider backlog to be a significant indicator of future revenues.

YEAR 2000 AND GPS WEEK ROLLOVER ISSUES

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Computer programs that have time sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. 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. For each of Year 2000 and GPS week rollover, these situations could result in a system failure or miscalculations causing disruptions to operations. Unless otherwise expressly provided, Year 2000 and GPS week rollover will be collectively discussed and referred to as Year 2000.

State of Readiness. Beginning in early 1998, the Company began an overall assessment of its Year 2000 readiness. A Year 2000 program plan has been prepared and is being implemented. The initial focus was product compliance to Year 2000. The Company initially published a product compliance statement on its web page in July 1998 and has updated it periodically. A program known as Syteline is used by the Company for its business system. A certificate of compliance has been obtained from the vendor and internal tests have been completed confirming compliance. An inventory and assessment of Year 2000 issues within the Company's other computer systems and applications is underway and is expected to be completed by first quarter 1999. No material compliance or remediation issues have been identified to date. The Company's Year 2000 Plan has been independently reviewed by Canadian Marconi and Deloitte & Touche.

The Company has begun the process of initiating formal communications with significant suppliers and customers to determine the extent to which the Company may be vulnerable to a failure by any of these parties to remediate their own Year 2000 issues. The Company relies upon governmental agencies, utility companies, telecommunication service companies and other service providers outside the Company's control. There can be no assurance that the Company's suppliers, customers, governmental agencies or other third parties will not suffer a Year 2000 business disruption that could have a material adverse effect on the Company's business, financial condition and operating results.

Costs to Address the Year 2000 Issues. To date the Company has incurred minimal incremental costs addressing the Year 2000 issues. The Company has no separate budget and none is planned for Year 2000 issues. There is no guarantee that the Company will continue not to incur material incremental costs and actual costs could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, supplier or customer compliance and contingency actions and similar uncertainties.

Risks Presented by the Year 2000 Issues. As the Company completes the implementation of its Year 2000 plan it may identify areas that present a Year 2000 risk. In addition, if any third parties who provide goods or services essential to the Company's business activities fail to address appropriately their Year 2000 issues, such failures could have a material adverse effect on the Company's business, financial condition and operating results.

Contingency Plans. The Company's Year 2000 plan includes the development of contingency plans to mitigate the effects of a Year 2000 disruption. The Company expects to conclude the development of contingency plans by the end of the second quarter of 1999.

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:

1998 COMPARED TO 1997

Revenues. Revenues consist primarily of sales of OEM boards, end user products, software, software upgrades, manufacturing components and NRE fees. Revenues decreased 20.3% from $27.0 million in 1997 to $21.6 million in 1998. The decrease in revenues was primarily due to significantly lower WAAS sales in the United States, $638,000 in 1998 as compared to $8.5 million in 1997, partially offset by sales to the Japanese MSAS program of $5.1 million in 1998 as compared to no MSAS program sales in 1997. OEM revenues, which were 34% lower in 1998 from 1997, also contributed to lower revenues.

Sales of WAAS receivers (United States and Japan) accounted for approximately 27% of the Company's total revenues in 1998 as compared to 31% in 1997. The Company currently has no commitments for future sales of its WAAS receivers in any further implementations of the WAAS or MSAS programs. Another wide area augmentation program known as EGNOS has been initiated in Europe. The Company believes that it is well positioned to pursue this and other 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

	Year Ended December 31,		
	1996	1997	1998
Revenues	100.0%	100.0%	100.0%
Gross profit	71.5	71.0	59.8
Operating expenses:			
Research and development	24.4	22.5	38.2
Selling and marketing	11.7	11.8	21.4
General and administration	10.2	13.1	16.5
Total operating expenses	46.3	47.4	76.1
Operating income (loss)	25.1	23.6	(16.3)
Interest income (expense)	(3.8)	0.7	1.0
Other income (expense)	0.1	0.7	(1.1)
Income (loss) from continuing operations before income taxes	21.5	25.1	(16.4)
Provision for income taxes	0.1	0.2	0.4
Net income (loss) from continuing operations	21.4%	24.9%	(16.8)%

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 beginning again in the year 2000 and for the remainder of the WAAS and MSAS rollouts and beyond. GPS use for aviation received support recently from a study by Johns Hopkins University Applied Physics Laboratory which concluded an augmented GPS can satisfy the performance requirements to be the only navigation system installed in an aircraft and the only service by the FAA for operations anywhere in the National Airspace System. The Company's alliance with Canadian Marconi combines respective technologies and marketing strengths to develop and bring to market a new generation of certified, high performance GPS receiver for use in airborne and ground applications. The Company does not anticipate revenues from this alliance in 1999.

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

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

NRE revenues decreased from $154,000 in 1997 to $99,000 in 1998. NRE revenues for 1997 and 1998 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.

Revenue for 1998 included $1.6 million of sales of manufacturing components to the Company's subcontract manufacturer. The Company anticipates lower sales of manufacturing components in 1999.

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

Gross profit. Gross profit as a percentage of total revenues decreased from 71.0% in 1997 to 59.8% in 1998. The decrease was due to price pressures, absorption of higher fixed operating costs, the sale of $1.6 million low margin manufacturing components, and a higher proportion of end user products. The Company believes that gross profit will decline in 1999 as a result of significantly lower WAAS/MSAS related sales, the increasing percentage of revenues derived from end user products and competitive price pressure.

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 35.5% from $6.1 million in 1997 to $8.2 million in 1998 and increased as a percentage of total revenues from 22.5% in 1997 to 38.2% in 1998. The dollar increase in research and development expenses is primarily due to an increase in engineering personnel from 59 at December 31, 1997 to 88 by October 1998, salary increases, higher depreciation expenses and new product development. In November and December 1998, the Company reduced its workforce by approximately 20%. By December 31, 1998 the number of engineering personnel was 66. To December 31, 1998, the Company had charged all research and development costs to operations as incurred, except $528,000 associated with the Canadian Marconi certified aviation receiver project, which has been deferred. The Company believes that significant investments in research and development are required to maintain its technological leadership and compete in its business. Given the 1998 results, these efforts have been reprioritized and refocused. The Company expects that research and development expenses will decrease in absolute dollars in 1999 over the prior year as a result of the workforce reduction but remain at sufficient levels to support product development efforts.

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 44.6% from $3.2 million in 1997 to $4.6 million in 1998 and increased as a percentage of total revenues, from 11.8% in 1997 to 21.4% in 1998. The increase in selling and marketing expenses as a percentage of revenue was due principally to a decline in revenues and an increase in personnel related costs, product promotions and the costs associated with the new offices in Great Britain and the United States. The Company believes that selling and marketing expenses will decline in 1999 but will be at a level necessary to support the Company's sales and marketing efforts.

General and administration. General and administration expenses consist primarily of salaries of administrative personnel, corporate overhead and facilities expenses. General and administration expenses were constant at approximately $3.6 million in 1997 and 1998, but increased as a percentage of total revenues from 13.1% in 1997 to 16.5% in 1998. The increase as a percentage of total revenues is primarily related to lower revenues in 1998. In 1999, the Company anticipates that general and administration costs will decline, primarily as a result of there being one less executive position. In 1999, the Company will incur facility lease costs but these will be partially offset by the elimination of depreciation expenses related to the facility.

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

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

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

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

1997 COMPARED TO 1996

Revenues. 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 were 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. Wide Area Augmentation programs were initiated in Europe with EGNOS and in Japan with MSAS. The Company believed that it was well positioned to pursue these international opportunities. The Company announced a new alliance with Canadian Marconi to combine respective technologies and marketing strengths to develop and bring to market a new generation of certified, high performance GPS receiver for use in airborne and ground applications. The Company did not anticipate revenues from this alliance in 1998.

Nikon US had a network of over 30 dealers to carry the Company's GISMO and Outrider products in the United States and Latin America. The Company started shipping product to Nikon US in early 1997. During the first half of 1997, the Company recorded strong sales as Nikon US fulfilled minimum contract purchase obligations. Sales to Nikon US slowed in the second half of 1997 as Nikon US gradually moved product purchased in the first half of 1997 through its distribution pipeline. There were no sales to Nikon US in 1996.

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 were no significant development programs being funded by outside parties. The Company did 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.

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.

Research and development. 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.

Selling and marketing. 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.

General and administration. General and administration expenses increased by 52.8% from $2.3 million in 1996 to $3.5 million in 1997, and increased as a percentage of total revenues from 10.2% in 1996 to 13.1% in 1997. These figures have been restated from those previously reported to conform to the 1998 reporting model. A provision for income taxes, which had previously been included in general and administration expenses, is now reported separately. The additional costs were primarily related to the incremental costs of being a public company and to costs related to unused space in the new facility.

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 had net interest income of $201,000 in 1997 compared to interest expense of $853,000 in 1996.

Other income (expense). Other income increased from $17,000 in 1996 to $199,000 in 1997.

Provision for income taxes. The provision for income taxes, which consists of federal large corporations tax, increased from $24,000 in 1996 to $62,000 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 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.

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							
	1997				1998			
	Mar. 29	June 28	Sept. 27	Dec. 31	Apr. 4	July 4	Oct. 3	Dec. 31
(in thousands)								
Revenues	$5,406	$6,659	$7,405	$7,579	$ 4,765	$ 5,744	$ 6,683	$ 4,375
Cost of sales	1,791	1,933	2,150	1,976	2,291	2,367	2,162	1,854
Gross profit	3,615	4,726	5,255	5,603	2,474	3,377	4,521	2,521
Operating expenses:								
Research and development	1,400	1,465	1,613	1,599	1,889	2,098	2,186	2,061
Selling and marketing	745	766	838	847	961	1,027	1,329	1,304
General and administration	813	957	918	853	850	935	932	844
Total operating expenses	2,958	3,188	3,369	3,299	3,700	4,060	4,447	4,209
Operating income (loss)	657	1,538	1,886	2,304	(1,226)	(683)	74	(1,688)
Interest income (expense)	7	66	42	86	59	66	44	43
Other income (expense)	50	25	(13)	137	12	27	211	(486)
Income (loss) from continuing operations before income taxes	714	1,629	1,915	2,527	(1,155)	(590)	329	(2,131)
Provision for income taxes	14	18	15	15	19	20	20	28
Net income (loss) from continuing operations	$ 700	$ 1,611	$1,900	$ 2,512	$(1,174)	$ (610)	$ 309	$(2,159)

	Quarter Ended							
	1997				1998			
	Mar. 29	June 28	Sept. 27	Dec. 31	Apr. 4	July 4	Oct. 3	Dec. 31
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	66.9	71.0	71.0	73.9	51.9	58.8	67.6	57.6
Operating expenses:								
Research and development	25.9	22.0	21.8	21.1	39.6	36.5	32.7	47.1
Selling and marketing	13.8	11.5	11.3	11.2	20.2	17.9	19.9	29.8
General and administration	15.0	14.4	12.4	11.2	17.8	16.3	13.9	19.3
Total operating expenses	54.7	47.9	45.5	43.5	77.6	70.7	66.5	96.2
Operating income (loss)	12.2	23.1	25.5	30.4	(25.7)	(11.9)	1.1	(38.6)
Interest income (expense)	0.1	1.0	0.6	1.1	1.2	1.1	0.7	1.0
Other income (expense)	0.9	0.4	(0.2)	1.8	0.3	0.5	3.2	(11.1)
Income (loss) from continuing operations before income taxes	13.2	24.5	25.9	33.3	(24.2)	(10.3)	4.9	(48.7)
Provision for income taxes	0.3	0.3	0.2	0.2	0.4	0.3	0.3	0.6
Net income (loss) from continuing operations	12.9%	24.2%	25.7%	33.1%	(24.6)%	(10.6)%	4.6%	(49.3)%

The following table sets forth OEM, end user, aviation and manufacturing component revenues for the last eight quarters.

	Quarter Ended							
	1997				1998			
	Mar. 29	June 28	Sept. 27	Dec. 31	Apr. 4	July 4	Oct. 3	Dec. 31
(in thousands)								
Product sales revenues:								
OEM	$2,220	$2,304	$1,903	$2,054	$1,557	$1,885	$1,148	$ 997
End user	2,165	2,803	2,096	793	1,321	2,036	2,038	1,820
Aviation	1,021	1,552	3,406	4,732	1,212	1,271	3,293	1,345
Manufacturing components	–	–	–	–	675	552	204	213
Total revenues	$5,406	$6,659	$7,405	$7,579	$4,765	$5,744	$6,683	$4,375

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 1998, sales of the Company's WAAS receivers accounted for 15.1%, 11.2%, 46.3% and 29.4% of the Company's total revenues, respectively. The Company currently has no commitments for future sales of its WAAS receivers in any further implementations of the WAAS or MSAS programs. Another wide area augmentation program known as EGNOS has been initiated in Europe. The Company believes that it is well positioned to pursue this and other 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 beginning again in the year 2000 and for the remainder of the WAAS and MSAS rollouts and beyond. There can be no assurance that the Company will receive major contracts in the future, and the failure to do so could have a material adverse effect on the Company's business, financial condition and results of operations.

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

Operating expenses increased during the first, second and third quarters of 1998 as the Company continued to make significant investments to support anticipated revenue growth. The Company reduced its workforce by approximately 20% in the fourth quarter 1998 and initiated certain cost control measures. A shortfall from anticipated revenues has and could adversely affect results of operations and net income (loss) per share. In addition, if the Company were to receive a major contract, it would likely increase its expenditures to support such contract. If recognition of the revenues from the contract were delayed for any reason, including cancellation or deferral of the contract, the Company's results of operations could be adversely affected as it attempted to adjust its expenditures downward.

TAXES

The Company has not recorded a provision for income taxes, other than for large corporations tax, due to previously incurred losses, credits and costs. As of December 31, 1998, losses, investment tax credits, depreciation and research and development costs are available to reduce future taxable income in Canada. The Company has determined that the acquisition of a majority of the common shares of the Company by Canadian Marconi in 1998 constitutes acquisition of control of the Company for Canadian income tax purposes. Accordingly, the availability of certain of the Company's Canadian income tax losses, research and development costs, depreciation deductible for tax purposes and investment tax credits may be subject to limitation. The ultimate availability and amount of these losses, credits and costs may be dependent upon future Revenue Canada, Taxation audits. See Note 14 of Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

In 1998, cash used in operations was $4.9 million, compared to cash provided by operations of $5.6 million in 1997. This decrease resulted from reduced revenues, lower gross profit as a percentage of revenue and higher operating expenses, which adversely impacted profitability. Cash used in operations in 1998 consisted primarily of an increase in non-cash working capital of $4.2 million, a $3.6 million loss from continuing operations partially offset by the $1.3 million income from discontinued operations and $2.4 million in amortization.

The factors contributing to the $4.2 million increase in working capital are as follows: 1) a $0.6 million increase in accounts receivable due to higher days outstanding and the fact that at December 31, 1997, a portion of the WAAS shipments had been prepaid, thereby reducing receivables at that time; 2) a $1.5 million increase in inventory resulting primarily from a temporary buildup due to sales shortfalls in the second half of 1998, the stocking of higher levels of finished goods to improve customer order fulfillment time and a greater number of field test/demonstration units; and 3) a $2.0 million reduction of payables related to the payment for purchased technology in the first quarter of 1998.

In 1998, cash provided by financing activities was $1.3 million compared to $13.0 million in 1997. 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 are accounted for as capital leases. The balance of the cash provided by financing activities arose from the exercise of stock options.

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 used the remaining proceeds for general corporate purposes, including additions to working capital and capital expenditures.

In 1998, the Company used $2.6 million cash in investing activities mainly on net expenditures of capital assets, such as computer hardware, software and research and development equipment, and deferred development expenditures of $528,000 related to the development of a certified aviation GPS receiver, partially offset by the receipt of US$0.5 million as the final installment payment from the purchaser of the Company's former PCP division.

At December 31, 1998, the Company had cash and cash equivalents of $4.5 million. The Company has a 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 to support the margin requirement related to the purchase of foreign exchange contracts. On June 23, 1998, the Company entered into a second credit arrangement with the Toronto Dominion Bank under which the Company can borrow up to $650,000 for day-to-day operations. The credit line also supports the margin requirement related to the purchase of up to US$2.5 million of foreign exchange contracts. The lines of credit are payable on demand and are secured by certain of the Company's assets.

In January 1999, the Company sold and entered into a lease of its Calgary facility, including certain adjacent land with a combined carrying value of $5.8 million, for net proceeds of $6.9 million.

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

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

MARKET RISK

Most of the Company's revenues (over 95% in 1998) are earned in currencies other than the Canadian dollar, principally the U.S. dollar. A substantial portion of the Company's expenses, however, have been and will continue to be incurred in Canadian dollars. Accordingly, fluctuations in exchange rates between the U.S. dollar and the Canadian dollar could materially affect the Company's results of operations. In the normal course of business the Company uses foreign currency options and forward foreign currency contracts to reduce its exposure to fluctuations in the U.S. dollar. At December 31, 1998, the Company has foreign currency options and forward foreign currency contracts to sell US$8.0 million between January 29 and October 31, 1999 at rates between $0.6616 and $0.6711. Derivative financial instruments are not used for speculative purposes. There can be no assurance that the Company will be successful in such hedging activities.

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

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, 1998 and 1997 and the consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1998. 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, 1998 and 1997 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998 in accordance with generally accepted accounting principles in Canada.

Arthur Andersen LLP

Calgary, Alberta,
February 2, 1999.

ARTHUR ANDERSEN LLP
Chartered Accountants

INDEX TO
CONSOLIDATED FINANCIAL
STATEMENTS

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

	December 31, 1998	1997
ASSETS (Notes 8 and 16)		
Current assets:		
Cash and short term investments	$ 4,486	$ 10,732
Accounts receivable (Notes 3 and 12)	5,357	4,892
Inventories (Note 4)	3,595	2,066
Prepaid expenses and deposits	315	131
Total current assets	13,753	17,821
Capital assets (Notes 5 and 19)	11,755	10,610
Intangible assets (Notes 6 and 9)	3,424	3,948
Deferred development costs (Note 7)	528	–
Total assets	$ 29,460	$ 32,379
LIABILITIES AND SHAREHOLDERS' EQUITY (Note 16)		
Current liabilities:		
Accounts payable and accrued liabilities	$ 5,121	$ 7,246
Related party payables (Note 15)	49	–
Provision for future warranty costs	110	60
Deferred gain on sale/leaseback of capital assets – current portion (Note 5)	42	–
Capital lease obligations – current portion (Note 9)	350	–
Total current liabilities	5,672	7,306
Deferred gain on sale/leaseback of capital assets – long-term portion (Note 5)	80	–
Capital lease obligations – long-term portion (Note 9)	922	–
Total liabilities	6,674	7,306
Shareholders' equity (Note 11):		
Capital stock	35,602	35,559
Deficit	(12,816)	(10,486)
Total shareholders' equity	22,786	25,073
Total liabilities and shareholders' equity	$ 29,460	$ 32,379

On behalf of the Board of Directors,

Douglas R. Reid, Director

Richard D. Orman, Director

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	1998	1997	1996
Revenues (Note 12)	$ 21,567	$ 27,049	$ 22,663
Cost of sales (Note 15)	8,674	7,850	6,469
Gross profit	12,893	19,199	16,194
Operating expenses:			
Research and development	8,234	6,077	5,531
Selling and marketing	4,621	3,196	2,646
General and administration	3,561	3,541	2,318
Total operating expenses	16,416	12,814	10,495
Operating income (loss)	(3,523)	6,385	5,699
Interest income (expense)	212	201	(853)
Other income (expense) (Note 13)	(236)	199	17
Income (loss) from continuing operations before income taxes	(3,547)	6,785	4,863
Provision for income taxes	87	62	24
Net income (loss) from continuing operations	(3,634)	6,723	4,839
Net income (loss) from discontinued operations (Note 16)	1,304	460	(2,704)
Net income (loss)	$ (2,330)	$ 7,183	$ 2,135
Net income (loss) per share (basic) (Note 11)			
Continuing operations	$ (0.47)	$ 0.91	$ 0.93
Discontinued operations	0.17	0.06	(0.52)
Net income (loss) per share	$ (0.30)	$ 0.97	$ 0.41
Weighted average shares outstanding (basic) (Note 11)	7,673	7,420	5,200
Net income (loss) per share (fully diluted) (Note 11)			
Continuing operations	$ (0.47)	$ 0.86	$ 0.93
Discontinued operations	0.17	0.06	(0.52)
Net income (loss) per share	$ (0.30)	$ 0.92	$ 0.41
Weighted average shares outstanding (fully diluted) (Note 11)	8,509	8,100	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)			Total Shareholders'
	Number	Amount	Deficit	Equity (Deficit)
December 31, 1995	5,200	$ 13,501	$ (19,804)	$ (6,303)
Net 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
Net income	–	–	7,183	7,183
December 31, 1997	7,670	35,559	(10,486)	25,073
Common shares issued	4	43	–	43
Net loss	–	–	(2,330)	(2,330)
December 31, 1998	7,674	$ 35,602	$(12,816)	$ 22,786

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Year Ended December 31, 1998	1997	1996
Operating activities:			
Net income (loss) from continuing operations	$ (3,634)	$ 6,723	$ 4,839
Net income (loss) from discontinued operations	1,304	460	(2,704)
Charges and credits to operations not involving an outlay of cash:			
Amortization	2,371	1,419	952
(Gain) loss on disposal of capital assets	(10)	258	(59)
Amortization of deferred gain on sale/leaseback of capital assets	(53)	–	–
Gain on divestitures	(718)	(1,093)	(767)
Net change in non-cash working capital related to operations (Note 17)	(4,196)	(2,134)	55
Cash (used in) provided by operating activities	(4,936)	5,633	2,316
Financing activities:			
Proceeds from initial public offering (Note 11)	–	22,058	–
Issuance of shares	43	–	–
(Decrease) increase in bank advances	–	(9,610)	1,836
Increase (decrease) in capital lease obligations	1,272	(60)	(84)
Decrease (increase) in deferred charges	–	707	(707)
Decrease in mortgage payable	–	(88)	(4)
Cash provided by financing activities	1,315	13,007	1,041
(Decrease) increase in cash before investing activities	(3,621)	18,640	3,357
Investing activities:			
Purchase of capital and intangible assets	(4,512)	(10,304)	(4,787)
Proceeds from disposal of capital assets	1,705	435	50
Proceeds on divestitures	710	1,900	1,419
Deferred development costs	(528)	–	–
Cash used in investing activities	(2,625)	(7,969)	(3,318)
(Decrease) increase in cash and short term investments	(6,246)	10,671	39
Cash and short term investments, beginning of year	10,732	61	22
Cash and short term investments, end of year	$ 4,486	$ 10,732	$ 61
Cash and short term investments consisted of:			
Cash and cash equivalents	$ 2,736	$ 6,232	$ 61
Short term investments (original maturities of greater than 90 days)	1,750	4,500	–
	$ 4,486	$ 10,732	$ 61
Interest paid related to bank advances and capital lease obligations	$ 115	$ 57	$ 699

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

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

On April 17, 1998, Canadian Marconi Company (CMC) acquired 58.3% of the Company's outstanding common shares from the Company's two former principal shareholders, Telexel Holding Limited (Telexel) and Deutsche Effekten-und Wechsel-Beteilungsgesellschaft AG.

NOTE 2 Significant Accounting Policies

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada (Canadian GAAP or Canadian principles) and are stated in Canadian dollars. With respect to the consolidated financial statements, there are no material differences between Canadian and United States of America (U.S.) generally accepted accounting principles (U.S. GAAP or U.S. principles), except as described in Note 20. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

a) Principles of Consolidation The consolidated financial statements include the accounts of the Company 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 the Canadian dollar are translated into Canadian dollars using yearly average and year-end exchange rates, respectively. Gains and losses arising from this translation process are included in income.

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

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

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

f) Capital Assets, Intangible Assets and Amortization Capital assets are recorded at cost. Maintenance and repair costs of a routine nature are charged to operations as incurred, and renewals and betterments 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
Research and development equipment	4 years
Production equipment	5 years
Furniture and fixtures	10 years
Product tooling	2 years
Patents and other intangibles	5 – 10 years

Capital assets and intangible assets are assessed for future recoverability or impairment 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.

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

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

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

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

NOTE 3 Accounts Receivable

	December 31, 1998	December 31, 1997
Trade receivables, net	$ 4,989	$ 4,531
Goods and Services Tax receivable	241	196
Other	119	164
Related party receivable	8	1
	$ 5,357	$ 4,892

The receivable balances are net of an allowance for doubtful accounts of $509 at December 31, 1998 and $456 at December 31, 1997.

NOTE 4 Inventories

	December 31, 1998	December 31, 1997
Raw materials and components	$ 1,065	$ 465
Work-in-progress	342	57
Finished goods	2,188	1,544
	$ 3,595	$ 2,066

The inventory balances are net of a provision for excess and obsolete inventory of $588 at December 31, 1998 and $1,055 at December 31, 1997.

NOTE 5 Capital Assets

	December 31, 1998			December 31, 1997		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land and buildings	$ 6,638	$ 455	$ 6,183	$ 6,481	$ 178	$ 6,303
Computer and ancillary equipment	4,450	1,951	2,499	3,509	1,356	2,153
Production, research and development equipment	1,613	662	951	1,112	393	719
Furniture and fixtures	489	131	358	1,470	168	1,302
Product tooling	742	361	381	439	306	133
Equipment under capital lease	1,651	268	1,383	–	–	–
	$ 15,583	$ 3,828	$ 11,755	$ 13,011	$ 2,401	$ 10,610

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 between 39 and 65 months and with aggregate lease payments of $1,929. The leases are accounted for as capital leases, and the gain on the sale has been deferred and is being amortized over the terms of the respective leases.

Subsequent to December 31, 1998, the Company sold and entered into a lease of its Calgary facility, including certain adjacent land, with a combined carrying value on date of sale of $5,812 for net proceeds of $6,922 (see Note 19).

NOTE 6 Intangible Assets

Intangible assets, comprised primarily of patents and purchased technology, are net of accumulated amortization of $1,054 at December 31, 1998 and $430 at December 31, 1997.

NOTE 7 Deferred Development Costs

In the year ended December 31, 1998, the Company deferred $528 of development costs, related to the development of a certified aviation GPS receiver. No development costs were deferred or amortized during 1997 and 1996.

NOTE 8 Bank Advances

At December 31, 1998, lines of credit were available with the Hongkong Bank of Canada and the Toronto Dominion Bank. The lines of credit are payable on demand and are secured by certain of the Company's assets. The bank advances bear interest at the banks' prime rate on Canadian dollar advances.

In aggregate, the Company can borrow up to $1,650 for day-to-day operating requirements and US$1,225 to support the margin requirements related to the purchase of up to US$7,500 of forward foreign exchange contracts. At December 31, 1998, portions of the lines of credit were utilized to support $93 of letters of credit ($87 at December 31, 1997) and the margin requirements on US$5,500 in forward foreign exchange contracts leaving $1,557 available for day-to-day operating requirements and the margin capacity necessary to enter into an additional US$2,000 in forward foreign exchange contracts.

Interest in the amount of $42, incurred to finance the construction of the Company's Calgary facility, was capitalized in 1997. No interest was capitalized in 1998 or 1996.

NOTE 9 Commitments and Contingencies

a) At December 31, 1998, purchase commitments were outstanding for approximately $7,800 pertaining primarily to the acquisition of inventory, supplies and services.

b) Certain of the Company's computer equipment, office equipment and furniture are leased for various periods up to 2003. Payments under the leasing arrangements are as follows:

	Capital Leases	Operating Leases
1999	$ 423	$ 33
2000	423	26
2001	270	16
2002	256	14
2003	64	–
Total future minimum lease payments	1,436	$ 89
Less: imputed interest (6.8 %)	(164)	
Balance of capital lease obligations	1,272	
Less: current portion	350	
Capital lease obligations – long-term portion	$ 922	

c) On November 3, 1995, the Company sold its Wireless Access Products division and its manufacturing operations in Calgary to Harris Canada, Inc. (Harris). The purchase price is subject to an adjustment based on a post-closing audit of the balance sheet of the divested operations. Harris has claimed a purchase price adjustment of $3,320. As there can be no assurance as to how this matter will be resolved, as of December 31, 1997, the Company had provided for Harris' claim.

d) As at December 31, 1998, intangible assets included $1,044 related to the Company's settlement agreement with Trimble Navigation Limited (Trimble). This settlement agreement with Trimble includes a provision that Trimble may, at its sole option, terminate rights granted thereunder, including licenses, should the Company undergo a change in control. The share acquisition by CMC constitutes a change of control for purposes of the settlement agreement. However, the Company has received no notice of termination from Trimble and believes that Trimble will not terminate these licenses and rights. Accordingly, the Company has not provided for any impairment of these intangible assets as at December 31, 1998.

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

NOTE 10 Financial Instruments

In the normal course of business, the Company uses foreign currency options and forward foreign currency contracts to reduce its exposure to fluctuations in the U.S. dollar to Canadian dollar exchange rates. At December 31, 1998, the Company has foreign currency options and forward foreign currency contracts to sell US $8,000 between January 29, 1999 and October 1, 1999 at rates between $0.6616 and $0.6711. Had these contracts been settled on December 31, 1998, an additional cost of $308 would have been incurred.

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

NOTE 11 Shareholders' Equity

The Company has authorized an unlimited number of common shares, of which 7,674 are outstanding as of December 31, 1998 (7,670 in 1997 and 5,200 in 1996).

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

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

The Company maintains stock option plans for employees and members of the Board of Directors. Under the plans, participants are granted options to purchase common shares of the Company at no less than the market value on the date of the grant. The options have vesting periods of between three to four years and expire ten years from the date of the grant.

Under the Company's Employee Stock Option Plan and Directors Stock Option Plan, the following options were outstanding as of December 31, 1998:

Option Plan	Year of Grant	Number of Options Outstanding as of December 31, 1998	Weighted Average Exercise Price
Employee	1997	614	$ 7.57
Employee	1998	218	$ 7.78
Directors	1997	40	$ 7.50
Directors	1998	20	$ 7.50
		892	$ 7.62

During 1998, the following activity occurred within the stock option plans:

	Number of Options	Exercise Price Range (US$)
Options outstanding as of December 31, 1997	854	$ 7.50 - $11.25
Options granted	274	$ 7.50 - $ 9.13
Options cancelled	(232)	$ 7.50 - $ 8.00
Options exercised	(4)	$ 7.50
Options outstanding as of December 31, 1998	892	$7.50 - $11.25

NOTE 12 Major Customers, Export Sales and Suppliers

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

	Sales by Major Customer Year Ended December 31,		
	1998	1997	1996
Customer A	$ 5,222	$ 591	$ –
Customer B	1,851	2,676	–
Customer C	715	2,675	1,189
Customer D	948	8,677	2,929
Customer E	–	–	3,463
	$ 8,736	$ 14,619	$ 7,581
Percentage of total revenue	41%	54%	33%

Accounts receivable related to these major customers at December 31 were $2,182 in 1998 and $1,878 in 1997.

	Sales by Geographic Market Year Ended December 31,					
	1998		1997		1996	
	$	%	$	%	$	%
U.S.A.	$ 8,493	40%	$ 17,149	63%	$ 13,407	59%
Europe	2,382	11%	4,228	16%	3,244	14%
Asia/Australia	8,690	40%	3,120	12%	2,709	12%
Canada	1,743	8%	2,479	9%	2,824	13%
Other	259	1%	73	-	479	2%
	$ 21,567	100%	$ 27,049	100%	$ 22,663	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, 1998	1997	1996
Foreign exchange	$ 104	$ 178	$ (35)
Miscellaneous	(340)	21	52
	$ (236)	$ 199	$ 17

Miscellaneous expense in 1998 included a charge for $400 related to a work force reduction.

NOTE 14 Taxes

a) Canadian Taxes At December 31, 1998, losses were available for Canadian income tax purposes to be carried forward to reduce future Canadian taxable income. The potential future benefit of these losses has not been recognized in the consolidated financial statements. These losses expire as follows:

1999	$ –
2000	4,600
2001	–
2002	2,200
2003	–
2004	–
2005	32,300
	$ 39,100

In addition, no recognition has been given in the consolidated financial statements for the potential income tax benefits related to approximately $133.6 million of research and development costs deducted in the accounts, in excess of amounts claimed for Canadian income tax purposes.

The Company has unutilized investment tax credits of $9.2 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:

1999	$ 2,400
2000	900
2001	800
2002	–
2003	1,200
2004	1,600
2005	900
2006	500
2007	200
2008	700
	$ 9,200

The Company has determined that CMC's 1998 acquisition of a majority of the common shares of the Company constitutes acquisition-of-control of the Company for Canadian income tax purposes. Accordingly, the availability of certain of the Company's Canadian income tax losses, research and development costs, depreciation deductible for tax purposes, and investment tax credits may be subject to limitation.

The ultimate availability and amount of 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.

The Company paid income taxes, comprised largely of federal large corporations tax, in the amounts of $86 in 1998 and $99 in 1997. No income tax was paid in 1996.

b) U.S. Taxes The Company's U.S. subsidiaries file a consolidated U.S. federal income tax return. They have net operating loss carryforwards totaling approximately US$38.0 million which expire in 2007 and 2008. However, these operating loss carryforwards will be substantially limited due to the CMC share acquisition. The potential future benefit of these losses has not been recognized in the consolidated financial statements.

NOTE 15 Related Party Transactions

In the normal course of business, the Company has purchased raw material inventory from a number of related companies in which shareholders or former shareholders of the Company have or had a controlling or other significant interest at the time of the purchases. In addition, the Company received from and provided advances and services to such related companies. The following significant items have been considered in the determination of net income (loss) for the following years ended:

	December 31,		
	1998	1997	1996
Inventory purchases from CMC	$ 38	$ –	$ 4
Services provided by CMC	77	–	–
Consulting fees charged to CMC	(5)	–	–
Management fees charged by affiliate	–	–	63
Administration fee (Hong Kong operations)	–	–	(32)
Hong Kong office costs	9	60	–
Fees paid by affiliate for shareholder guarantee of bank advances	–	11	106

The only significant related party payable at December 31, 1998 was an amount due to CMC of $49 ($0 at December 31, 1997).

On November 19, 1996, the Company's 15% equity interest in NovAtel Wireless, Inc. (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 Discontinued Operations

a) 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.

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

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

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

c) Inclusion of Discontinued Operations in Consolidated Financial Statements The discontinued operations are substantially comprised of the results of the WAP division and its manufacturing operations, the PCP division and NovAtel Communications (U.K.) Limited. The costs associated with shared resources have been separately classified and presented in the accompanying financial statements both within continuing operations (GPS business) and discontinued operations to reflect the estimated level of support required by each business unit. The net income (loss) from discontinued operations for the following years is as set forth below:

	Discontinued Operations		
	December 31,		
	1998	1997	1996
Revenues	$ 512	$ –	$ 442
Cost of sales	–	572	765
Research and development expenses	–	–	1,785
Selling and marketing expenses	(76)	–	355
General and administration expenses	2	8	973
Other expense	–	53	35
Income (loss) before gain on divestitures	586	(633)	(3,471)
Gain on divestitures	718	1,093	767
Net income (loss) from discontinued operations	$ 1,304	$ 460	$ (2,704)

Accounts receivable as at December 31, 1998 includes $3 related to discontinued operations ($56 as at December 31, 1997), and accounts payable as at December 31, 1998 includes $1,452 related to discontinued operations ($1,649 as at December 31, 1997).

NOTE 17 Consolidated Statements of Cash Flows

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

	Year ended December 31,		
	1998	1997	1996
(Increase) decrease in accounts receivable	$ (619)	$ (43)	$ 3,960
Increase in inventories	(1,529)	(120)	(1,794)
(Increase) decrease in prepaid expenses and deposits	(184)	17	107
Decrease in accounts payable and accrued liabilities	(2,001)	(2,338)	(875)
Decrease in customer deposits	-	(219)	-
Increase in provision for future warranty costs	50	10	18
Net change in non-cash working capital	(4,283)	(2,693)	1,416
Non-cash working capital items related to divestitures	87	559	(1,361)
Net change in non-cash working capital related to operations	$ (4,196)	$ (2,134)	$ 55

NOTE 18 Year 2000 Issue

Most entities depend on computerized systems and therefore are exposed to the Year 2000 conversion risk, which, if not properly addressed, could affect an entity's ability to conduct normal business operations. The Company is addressing this issue, however, given the nature of the risk, it is not possible to be certain that all aspects of the Year 2000 issue affecting the Company and those with whom it deals such as customers, suppliers or other third parties, will be fully resolved without adverse impact on the Company's operations.

NOTE 19 Events Subsequent to December 31, 1998

On January 29, 1999, the Company concluded a sale/leaseback arrangement by which the Company's Calgary facility, including certain adjacent land, with a carrying value of $5,812 at the time of sale, was sold for net proceeds of $6,922, resulting in a gain of $1,110. Contemporaneously, the Company entered into a lease agreement with a minimum 10-year term and aggregate lease payments of $7,573. The gain on the sale of the Calgary facility will be deferred and amortized over the term of the lease. Based on current plans, the Company has determined that the lease would be accounted for as an operating lease.

NOTE 20

Differences Between Canadian and United States Generally Accepted Accounting Principles

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

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

If U.S. principles were followed, the Company would also 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 $182 million and U.S. net operating loss carryforwards of approximately US $38 million, available to offset future taxable income, subject to certain limitations. However, the Company would also have established a full valuation allowance against the calculated benefit of tax losses, since it is uncertain whether any 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 U.S. 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 other than large corporation tax and a full valuation allowance would be recorded against the deferred tax assets as determined under U.S. principles, this difference between Canadian and U.S. principles has no effect on the consolidated financial statements as at and for the years ended December 31, 1998 or 1997 or on the consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 1996.

b) In the year ended December 31, 1998, the Company deferred $528 of development costs in accordance with Canadian generally accepted accounting principles. Under U.S. principles, these costs would be expensed as incurred as research and development costs.

c) The Company has entered into foreign exchange options and forward contracts to manage its exposure to foreign currency fluctuations. Under Canadian principles, any gains or losses on these financial instruments would be recognized in 1999 at the time the underlying anticipated transactions occur. Under U.S. principles, these financial instruments would be recorded at fair value at December 31, 1998, resulting in an additional loss of $308.

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

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

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

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

	Year Ended December 31,					
	Canadian GAAP			U.S. GAAP		
	Net Income (Loss) per Share – Basic			Net Income (Loss) per Share – Basic		
	1998	1997	1996	1998	1997	1996
Continuing operations	$ (0.47)	$ 0.91	$ 0.93	$ (0.58)	$ 0.91	$ 0.93
Discontinued operations	0.17	0.06	(0.52)	0.17	0.06	(0.52)
Net income (loss) per share	$ (0.30)	$ 0.97	$ 0.41	$ (0.41)	$ 0.97	$ 0.41

	Net Income (Loss) per Share – Fully Diluted			Net Income (Loss) per Share – Diluted		
	1998	1997	1996	1998	1997	1996
Continuing operations	$ (0.47)	$ 0.86	$ 0.93	$ (0.58)	$ 0.90	$ 0.93
Discontinued operations	0.17	0.06	(0.52)	0.17	0.06	(0.52)
Net income (loss) per share	$ (0.30)	$ 0.92	$ 0.41	$ (0.41)	$ 0.96	$ 0.41

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

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

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

		1998	1997	1996
Net income (loss) from continuing operations (U.S. GAAP)	As reported	$ (4,470)	$ 6,723	$ 4,839
	Pro forma	$ (5,892)	$ 4,685	$ 4,839
Basic net income (loss) per share from continuing operations (U.S. GAAP)	As reported	$ (0.58)	$ 0.91	$ 0.93
	Pro forma	$ (0.77)	$ 0.63	$ 0.93
Diluted net income (loss) per share from continuing operations (U.S. GAAP)	As reported	$ (0.58)	$ 0.90	$ 0.93
	Pro forma	$ (0.77)	$ 0.63	$ 0.93

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

g) Comprehensive Income Under U.S. principles, during 1998, the Company would have been required to adopt SFAS 130, "Reporting Comprehensive Income". Had the Company adopted SFAS 130 during 1998, it would not have reported any significant items within comprehensive income for the years ended December 31, 1998, 1997 and 1996.

h) Derivative Instruments and Hedging Activities In June 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" effective beginning in the first quarter of 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires companies to recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting under SFAS 133. The Company is currently evaluating the impact of SFAS 133 on its financial position and results of operations as disclosed in accordance with U.S. principles.

SHAREHOLDER INFORMATION

DIRECTORS
(as at December 31, 1998)

William I.M. Turner, Jr. [2,3]
Chairman of the Board

W. James Close [3]
Director
(President and Chief Executive Officer, Canadian Marconi Company)

Richard D. Orman [1,2]
Vice Chairman and Director
(Chairman and Chief Executive Officer, Runnymede Resources Corporation)

Douglas R. Reid
Director
(President and Chief Executive Officer, NovAtel Inc.)

Howard L. Beck [2,3]
Director
(Chairman, Wescam Inc.)

Horst J. Pudwill
Director
(Chairman, TechTronic Industries Co. Ltd.)

Joel A. Schleicher [1]
Director
(President and Chief Executive Officer, Expanets Inc.)

Gregory A. Yeldon [1]
Director
(Vice President and Chief Financial Officer, Canadian Marconi Company)

[1] Audit and Finance Committee

[2] Compensation and Operations Committee

[3] On December 31, 1998, Mr. William I. M. Turner resigned as Chairman of the Board and Director and Mr. Close was named Chairman of the Board effective January 1, 1999. In February 1999, Mr. Beck resigned as Director and Mr. Pierre Ducros was appointed as Director. Messrs. Close and Ducros were appointed members of the Compensation and Operations Committee on March 29, 1999.

Designed by The Alligator Group Inc.

EXECUTIVE OFFICERS

Douglas R. Reid
President, Chief Executive Officer

Werner Gartner
Executive Vice President, Chief Financial Officer

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

HEADQUARTERS

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STOCK EXCHANGE LISTING

Listed on The Nasdaq Stock Market
Stock Symbol: NGPS

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TDD Foreign Shareholders: 201-329-8354
Website: www.chasemellon.com

INDEPENDENT AUDITORS

Arthur Andersen LLP
Chartered Accountants
Calgary, Alberta, Canada

ANNUAL MEETING

9:00 a.m. MT
Friday, July 9, 1999
NovAtel Inc.
1120 – 68th Avenue N.E.
Calgary, Alberta, Canada

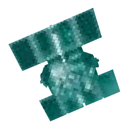
MARKET INFORMATION

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.

	High	Low
Year Ended December 31, 1998		
First Quarter	$ 10.375	$ 6.50
Second Quarter	$ 10.00	$ 4.25
Third Quarter	$ 4.875	$ 2.00
Fourth Quarter	$ 3.50	$ 1.375
Year Ended December 31, 1997		
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.



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