1999 Annual Report

PROFILE & HIGHLIGHTS

NovAtel Inc. designs, markets and supports a broad range of products that determine precise geographic locations using the Global Positioning System (GPS). The system is comprised of 24 earth-orbiting satellites that transmit radio signals 24 hours a day worldwide. GPS receivers calculate the distance from the satellites to the receiver and then use a triangulation technique to determine exact geographical locations. GPS is used for a variety of purposes, including navigating, tracking, mapping and conducting geographical surveys.

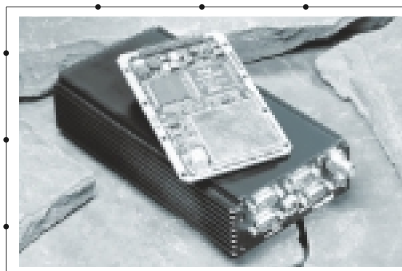
NovAtel focuses on high-end GPS applications such as surveying, geographic information systems (GIS), aviation, marine, mining and machine control and agriculture, with technologically innovative products that are easy to use and integrate, are highly reliable and provide a high degree of accuracy. NovAtel is not active in low-end GPS applications such as vehicle navigation or the consumer/cellular market.

NovAtel Common Shares trade on The Nasdaq Stock Market under the symbol NGPS.

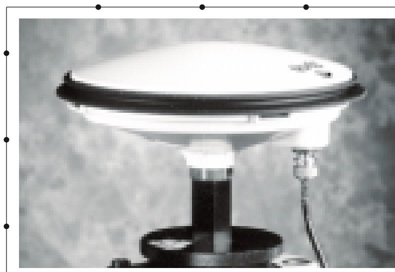
1999 Highlights

TECHNOLOGY

- Launched NovAtel's latest generation receiver – the OEM4.



- Developed the new GPS 600 Series Antenna, which was launched in January 2000.



POINT, INC.

- NovAtel and Sokkia Co, Ltd. formed a jointly owned company, called Point, Inc., to provide advanced measurement solutions for the fields of surveying, mapping, GIS, construction and machine control to Sokkia's global market. This new company brings together NovAtel's world-class GPS engineering with Sokkia's unparallelled sales and distribution system.
- Sokkia announced the release of four new survey products which were developed by Point, Inc. – Radian, Midas GIS, Axis and SDR (Sokkia Data Recorder) software.

AVIATION

- Received an initial contract to supply wide area reference receivers for the European Geo-stationary Overlay System (EGNOS).
- Delivered 13 reference receivers to the MTSAT Satellite-based Augmentation System (MSAS) in Japan.
- Supplied a wide area augmentation system (WAAS) receiver to NAV CANADA, which is responsible for providing air navigation services in Canada.

COSTA RICA

- Entered into a joint venture to provide GPS products and services in Costa Rica and other Central American countries.
- Together with its partner GOPS Servicios De Consultoria S.A. and senior officials from a branch of Costa Rica's Ministry of Public Works and Transportation, NovAtel signed an agreement to conduct a capital project study of the roadway that links the cities of Puerto Limón and Sixaola.

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 Novatel Inc. ("Company"), or developments in the Company industry, to differ materially from the anticipated results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, operating results of affiliates and subsidiaries, establishing and maintaining effective distribution channels, certification and market acceptance of the Company's new products, impact and timing of large orders, pricing pressures in the market and other competitive factors and maintaining technological leadership, together with the other risks and uncertainties described in public filings.

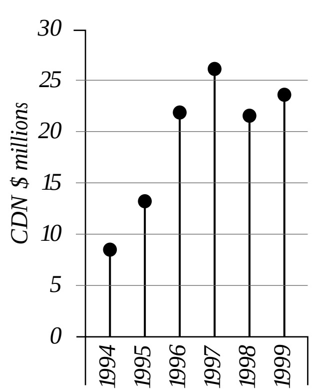
The dollar amounts presented in this Annual Report are in Canadian currency unless otherwise noted and are presented in accordance with accounting principles generally accepted in Canada.

FINANCIAL HIGHLIGHTS 1999

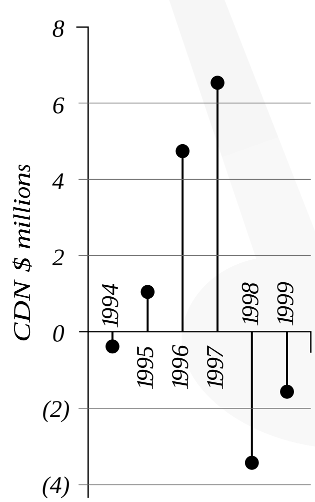
(in thousands, except per share data or unless otherwise noted)

	1999	1998	1997	1996
Revenues	**$ 24,226**	$ 21,567	$ 27,049	$ 22,663
Gross margin-$	**$ 11,580**	$ 12,893	$ 19,199	$ 16,194
Gross margin-%	**48%**	60%	71%	71%
Net income (loss) from continuing operations	**$ (1,983)**	$ (3,634)	$ 6,723	$ 4,839
Net income (loss) from continuing operations-per share (basic)	**$ (0.26)**	$ (0.47)	$ 0.91	$ 0.93
Net income (loss) from continuing operations-per share (fully diluted)	**$ (0.26)**	$ (0.47)	$ 0.86	$ 0.93
Net income (loss)	**$ (1,034)**	$ (2,330)	$ 7,183	$ 2,135
Net income (loss)-per share (basic)	**$ (0.13)**	$ (0.30)	$ 0.97	$ 0.41
Net income (loss)-per share (fully diluted)	**$ (0.13)**	$ (0.30)	$ 0.92	$ 0.41
Weighted average shares outstanding (basic)	**7,674**	7,673	7,420	5,200
Weighted average shares outstanding (fully diluted)	**8,566**	8,509	8,100	5,200
Working capital	**$ 13,804**	$ 8,081	$ 10,515	$ (11,157)
Shareholders' equity (deficit)	**$ 21,752**	$ 22,786	$ 25,073	$ (4,168)

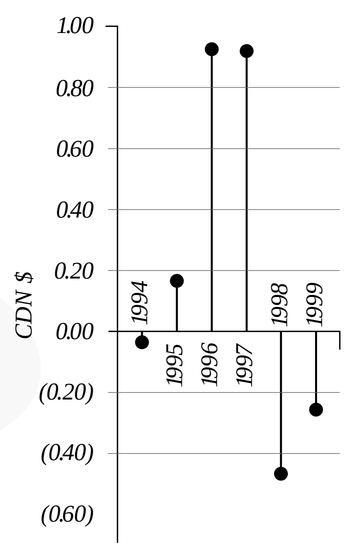
Revenues



Net income (loss) from continuing operations



Net income (loss) from continuing operations – per share (basic)



TO OUR SHAREHOLDERS

As you might recall, in last year's annual report we talked about how 1998 had been a "transitional" year for NovAtel, one in which we had begun taking steps to expand the company's revenue sources and to position the company for accelerated growth in the GPS market. With that in mind, I would term 1999 a "trans-formational" year that saw NovAtel not just rethink how we organize our operations, but how we actually *conduct* business. It has been an extremely valuable process that has revitalized the company, and the momentum we built in the second half of the year helped us achieve record fourth quarter revenues of $8.1 million. While we reported a net loss for the year of $1.0 million, we had positive earnings momentum over the third and fourth quarters, and the encouraging trends in our core financial performance have continued into early 2000.

The driving force of this positive transformation at NovAtel has been our realization that the company can be more than the leading developer of high-end GPS technology. In addition to setting the technology standard in our industry – a position we've reinforced over the past nine months with the introduction of two truly innovative new products – NovAtel is now also taking a more active role with its customers and partners to maximize the commercial value of that technology.

An excellent example of this new attitude is our partnership with Sokkia Co., Ltd. of Japan. Sokkia is one of the world's leading producers of measurement solutions for surveying, mapping and a variety of industrial applications, and they have an unsurpassed worldwide sales and support network. Our jointly owned company, called Point, Inc., combines our core competency in GPS technology with Sokkia's global market reach. By integrating our technology into product platforms for Sokkia, we can provide better GIS, survey and mapping product solutions that will expand the customer base for both companies. In fact, this has already begun happening. The new products that Point introduced in the fourth quarter were well received and contributed to NovAtel's improved top line for the year.

The Sokkia partnership illustrates our strategy of exploiting high-end GPS markets by using our products, marketing strength and partnerships. In this case the market is advanced GIS/surveying where Sokkia is so well positioned. The asset we have leveraged is our proprietary technology. And the vehicle we have used is a strategic partnership. We intend to establish other collaborations in the year ahead, but I want to stress that we are not partnering only with large, well established players. We also see opportunities to add value at NovAtel by partnering with smaller companies that are developing exciting new GPS applications.

These developers, as you might well imagine, often use NovAtel boards and components when developing their products. This gives us early access to some of the most exciting new GPS products being developed. With our new strategy, we are not acting simply as a supplier to many of these developers. Instead, we are identifying the most promising among them and developing collaborative relationships to nurture those applications to commercial success. We are, in effect, acting as an incubator for these products, offering whatever resources are called for – from financial support to product customization to joint engineering activities to distribution via existing partners or our own sales force.

Ultimately, of course, the most valuable asset we have to offer in any strategic relationship – with large or small companies – is our technological expertise. It is the engine of our future growth, and in 1999 we reinforced our GPS technology leadership with the introduction of a new generation receiver, *OEM4*. This new receiver provides new benchmarks in power, portability and performance. It measures only 85mm by 125mm and can deliver two-centimeter accuracy while using only three watts of power. But perhaps the most innovative improvement we added to *OEM4* was its adaptability. We can more readily customize this new hardware/software package to suit the user-specific applications our customers are developing. It's part of our commitment to supporting those customers and creating mutually beneficial commercial relationships.

Another technology breakthrough from NovAtel was the recent introduction of our *GPS 600 Antenna*. This is a rugged, low-cost antenna that actually provides much higher accuracy than all but the most expensive GPS antennas currently available. Our patent pending Pinwheel (aperture coupled slot array) technology has redefined product performance in our market, and we believe it has the potential to become the new industry standard.

Looking forward, we are optimistic about NovAtel's prospects. We expect to continue introducing enhancements to our industry-leading GPS technology. We also expect to continue building high-quality partnerships that extract more value from the commercialization of our products. We want to continually grow our business by being a value-added participant in the commercialization of our technology.

We also expect our positive financial momentum to continue, though we cannot say we will not encounter occasional fluctuations in our performance. Aerospace is still an important revenue contributor for us, but the major sources of our aviation business are government-funded programs that are not on any regular schedule. Happily for NovAtel, we are a key player in all the major GPS-based aviation augmentation systems being installed worldwide, including WAAS (United States), EGNOS (Europe), MSAS (Japan) and most recently, NAV Canada. As these programs enter new phases of implementation and shipments increase, our revenues expand rapidly for a limited period of time. Eventually, we believe our growing strength in survey products through Sokkia and the special applications we are developing with our partners for agriculture, machine control, mining and other markets will smooth out the revenue fluctuations created by our aviation business.

As always, thank you for your support of NovAtel. We feel the company has established a clear strategy for growth and we are beginning to realize the tremendous untapped potential of our technology and products. We fully intend to build on the momentum we have established, during 2000 and beyond.

Doug Reid
President and Chief Executive Officer

April 13, 2000

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

NovAtel Inc. ("the Company") 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 then has been engaged in several communications businesses. In 1992, the Company was reorganized with certain assets sold to third parties, others 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 between March 1994 and August 1996. As a result of these divestitures, the Company now focuses exclusively on the GPS business. On April 17, 1998, BAE Systems Canada Inc. (formerly Canadian Marconi Company and referred to herein as "Canadian Marconi") purchased approximately 58% of the Company's total shares outstanding from the Company's two principal shareholders. As of February 29, 2000, Canadian Marconi is owned 48.9% by Canmar Investments Inc. ("Canmar") and 4.8% by Meslink Ltd. ("Meslink') which owns 100% of Canmar. British Aerospace, p.l.c. ("British Aerospace") owns 100% of Meslink. On November 29, 1999, British Aerospace acquired the assets of Marconi Electronic Systems, a division of the General Electric Company, p.l.c. which included Canadian Marconi. The entire British Aerospace group of companies, including Canadian Marconi, now carry on business as BAE SYSTEMS.

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

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

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

The Company's results of operations have fluctuated and can be expected to continue to fluctuate on a periodic basis as a result of a number of factors which affect revenue, gross margin and operating expenses. Annual and quarterly revenues have fluctuated because of a number of factors, including revenue generated from major contracts, operating results of affiliates and subsidiaries, certification and market acceptance of the Company's new products, impact and timing of large orders, pricing pressures in the market, establishing and maintaining effective distribution channels, fluctuations in non-recurring engineering ("NRE") fees, seasonality of customer purchase patterns and the timing of industry trade shows. Shipments under a major contract could result in unusually high revenue levels when compared to revenues and income in other periods. For example, during 1999, sales of the Company's WAAS receivers to the WAAS and MSAS programs accounted for approximately 10% of the Company's total revenues compared to approximately 27% in 1998. The Company currently has no commitments for future sales of its WAAS receivers in any further implementations of the WAAS or MSAS programs. There can be no assurance that the Company will receive major contracts in the future, and the failure to do so could have a material adverse effect on the Company's business, financial condition and results of operations. The Company sells GPS receivers to Point, which incorporates these receivers into surveying systems that are in turn sold through the Sokkia distribution channels. The proportionate share of the accounts of Point are included in the Company's accounts. Point is subject to all of the same types of risks the Company is subject to. There can be no assurance that Point's results may not have a material adverse effect on the Company's business, financial condition and results of operations. The Company currently has a preliminary contract for work related to EGNOS. This contributed largely to NRE fees increasing from $99,000 in 1998 to $863,000 in 1999. The Company is currently negotiating a full contract for further EGNOS work. There can be no assurance that the Company will receive any further contract related to EGNOS. Revenues can be expected to vary significantly as a result of a lack of a significant order backlog, fluctuations in demand for existing products, operating results of affiliates and subsidiaries, the rate of development of new markets, the degree of market acceptance of new products, increased competition and the general strength of domestic and international economic conditions. Furthermore, if the Company were unable to deliver sufficient quantities of products in a timely manner, due to factors such as parts supply shortages or customs delays, the Company's revenues could be adversely affected.

Gross margin as a percentage of revenue varies primarily as a result of product sales mix, consolidated results of affiliates and subsidiaries, changes in materials and contract manufacturing costs, liquidation of discontinued inventory and absorption of fixed manufacturing costs. As revenues derived from sales of WAAS receivers decrease as a percentage of total revenues, gross margin percentage may be adversely affected as these sales generally have higher gross margins. The Company's original equipment manufacturer ("OEM") products typically have higher gross margins than the sale of survey products by Point. The Company believes the sale of survey products by Point is an important growth strategy, however, selling survey products through Point could adversely affect the Company's gross margin percentages. A shortfall from anticipated revenue could adversely affect results of operations and income (loss) per share. In addition, if the Company were to receive a major contract, it would likely increase its expenditures to support such a contract. If revenue from the contract were delayed for any reason, including cancellation or deferral of the contract, the Company's results of operations could be adversely affected.

The Company faces competition from a variety of competitors. Prices of the Company's products have declined since their introduction due to competitive pressures. The Company expects competition to increase, which is expected to result in further price decreases and lower gross margins for the Company's products. In addition, the Company's success will depend to a substantial degree upon its ability to develop and introduce in a timely manner new products and product enhancements to its existing GPS product portfolio. The Company expects to make significant investments in research and development to continue to enhance existing products, develop new products which incorporate new and existing technologies, expand and develop new distribution channels and achieve market acceptance for such products. There can be no assurance that the Company will be successful in such efforts.

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

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

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

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

Results of Operations

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

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

1999 Compared to 1998

Revenues. Revenues include product sales, NRE fees and consolidated revenues of subsidiaries and Point. Product sales revenues consist primarily of sales of OEM boards, software, software upgrades and WAAS type receivers.

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

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

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

Geomatics

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

Aerospace and Defense

The Aerospace and Defense sector is made up of aviation, space and defense markets. Aerospace and Defense sales were $5.8 million for 1999 compared to $7.3 million for 1998, a decrease of 21%. Sales in this sector includes WAAS receiver sales related to the U.S. Wide Area Augmentation System ("WAAS"), the Japanese MTSAT Satellite-based Augmentation System ("MSAS"), NavCanada which is working in conjunction with the U.S. Federal Aviation Administration ("FAA") to implement the WAAS program and to the European Geostationary Overlay System ("EGNOS"). Sales of WAAS receivers to the WAAS and MSAS programs in 1999 accounted for approximately 10% of total revenues compared to approximately 27% in 1998. The Company has an initial contract to supply wide area reference receivers for EGNOS. The Company is teamed with Racal Avionics Ltd. ("Racal") to supply one section of the EGNOS Remote Integrity Monitoring System ("RIMS-C"). The Racal/NovAtel RIMS-C channel will provide integrity and correction data within the EGNOS ground network. Under the initial contract, the Company will develop new GPS receiver processing for Satellite Failure Detection and will begin software qualification. In addition, the Company has delivered a number of receivers for use in developmental activities. The EGNOS receivers have the same hardware configuration as the Company's WAAS receivers, with added software qualification and functionality. The Company is currently negotiating a full contract to complete software proving and qualification activities and deliver 18 EGNOS receiver systems. There can be no assurance the Company will receive commitments for future participation in the EGNOS program. Other countries planning WAAS or a similar system include Canada, Mexico, Australia and Chile. Johns Hopkins University Applied Physics Laboratory conducted a study which concluded an augmented GPS can satisfy performance requirements as the only navigation system installed in an aircraft and the only service used by the FAA for operations anywhere in the National Airspace System. The FAA has signed partnership agreements with each of Raytheon Company ("Raytheon") and Honeywell Inc. ("Honeywell") to develop a Local Area Augmentation System ("LAAS"). The LAAS program is intended to complement the WAAS program. Together these will function to supply users of the U.S. National Airspace System (NAS) with seamless satellite-based navigation for all phases of flight. The certified GPS receiver that the Company is developing with Canadian Marconi is targeted to be used by Honeywell for the LAAS program. The Company believes it is well positioned to participate with Raytheon in the LAAS program given its past experience with Raytheon and the WAAS program. While the Company has participated in previous phases of WAAS and MSAS and has relationships with Raytheon and Honeywell, the Company currently has no commitments for future participation in the WAAS, MSAS or LAAS programs and there can be no assurance the Company will receive commitments for future participation in the WAAS, MSAS or LAAS programs.

Special Apps

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

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

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

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

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

Research and development. Research and development expenses consist primarily of engineering personnel expenses, contracted research and development expenses, amortization of purchased technology, equipment costs and facility and computer support costs. Research and development expenses decreased 16.2% from $8.2 million in 1998 to $6.9 million in 1999 and decreased as a percentage of total revenues from 38.2% in 1998 to 28.5% in 1999. The reduction in research and development expenses is primarily attributable to lower staffing costs as a result of a restructuring and staff reduction in November 1998. The consolidated proportionate share of Point's research and development expenses was included in the Company's research and development expenses in 1999, however, since the Company and Sokkia funded Point for engineering work being conducted on their behalf until December 31, 1999, the overall impact of Point on research and development expenses was negligible. In 2000, the Company expects its proportionate share of Point's research and development expenses to comprise approximately 25%-30% of the Company's consolidated research and development expenses. In 1999, the Company deferred development costs of $1.3 million related to the development of a certified aviation GPS receiver, compared to $528,000 in 1998. The Company believes significant investments in research and development are required to maintain its technological leadership and to compete in its business.

Selling and marketing. Selling and marketing expenses consist primarily of compensation of sales and marketing personnel as well as expenses for advertising and promotion, trade shows, facilities and other expenses related to the sale of the Company's products. Selling and marketing expenses decreased 15.1% from $4.6 million in 1998 to $3.9 million in 1999 and decreased as a percentage of total revenues from 21.4% in 1998 to 16.2% in 1999. The decrease in selling and marketing expenses is primarily the result of lower personnel costs as a result of the restructuring and staff reduction in November 1998 and reduced advertising and product promotions. The consolidated proportionate share of Point's selling and marketing expenses was included in the Company's selling and marketing expenses. In 2000, the Company expects its proportionate share of Point's selling and marketing expenses to comprise approximately 25%-30% of the Company's consolidated selling and marketing expenses.

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

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

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

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

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

1998 Compared to 1997

Revenues. Total revenues decreased 20.3% from $27.0 million in 1997 to $21.6 million in 1998. The decrease in revenues was primarily due to significantly lower WAAS sales in the United States, $638,000 in 1998 as compared to $8.5 million in 1997, partially offset by sales to the Japanese MSAS program of $5.1 million in 1998 as compared to no MSAS program sales in 1997. OEM revenues, which were 34% lower in 1998 from 1997, also contributed to lower revenues.

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

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

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

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

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

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

In 1998, the Company derived approximately 52% of its total revenues from the sale of its products to countries outside of the

United States and Canada compared to 28% in 1997. Revenues from international sales increased 52.7% from $7.4 million in 1997 to $11.3 million in 1998. The Company anticipated lower international sales in 1999 because no shipments were expected to the Japanese MSAS program.

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

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

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

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

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

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

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

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

Quarterly Results of Operations

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

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

	Quarter Ended							
	1998				1999			
	April 4	July 4	Oct. 3	Dec. 31	March 31	June 26	Oct. 2	Dec. 31
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	51.9	58.8	67.6	57.6	51.1	46.7	50.0	44.1
Operating expenses:								
Research and development	39.6	36.5	32.7	47.1	35.8	50.8	24.8	18.1
Selling and marketing	20.2	17.9	19.9	29.8	18.5	29.2	13.5	12.0
General and administration	17.8	16.3	13.9	19.3	11.7	19.0	10.7	9.0
Total operating expenses	77.6	70.7	66.5	96.2	66.0	99.0	49.0	39.1
Operating income (loss)	(25.7)	(11.9)	1.1	(38.6)	(14.9)	(52.3)	1.0	5.1
Interest income	1.2	1.1	0.7	1.0	1.8	3.1	1.1	1.0
Other income (expense)	0.3	0.5	3.2	(11.1)	(1.1)	(0.8)	(0.8)	(0.7)
Income (loss) from continuing operations before income taxes	(24.2)	(10.3)	4.9	(48.7)	(14.2)	(50.0)	1.3	5.4
Provision for income taxes	0.4	0.3	0.3	0.6	0.4	0.6	0.3	0.7
Net income (loss) from continuing operations	(24.6)%	(10.6)%	4.6%	(49.3)%	(14.6)%	(50.6)%	1.0%	4.7%

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

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

	Quarter Ended							
	1998				1999			
	April 4	July 4	Oct. 3	Dec. 31	March 31	June 26	Oct.2	Dec.31
(in thousands)								
Geomatics	$ 630	$ 1,261	$ 1,560	$ 1,490	$ 1,838	$ 958	$ 1,938	$ 3,512
Special Apps	2,107	3,249	1,398	1,190	2,423	1,759	2,462	2,281
Aerospace and Defense	1,357	754	3,549	1,634	772	403	2,926	1,669
Manufacturing components	671	480	176	61	237	187	184	677
Total revenues	$ 4,765	$ 5,744	$ 6,683	$ 4,375	$ 5,270	$ 3,307	$ 7,510	$ 8,139

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

For example, during 1999, sales of the Company's WAAS receivers to the WAAS and MSAS programs accounted for approximately 10% of the Company's total revenues compared to approximately 27% in 1998. The Company currently has no commitments for future sales of its WAAS receivers in any further implementations of the WAAS or MSAS programs. There can be no assurance that the Company will receive major contracts in the future, and the failure to do so could have a material adverse effect on the Company's business, financial condition and results of operations.

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

Operating expenses decreased in 1999 as the Company reduced costs in late 1998 in response to lower revenues. The Company anticipates operating expenses to increase by approximately 25% in 2000 due primarily to the impact of Point operating for a full year, but decline as a percentage of revenue as the Company's revenue grows. A shortfall from anticipated revenues has and could adversely affect results of operations and income (loss) per share. In addition, if the Company were to receive a major contract, it would likely increase its expenditures to support such contract. If recognition of the revenues from the contract were delayed for any reason, including cancellation or deferral of the contract, the Company's results of operations could be adversely affected as it attempted to adjust its expenditures downward.

Taxes

The Company has not recorded a provision for income taxes in Canada, other than for large corporations tax, due to previously incurred losses, credits and costs. As of December 31, 1999, losses, investment tax credits, depreciation and research and development costs are available to reduce future taxable income in Canada. The Company has determined that the acquisition of a majority of the Common Shares of the Company by Canadian Marconi in 1998 and BAE SYSTEMS' indirect acquisition of the majority of the common shares of Canadian Marconi in November 1999 constitute acquisition of control of the Company for Canadian income tax purposes. Accordingly, the availability of certain of the Company's Canadian income tax losses, research and development costs, depreciation deductible for tax purposes and investment tax credits may be subject to limitation. The ultimate availability and amount of these losses, credits and costs may be dependent upon future Canada Customs and Revenue Agency audits. See Note 14 of Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

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

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

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

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

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

The Company believes that its existing cash, cash equivalents, short-term investments, available lines of credit and anticipated cash generated from operations will be sufficient to satisfy its currently anticipated cash needs for at least the next 12 months.

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

The Company is not subject to interest rate risk as it currently does not have nor does it anticipate incurring any debt.

MANAGEMENT'S REPORT

Management is responsible to the Board of Directors for the preparation of the Company's consolidated financial statements. These statements have been prepared in accordance with generally accepted accounting principles in Canada and necessarily include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal control which provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained.

The external auditors of the Company, Arthur Andersen LLP, have been appointed by the shareholders to express an opinion as to whether these consolidated financial statements present fairly the Company's consolidated financial position and operating results in accordance with generally accepted accounting principles in Canada. Their report follows.

The Board of Directors has reviewed and approved these consolidated financial statements. To assist the Board in meeting its responsibility, it has appointed an Audit Committee, the majority of whose members are outside directors. The committee meets periodically with management and the external auditors to review internal controls, audit results and accounting principles and practices. The external auditors have full and free access to the Audit Committee.

Doug Reid	Werner Gartner
President and Chief Executive Officer	Executive Vice President and
Director	Chief Financial Officer

January 28, 2000

REPORT OF INDEPENDENT CHARTERED ACCOUNTANTS

To the Shareholders of NovAtel Inc.:

We have audited the consolidated balance sheets of NovAtel Inc. as at December 31, 1999 and 1998 and the consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999 in accordance with generally accepted accounting principles in Canada.

Arthur Andersen LLP

Calgary, Alberta,	ARTHUR ANDERSEN LLP
January 28, 2000.	Chartered Accountants

CONSOLIDATED BALANCE SHEETS

(in thousands)

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

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)

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

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

(in thousands)

	Common Shares (Note 11) Number	Common Shares (Note 11) Amount	Deficit	Total Shareholders' Equity (Deficit)
December 31, 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
Net loss	—	—	(1,034)	(1,034)
December 31, 1999	7,674	$ 35,602	$ (13,850)	$ 21,752

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

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

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. On November 29, 1999, BAE SYSTEMS (formerly British Aerospace, p.l.c.) acquired control of the Company through the indirect acquisition of approximately 51.6% of the common shares of CMC from their previous owner, The General Electric Company, p.l.c. (see Note 14).

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

Note 2 Significant Accounting Policies

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada (Canadian GAAP or Canadian principles) and are stated in Canadian dollars. With respect to the consolidated financial statements, the material differences between Canadian and United States of America (U.S.) generally accepted accounting principles (U.S. GAAP or U.S. principles) are described in Note 20. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its subsidiaries and its proportionate (49%) interest in the accounts of Point, Inc.

b) Foreign Currency Translation

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

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

c) Investment Tax Credits

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

d) Cash and Cash Equivalents

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

e) Inventories

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

f) Capital Assets, Intangible Assets and Amortization

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

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

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

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

g) Research and Development Costs

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

h) Provision for Future Warranty Costs

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

i) Revenue Recognition

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

j) Stock-based Compensation Plans

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

k) Interest Capitalization

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

l) Comparative Figures

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

Note 3 Accounts Receivable

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

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

Note 4 Inventories

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

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

Note 5 Capital Assets

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

(note 5 continued)

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

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

Note 6 Intangible Assets

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

Note 7 Deferred Development Costs

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

Note 8 Bank Advances

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

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

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

Note 9 Commitments and Contingencies

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

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

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

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

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

Note 10 Financial Instruments

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

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

Note 11 Shareholders' Equity

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

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

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

The Company maintains stock option plans for employees and members of the Board of Directors. Under the plans, participants are granted options to purchase common shares of the Company at no less than the market value on the date of the grant. The options have vesting periods ranging from three to four years and expire 10 years from the date of the grant. As of December 31, 1999, the Company has authorized the granting of up to 1,101 options to purchase common shares of the Company under the stock option plans, of which four have been exercised.

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

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

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

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

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

Note 12 Major Customers, Export Sales and Suppliers

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

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

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

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

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

Note 13 Other Income (Expense)

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

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

Note 14 Taxes

a) Canadian Taxes

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

2004	$31,900
2005	—
2006	1,500
	$33,400

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

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

2000	$ 900
2001	800
2002	—
2003	1,200
2004	1,600
2005	900
2006	500
2007	300
2008	800
2009	500
	$ 7,500

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

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

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

b) U.S. Taxes

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

Note 15 Related Party Transactions

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

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

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

Note 16 Investment in Point, Inc.

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

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

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

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

Note 17 Consolidated Statements of Cash Flows

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

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

Note 18 Uncertainty Due to the Year 2000 Issue

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

Note 19 Discontinued Operations

a) Wireless Access Products (WAP) Divestiture

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

b) Personal Communications Products (PCP) Divestiture

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

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

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

c) Inclusion of Discontinued Operations in Consolidated Financial Statements

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

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

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

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

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

a) Deferred Development Costs

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

b) Derivatives and Hedging Activities

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

c) Investment in Point, Inc.

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

d) Post-Employment Benefits

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

e) Income Taxes

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

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

f) Comprehensive Income

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

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

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

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

g) Net Income/Loss per Share

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

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

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

	Year Ended December 31, Canadian GAAP			U.S. GAAP		
	Net Income (Loss) per Share – Basic			Net Income (Loss) per Share – Basic		
	1999	1998	1997	1999	1998	1997
Continuing operations	$ (0.26)	$ (0.47)	$ 0.91	$ (0.38)	$ (0.58)	$ 0.91
Discontinued operations	0.13	0.17	0.06	0.12	0.17	0.06
Net income (loss) per share	$ (0.13)	$ (0.30)	$ 0.97	$ (0.26)	$ (0.41)	$ 0.97
	Net Income (Loss) per Share – Fully Diluted			Net Income (Loss) per Share – Diluted		
	1999	1998	1997	1999	1998	1997
Continuing operations	$ (0.26)	$ (0.47)	$ 0.86	$ (0.38)	$ (0.58)	$ 0.90
Discontinued operations	0.13	0.17	0.06	0.12	0.17	0.06
Net income (loss) per share	$ (0.13)	$ (0.30)	$ 0.92	$ (0.26)	$ (0.41)	$ 0.96

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

h) Stock-Based Compensation

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

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

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

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

i) Derivative Instruments and Hedging Activities

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

Shareholder Information

Directors

(as at December 31, 1999)

W. James Close+
Chairman of the Board
(President and Chief Executive Officer, BAE SYSTEMS CANADA INC.)

Pierre Y. Ducros+
Director
(President of P. Ducros & Associés)

*Richard D. Orman+**
Vice Chairman and Director
(Chairman and Chief Executive Officer, Runnymede Resources Corporation)

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

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

*Joel A. Schleicher**
Director
(Private Investor)

*Gregory A. Yeldon**
Director
(Vice President and Chief Financial Officer, BAE SYSTEMS CANADA INC.)

*Audit and Finance Committee
+Compensation Committee

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

NovAtel Inc.
1120 – 68th Avenue N.E.
Calgary, Alberta, Canada
T2E 8S5
Telephone: 403-295-4500
Fax: 403-295-0230
Investor Relations and requests for 20-F:
403-295-4532, ir@novatel.ca
Website: www.novatel.ca

Transfer Agent

ChaseMellon Shareholder Services, L.L.C.
Shareholder Relations
P.O. Box 3315
South Hackensack, NY, U.S.A. 07606
or
85 Challenger Road
Ridgefield Park, NJ, U.S.A. 07660
Telephone: 800-522-6645
TDD for Hearing Impaired: 800-231-5469
Foreign Shareholders: 201-329-8660
TDD Foreign Shareholders: 201-329-8354
Website: www.chasemellon.com

Stock Exchange Listing

Listed on The Nasdaq Stock Market

Stock Symbol: NGPS

Independent Auditors

Arthur Andersen LLP
Chartered Accountants
Calgary, Alberta, Canada

Annual Meeting

9:00 a.m. MT
Friday, July 14, 2000
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, 1999		
First Quarter	$ 2.625	$ 1.375
Second Quarter	$ 2.50	$ 1.438
Third Quarter	$ 1.875	$ 1.25
Fourth Quarter	$ 3.469	$ 1.438
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 forseeable future.