FORM 6-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

Date of Report May 15, 1998

NOVATEL INC.

Commission File No. 0-29004

1120 - 68th Avenue N.E., Calgary, Alberta, Canada T2E 8S5
(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ✓ Form 40-F_____

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes_____ No ✓

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-N/A.

A copy of the Registrant's Quarterly Report (including financial statements) for the three months ended April 4, 1998 is furnished herewith and is incorporated by reference into the following Registration Statements:

Registration Statement on Form S-8 #333-6500
Registration Statement on Form S-8 #333-6502
Registration Statement on Form S-8 #333-9216

As of May 15, 1998, there were 7,674,040 Common Shares outstanding.

This Report Consists of 22 Sequentially Numbered Pages

Exhibit Index Appears on Page 4

EXHIBITS

The following exhibit is filed as part of this Form 6-K:

(1) the Quarterly Report (including financial statements) of NovAtel Inc. for the three months ended April 4, 1998.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NOVATEL INC.

Date: May 15, 1998

By:________________________________
Name: Werner Gartner
Title: Executive Vice President and Chief Financial Officer

EXHIBITS

NOVATEL INC.

Quarterly Report

For the Three Months Ended April 4, 1998

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The dollar amounts presented in this Quarterly Report are in Canadian currency unless otherwise noted (CDN $1 = US $0.6956 on April 29, 1998), and are presented in accordance with accounting principles generally accepted in Canada. To the Company's knowledge there is no material difference between Canadian and U.S. generally accepted accounting principles ("GAAP") which would bear upon its financial statements and, more particularly, income applicable to equity share and retained earnings, except as disclosed in Note 24 of Notes to Consolidated Financial Statements for the fiscal year end December 31, 1997 filed as part of Form 20-F with the Securities and Exchange Commission and in Note 9 of Notes to Consolidated Financial Statements contained in this report.

Certain statements in this report constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or developments in the Company's industry, to differ materially from the anticipated results, performance or achievements expressed or implied by such forward looking statements. Such factors include, but are not limited to, certification and market acceptance of the Company's new products, impact and timing of large orders, pricing pressures in the market and other competitive factors and maintaining technological leadership, together with the other risks and uncertainties described in Management's Discussion and Analysis of Financial Condition and Results of Operations described herein and in the Company's other filings with the United States Securities and Exchange Commission.

NOVATEL INC.

CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands)

	April 4, 1998	December 31, 1997
ASSETS (Note 1)		
Current assets:		
Cash and term deposits	$ 8,898	$10,732
Accounts receivable	5,597	4,892
Inventories (Note 2)	2,465	2,066
Prepaid expenses and deposits	401	131
Total current assets	17,361	17,821
Capital assets	11,293	10,610
Intangible assets (Note 7)	3,751	3,948
Deferred development costs (Note 3)	30	---
Total assets	$32,435	$32,379
LIABILITIES AND SHAREHOLDERS' EQUITY (Note 1)		
Current liabilities:		
Accounts payable and accrued liabilities	$5,485	$7,246
Customer deposits	6	---
Related party payables	3	---
Provision for future warranty costs	106	60
Deferred gain on sale/leaseback of capital assets – current portion	40	---
Capital lease obligation – current portion (Note 6)	330	---
Total current liabilities	5,970	7,306
Deferred gain on sale/leaseback of capital assets – long term portion	114	---
Capital lease obligation – long term portion (Note 6)	1,189	---
Total liabilities	7,273	7,306
Shareholders' equity:		
Capital stock (Note 4)	35,602	35,559
Deficit	(10,440)	(10,486)
Total shareholders’ equity	25,162	25,073
Total liabilities and shareholders’ equity	$32,435	$32,379

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

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

	Three Months Ended	
	April 4, 1998	March 29, 1997
Revenues		
Product sales	$ 4,713	$ 5,403
NRE fees	52	3
Total revenues	4,765	5,406
Cost of sales		
Cost of product sales	2,266	1,789
Cost of NRE fees	25	2
Total cost of sales	2,291	1,791
Gross profit	2,474	3,615
Operating expenses:		
Research and development	1,889	1,400
Selling and marketing	961	745
General and administration	869	827
Total operating expenses	3,719	2,972
Operating income (loss)	(1,245)	643
Interest income	59	7
Other income	12	50
Income (loss) from continuing operations	(1,174)	700
Income from discontinued operations (Note 8)	1,220	28
Income	$ 46	$ 728
Income (loss) per share (basic) (Note 9)		
Continuing operations	$ (0.15)	$ 0.11
Discontinued operations	0.16	0.00
Income per share	$ 0.01	$ 0.11
Weighted average shares outstanding (basic) (Note 4)	7,672	6,631
Income (loss) per share (fully diluted) (Note 9)		
Continuing operations	$ (0.15)	$ 0.10
Discontinued operations	0.16	0.00
Income per share	$ 0.01	$ 0.10
Weighted average shares outstanding (fully diluted) (Note 4)	8,614	6,983

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited, in thousands)

	Common Shares Number	Common Shares Amount	Deficit	Total Shareholders' Equity
Balance December 31, 1997...	7,670	$35,559	$(10,486)	$25,073
Common Shares issued..........	4	43	---	43
Income	---	---	46	46
Balance April 4, 1998............	7,674	$35,602	$ (10,440)	$25,162

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Three Months Ended	
	April 4, 1998	**March 29, 1997**
Operating activities:		
Income (loss) from continuing operations	$ (1,174)	$ 700
Income from discontinued operations	1,220	28
Add charges and credits to operations not involving an outlay of cash:		
Amortization	551	234
(Gain)/loss on disposal of capital assets	(11)	229
Deferred gain on sale/leaseback of capital assets.	(21)	---
Gain on sale of equity investment in NovAtel Wireless, Inc.	---	(483)
Net change in non-cash working capital related to operations (Note 5)	(3,080)	(4,115)
Cash used in operating activities	(2,515)	(3,407)
Financing activities:		
Proceeds from initial public offering	---	22,060
Issuance of shares (Note 4)	43	---
Decrease in bank advances	---	(9,610)
Increase (decrease) in capital lease obligations	1,519	(16)
Decrease in deferred charges	---	707
Decrease in mortgage payable	---	(1)
Cash provided by financing activities	1,562	13,140
Increase (decrease) in cash before investing activities	(953)	9,733
Investing activities:		
Purchase of capital and intangible assets	(2,556)	(2,365)
Proceeds on disposal of capital assets	1,705	---
Proceeds on divestitures.	---	483
Deferred development costs.	(30)	---
Cash used in investing activities	(881)	(1,882)
Increase (decrease) in cash and term deposits	(1,834)	7,851
Cash and term deposits, beginning of period	10,732	61
Cash and term deposits, end of period	$ 8,898	$ 7,912
Cash and term deposits consisted of:		
Cash (cheques issued in excess of amounts on deposit)	$ 2,398	$ (88)
Cash equivalents (term deposits with original maturities of 90 days or less)	2,000	8,000
Cash and cash equivalents	4,398	7,912
Term deposits (original maturities of greater than 90 days)	4,500	---
	$ 8,898	$ 7,912

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited, in thousands, except per share data)

Note 1 Basis of Presentation

The consolidated financial statements for the three month periods ended April 4, 1998 and March 29, 1997 presented in this Quarterly Report are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP), are stated in Canadian dollars and are unaudited. The financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim period presented. The adjustments are of a normal recurring nature. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 1997 filed on Form 20-F with the Securities and Exchange Commission.

Note 2 Inventories

	April 4, 1998	December 31, 1997
Raw materials and components....	$ 1,082	$ 465
Work-in-progress........................	15	57
Finished goods............................	1,368	1,544
	$ 2,465	$ 2,066

Note 3 Deferred Development Costs

In the three month period ended April 4, 1998, the Company deferred $30 of development costs, related to the development of a certified aviation GPS receiver, in accordance with Canadian generally accepted accounting principles. No development costs were deferred during 1997 (see Note 9).

Note 4 Capital Stock

	April 4, 1998 Number Authorized	April 4, 1998 Number Issued	December 31, 1997 Number Authorized	December 31, 1997 Number Issued
Common Shares	Unlimited	7,674	Unlimited	7,670

Under the Company's Employee Stock Option Plan and Directors Stock Option Plan, the following options were outstanding as of April 4, 1998:

Option Plan	Date of Grant	Number of Options	Exercise Price (US $)	Vesting Period	% Vested per Year	Expiry Date
Employee	Feb. 7, 1997	569,960	$7.50	3 years	40/30/30	Feb. 6, 2007
Employee	July 1, 1997	95,500	$7.50	4 years	25/25/25/25	June 30, 2007
Employee	July 1, 1997	80,500 *	$7.50	4 years	25/25/25/25	June 30, 2007
Employee	Aug. 12, 1997	6,150	$7.50	3 years	40/30/30	Aug. 11, 2007
Employee	Oct. 2, 1997	7,125	$10.75	4 years	25/25/25/25	Oct. 1, 2007
Employee	Oct. 6, 1997	5,250	$11.25	4 years	25/25/25/25	Oct. 5, 2007
Employee	Jan. 19, 1998	104,070 *	$8.00	4 years	25/25/25/25	Jan. 18, 2008
Employee	Jan. 21, 1998	10,000	$8.156	3 years	36/32/32	Jan. 20, 2008
Employee	Mar. 16, 1998	5,000	$9.125	4 years	25/25/25/25	Mar. 15, 2008
		883,555				
Directors	Feb. 7, 1997	7,400	$7.50	4 years	25/25/25/25	Feb. 6, 2007
Directors	Mar. 20, 1997	72,600	$7.50	4 years	25/25/25/25	Mar. 19, 2007
Total options		963,555				

* Conditionally granted, subject to shareholder approval

Note 5 Consolidated Statements of Cash Flows

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

	Three Months Ended April 4, 1998	Three Months Ended March 29, 1997
Increase in accounts receivable	$ (705)	$ (1,413)
Increase in inventories	(399)	(59)
(Increase) decrease in prepaid expenses and deposits.................	(270)	27
Decrease in accounts payable and accrued liabilities	(1,761)	(2,529)
Increase in related party advances	3	---
Increase (decrease) in customer deposits	6	(140)
Increase (decrease) in provision for future warranty costs..........	46	(1)
Net change in non-cash working capital related to operations	$ (3,080)	$ (4,115)

Note 6 Commitments and Contingencies

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

b) In April 1998, Telexel, a former major shareholder of the Company, paid approximately $5,500 to the Province of Alberta as deferred consideration for the acquisition of the Company. As a result, the Company's only continuing obligations to the Province of Alberta relate to providing information in the Company's possession that may be required to support certain litigation affecting the Company that is the responsibility of the Province of Alberta.

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

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

Note 7 Events Subsequent to April 4, 1998

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

a) <u>Income taxes</u>

The Company has determined that Canadian Marconi's acquisition of a majority of the common shares of the Company would constitute acquisition-of-control of the Company for Canadian income tax purposes. Accordingly, the availability of certain of the Company's Canadian income tax losses, research and development costs, depreciation deductible for tax purposes, and investment tax credits may be subject to limitation. Further, the net operating loss carryforwards of approximately US $38.0 million available for U.S. tax purposes may also be subject to limitations due to the Canadian Marconi share acquisition. As the Company has not recognized the income tax benefit of the above-noted items, there would be no differences in the Company's financial position or reported results of operations for the period ended April 4, 1998, should availability of these items be subject to limitation.

b) <u>Intangible assets</u>

As at April 4, 1998, intangible assets included $1,147 related to the Company's settlement agreement with Trimble Navigation Limited (Trimble). This settlement agreement with Trimble includes a provision that Trimble may, at its sole option, terminate rights granted thereunder, including licenses, should the Company undergo a change in control. The share acquisition by Canadian Marconi Company would constitute a change of control for purposes of the settlement agreement. However, the Company believes that Trimble will not terminate these licenses and rights. Accordingly, the Company has determined that there has been no impairment of these intangible assets as a result of this transaction.

Note 8 Discontinued Operations

The discontinued operations include the results for the Wireless Access Products (WAP) division and its manufacturing operations and the Personal Communications Products (PCP) division. The costs associated with shared resources were separately classified and preserved in the accompanying financial statements both within continuing operations (GPS business) and discontinued operations to reflect the approximate level of support required by each business unit. The gain from discontinued operations for the following periods is as set forth below.

	Discontinued Operations for the Three Months Ended	
	April 4, 1998	March 29, 1997
Revenues	$ 512	$ ---
Cost of sales	---	---
Research and development expenses	---	---
Selling and marketing expenses	---	---
General and administration expenses	2	5
Other expenses	---	250
Income (loss) before gain on divestiture	510	(255)
Gain on divestiture	710	283
Gain from discontinued operations	$ 1,220	$ 28

The gain from discontinued operations of $1,220 relates primarily to the sale of residual inventory, which had been held until a third party initiated production of a new product, and to the recognition of the final installment payment of US$500 due from the purchaser of the Company's former PCP division.

Note 9 Difference Between Canadian and United States Generally Accepted Accounting Principles

As described in Note 24 to the Consolidated Financial Statements for the year ended December 31, 1997, filed on Form 20-F with the Securities and Exchange Commission, there are potentially significant differences between Canadian and United States generally accepted accounting principles that may affect the financial position and results of operations reported by the Company. During the period ended April 4, 1998, there were no differences between Canadian GAAP and United States generally accepted accounting principles (U.S. GAAP) which would have a material effect on the amounts reported in the accompanying financial statements, with the possible exception of $30 of development costs which have been capitalized under Canadian GAAP, but which would have been expensed under U.S. GAAP.

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

	Canadian GAAP		U.S. GAAP	
	(three months ended)			
	Income per Share – Basic		Income per Share – Basic	
	April 4, 1998	March 29, 1997	April 4, 1998	March 29, 1997
Continuing operations	$(0.15)	$0.11	$(0.16)	$0.11
Discontinued operations	0.16	0.00	0.16	0.00
Income per share	$0.01	$0.11	$0.00	$0.11
	Income per Share – Fully Diluted		Income per Share – Diluted	
	April 4, 1998	March 29, 1997	April 4, 1998	March 29, 1997
Continuing operations	$(0.15)	$0.10	$(0.16)	$0.11
Discontinued operations	0.16	0.00	0.16	0.00
Income per share	$0.01	$0.10	$0.00	$0.11

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

STATEMENT OF OPERATIONS DATA (1)
(unaudited, in **Canadian $** thousands, except per share data)

	Three Months Ended		
	April 4, 1998	**March 29, 1997**	**% Change**
Revenues			
Product sales	$ 4,713	$ 5,403	(13%)
NRE fees	52	3	>100%
Total revenues	4,765	5,406	(12%)
Cost of sales			
Cost of product sales	2,266	1,789	27%
Cost of NRE fees	25	2	>100%
Total cost of sales	2,291	1,791	28%
Gross profit	2,474	3,615	(32%)
Operating expenses:			
Research and development	1,889	1,400	35%
Selling and marketing	961	745	29%
General and administration	869	827	5%
Total operating expenses	3,719	2,972	25%
Operating income (loss)	(1,245)	643	N/A
Interest income	59	7	>100%
Other income	12	50	(76%)
Income (loss) from continuing operations	(1,174)	700	N/A
Income from discontinued operations	1,220	28	>100%
Income	$ 46	$ 728	(94%)
Income (loss) per share (basic)			
Continuing operations	$ (0.15)	$ 0.11	
Discontinued operations	0.16	0.00	
Income per share	$ 0.01	$ 0.11	
Weighted average shares outstanding (basic)	7,672	6,631	
Income (loss) per share (fully diluted)			
Continuing operations	$ (0.15)	$ 0.10	
Discontinued operations	0.16	0.00	
Income per share	$ 0.01	$ 0.10	
Weighted average shares outstanding (fully diluted)	8,614	6,983	

STATEMENT OF OPERATIONS DATA (2)
(unaudited, in **US $** thousands, except per share data)

	Three Months Ended		
	April 4, 1998	**March 29, 1997**	**% Change**
Revenues			
Product sales	$ 3,279	$ 3,758	(13%)
NRE fees	36	2	>100%
Total revenues	3,315	3,760	(12%)
Cost of sales			
Cost of product sales	1,576	1,244	27%
Cost of NRE fees	18	1	>100%
Total cost of sales	1,594	1,245	28%
Gross profit	1,721	2,515	(32%)
Operating expenses:			
Research and development	1,314	974	35%
Selling and marketing	668	518	29%
General and administration	605	576	5%
Total operating expenses	2,587	2,068	25%
Operating income (loss)	(866)	447	N/A
Interest income	41	5	>100%
Other income	8	35	(76%)
Income (loss) from continuing operations	(817)	487	N/A
Income from discontinued operations	849	19	>100%
Income	$ 32	$ 506	(94%)
Income (loss) per share (basic)			
Continuing operations	$ (0.11)	$ 0.07	
Discontinued operations	0.11	0.00	
Income per share	$ 0.00	$ 0.07	
Weighted average shares outstanding (basic)	7,672	6,631	
Income (loss) per share (fully diluted)			
Continuing operations	$ (0.11)	$ 0.07	
Discontinued operations	0.11	0.00	
Income per share	$ 0.00	$ 0.07	
Weighted average shares outstanding (fully diluted)	8,614	6,983	

	December 31, 1997	April 4, 1998	US $ Equivalent April 4, 1998(2)
Balance Sheet Data (1):			
(**Canadian $,** thousands)			
Working capital	$ 10,515	$ 11,391	$ 7,924
Total assets	32,379	32,435	22,562
Long-term liabilities	---	1,303	906
Total shareholders' equity	25,073	25,162	17,503

(1) i) Based upon the Company's accounting policies, a reconciliation of the selected consolidated financial data with U.S. GAAP produces no differences from the selected consolidated financial data prepared in accordance with Canadian GAAP except that $30 of development costs, which have been deferred under Canadian GAAP, would have been expensed under U.S. GAAP, and that income per share as computed under Canadian and U.S. principles is as set forth below:

	Canadian GAAP		U.S. GAAP	
	(three months ended)			
	Income per Share – Basic		Income per Share – Basic	
	April 4, 1998	March 29, 1997	April 4, 1998	March 29, 1997
Continuing operations	$(0.15)	$0.11	$(0.16)	$0.11
Discontinued operations	0.16	0.00	0.16	0.00
Income per share	$0.01	$0.11	$0.00	$0.11
	Income per Share – Fully Diluted		Income per Share – Diluted	
	April 4, 1998	March 29, 1997	April 4, 1998	March 29, 1997
Continuing operations	$(0.15)	$0.10	$(0.16)	$0.11
Discontinued operations	0.16	0.00	0.16	0.00
Income per share	$0.01	$0.10	$0.00	$0.11

ii) In the future, additional differences may occur between the Company's application of Canadian GAAP and an application under U.S. GAAP.

(2) Canadian dollar amounts have been translated into U.S. dollars solely for the convenience of the reader at the rate of US $0.6956 per CDN $1.00 which was the exchange rate as of April 29, 1998. These translations are not necessarily representative of the amounts that would have been reported if the Company had historically reported its financial statements in U.S. dollars. In addition, the rates utilized are not necessarily indicative of the rates in effect at any other time.

Revenues. Total revenues include product sales and non-recurring engineering ("NRE") fees. Product sales revenues consist primarily of sales of original equipment manufacturer ("OEM") boards, end-user products, software, software upgrades and Wide Area Augmentation System ("WAAS") receivers. Total revenues for continuing operations in the first quarter 1998 were $4.8 million compared to $5.4 million in the same period in the prior year. Included in first quarter 1998 revenues were sales of $0.7 million in manufacturing components arising from the termination of the Company's subcontract manufacturing arrangement with Harris Canada Inc. These components were sold to the Company's other subcontract manufacturer, Raven Industries. Accordingly, regular product sales and NRE revenues for the first quarter 1998 were $4.1 million, a decrease of 24% over the same period in the prior year. The decline in revenues can be attributed to several factors. Sales to OEM customers were $1.6 million in the first quarter 1998 compared to $2.2 million in the first quarter 1997, a decrease of 30% as a result of price reductions due to competitive pressures and product mix. Survey sales were $1.3 million for the first quarter 1998 and $2.2 million for the first quarter 1997, a decrease of 39%. This decline is almost entirely attributable to fewer sales to Nikon Inc. ("Nikon US") and Carl Zeiss Jena GmbH ("Zeiss"). During the first quarter 1997, Nikon US began purchasing product from the Company in accordance with certain minimum purchase obligations which were fulfilled in the first half of 1997. As previously reported by the Company, sales to Nikon US slowed in the second half of 1997, as software issues were resolved, training of dealers occurred and a rollout of product to dealers took place. Sales to Nikon US in the first quarter 1998 showed some improvement over the fourth quarter 1997. This increase was limited by Nikon US' objective of optimizing its March 1998 year end inventory . Further improvement is not expected until the second quarter 1998. Zeiss experienced a very slow quarter due to a slowdown in its markets, particularly Germany. Sales to Zeiss were lower by 76% in the first quarter 1998 compared to the first quarter 1997. Finally, the Company experienced a decline in revenues of 19% in the first quarter 1998 compared to the first quarter 1997 in Asia/Australia as a result of the delayed effect of currency and other economic problems in the region.

Aviation revenues in the first quarter 1998 were $1.2 million, of which $0.6 million was related to WAAS, compared to $1.0 million in the first quarter 1997, which included no WAAS revenues, an increase of 19%. Due to the majority of the WAAS order being delivered in the fourth quarter 1997, aviation revenues significantly declined from $4.7 million in the fourth quarter 1997 to $1.2 million in the first quarter 1998. The Company currently has no commitments for future sales of its products in any further implementations of the WAAS program. The FAA has recently announced that it has merged phases 2 and 3 of the WAAS program into a new phase E. This will push out potential deliveries of any additional WAAS receivers by the Company into 1999 and onwards.

While survey sales were down from first quarter 1997 to first quarter 1998, they increased from $0.8 million in the fourth quarter 1997 to $1.3 million in the first quarter 1998, an increase of 67%. OEM sales were $2.1 million in the fourth quarter 1997 compared to $1.6 million in the first quarter 1998, a decline of 24%.

The Company anticipated new revenues from several sources that did not materialize in the first quarter 1998. In January 1998, the Company concluded agreements with Nikon Corporation ("Nikon Japan") for distribution of the Company's existing products and development of an OEM product. The second quarter 1998 is seen as a start up quarter for Nikon Japan with first deliveries of the Company's products to the Japanese market expected during this time. A new survey OEM customer delayed the launch of a product line due to development problems he encountered in the first quarter 1998. The Company believes that revenues from this customer will be generated in the second quarter 1998. The Company also expected new revenues from its Canadian dealer, however, due to internal organizational and financial problems encountered by the dealer, this relationship has been terminated. Sales to the Canadian market are currently being handled directly by the Company. The Company has beta tested its new BeeLine product. Sales of BeeLine were expected to commence in the first quarter 1998. As a result of input received from customers some refinements to BeeLine are being completed. The Company expects production deliveries of BeeLine to commence in the second quarter 1998.

NRE fees consist of revenues from development contracts. NRE fees increased from $3,000 in the first quarter of 1997 to $52,000 in the first quarter of 1998. The first quarter 1998 NRE revenues reflect that there are currently no significant development programs being funded by outside parties. The Company does not expect to generate significant NRE fees in the future.

In the first quarter of 1998, the Company derived approximately 32% of its total revenues from the sale of its products to countries outside the United States and Canada.

Gross Profit. Gross profit as a percentage of total revenues decreased from 67% in the first quarter 1997 to 52% in the first quarter 1998. This decrease was due to two factors: the first being the sale of $0.7 million of manufacturing components to the Company's subcontract manufacturer, Raven Industries, at minimal margin, and the second being the impact of relatively fixed test, integration and procurement costs on a lower revenue base. Excluding these two factors, gross profit on regular product shipments in the first quarter 1998 would have been 66% as compared to 67% in the first quarter 1997. The Company believes that the increasing percentage of revenues derived from sales of end user products and competitive price pressure increases in the market will adversely affect gross margins.

Research and Development. Research and development expenses consist primarily of engineering personnel expenses, contracted research and development expenses, facilities and equipment costs. Research and development expenses increased 35% from $1.4 million in the first quarter 1997 to $1.9 million in the first quarter 1998 and increased as a percentage of total revenues from 26% to 40%. The percentage increase is primarily related to an increased number of personnel and decreased revenues. To December 31, 1997, the Company had charged all research and development costs to operations as incurred. In the three month period ended April 4, 1998, the Company deferred development costs of $30,000 related to the development of a certified aviation GPS receiver. The Company believes that significant investments in research and development are required to maintain its technological leadership and compete in its business. The Company currently expects that research and development expenses will increase in absolute dollars in fiscal year 1998 over the prior fiscal year as a result of product development efforts and salary increases for engineering personnel.

Selling and Marketing. Selling and marketing expenses consist primarily of compensation of sales and marketing personnel as well as expenses for advertising and promotion, trade shows, facilities and other expenses related to the sales of the Company's products. Selling and marketing expenses increased 29% from $745,000 in the first quarter of 1997 to $961,000 in the first quarter of 1998 and increased as a percentage of total revenues from 14% to 20%. These increased costs reflect the marketing efforts in end user markets and the associated product launch costs as well as an increased number of personnel. The Company believes that selling and marketing expenses will continue to grow in dollars to support the Company's increased sales and marketing efforts, primarily in connection with sales of end-user products.

General and Administration. General and administration expenses consist primarily of salaries of administrative personnel, corporate overhead and facilities expenses. General and administrative expenses increased by 5% from $827,000 in the first quarter 1997 to $869,000 in the first quarter 1998 and increased as a percentage of total revenues from 15% to 18%. The additional costs are primarily related to the incremental costs of being a public company for a full quarter . The number of general and administrative personnel remained flat from the fourth quarter 1997. The Company expects that general and administration expenses will decline as a percentage of revenue as the Company's revenues increase.

Interest Income. The Company earned a net interest income of $59,000 in the first quarter 1998, compared with $7,000 in the first quarter 1997. The Company's cash deposits not required for operations are invested in short term interest bearing instruments. The Company expects that interest income will increase on the basis of higher interest rates and higher average cash balances.

Other Income. Other income consists primarily of foreign currency exchange income and miscellaneous items. Other income decreased to $12,000 in the first quarter 1998 from $50,000 in the first quarter 1997.

Discontinued Operations. The Company had a gain of $1.2 million in the first quarter 1998 from discontinued operations. The gain arose from the sale of $0.5 million of residual inventory which had been held until a third party initiated production of a new product and the recognition of US$0.5 million of the final installment payment due from the purchaser of the Company's former PCP division.

RECENT DEVELOPMENTS

On April 17, 1998, Canadian Marconi Company ("Canadian Marconi") acquired approximately 58.3% of the outstanding Common Shares of the Company. Canadian Marconi acquired 1,560,000 Common Shares from Deutsche Effekten-und Wechsel-Beteilungsgesellschaft AG ("DEWB") representing all of DEWB's interest in the Company. Canadian Marconi also acquired 2,914,500 Common Shares from Telexel Holding Limited ("Telexel"). Telexel now owns 220,000 Common Shares or 2.9% of the outstanding

Common Shares of the Company. The aggregate number of Common Shares beneficially owned by Canadian Marconi as of May 1, 1998 is 4,694,500 shares, representing 61.2% of the total outstanding Common Shares of the Company (including 220,000 Common Shares owned by Telexel subject to the right of first refusal, call option and pledge described below).

In connection with such purchase, Canadian Marconi entered into a Right of First Refusal and Call Option Agreement (the "Option Agreement") and a Pledge and Escrow Agreement (the "Pledge Agreement"). The Option Agreement provides for (i) a right of first refusal for a period of five years granting Canadian Marconi the right to acquire the 220,000 Common Shares (the "Remaining Shares") of the Company which were not sold by Telexel to Canadian Marconi on the closing date on the same terms and conditions as those offered to a third party and (ii) a call option for a period of ten years granting Canadian Marconi the right to purchase, at the price specified therein, the Remaining Shares if such purchase is necessary to allow Canadian Marconi to continue to hold at least 51% of the outstanding Common Shares in the event of the dilution of its percentage ownership as a result of the exercise of employee and director stock options and Canadian Marconi has been unable to purchase on the open market Common Shares sufficient for this purpose. The Option Agreement further provides that Telexel will not transfer the Remaining Shares during the term of the right of first refusal and call option, except to give effect to the Option Agreement and the Pledge Agreement. The Pledge Agreement provides for the pledge to Canadian Marconi, for a period of two years, of the Remaining Shares as security for Telexel's obligations to indemnify Canadian Marconi pursuant to the Telexel Stock Purchase Agreement. Under the Pledge Agreement, Telexel shall have the right to vote the Remaining Shares, unless there in an Event of Default (as defined therein).

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

TAXES

The Company has not recorded a provision for income taxes due to previously incurred losses, credits and costs. As of April 4, 1998, losses which can be carried forward, investment tax credits, depreciation and research and development costs, may be available to reduce future taxable income. The Company has determined that Canadian Marconi's acquisition of a majority of the Common Shares of the Company would constitute acquisition-of-control of the Company for Canadian income tax purposes. Accordingly, the availability of certain of the Company's Canadian income tax losses, research and developments costs, depreciation deductible for tax purposes, and investment tax credits may be subject to limitation. Further, the net operating loss carryforwards of approximately US $38.0 million available for U.S. tax purposes may also be subject to limitations due to the Canadian Marconi acquisition. The ultimate availability and amount of these losses, credits and costs may be dependent upon the final resolution of future Revenue Canada, Taxation audits.

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended April 4, 1998, cash used in operations was $2.5 million, compared to $3.4 million in the same period of 1997. In the three months ended April 4, 1998, cash used in operations consisted primarily of an increase in non-cash working capital of $3.1 million, attributable to lower payables of $1.8 million and higher receivables, which included the US $500,000 final installment payment due from the purchaser of the Company's former PCP division.

In the first quarter of 1998, cash provided by financing activities was $1.6 million compared to $13.1 million in the prior year. On January 30, 1998, the Company entered into sale/leaseback arrangements in which capital assets, comprised mainly of furniture and computer equipment, were sold to the Hongkong Bank of Canada for proceeds of $1.7 million resulting in a gain of $175,000. At the same time, the Company entered into lease agreements with terms of between 39 and 65 months and with aggregate lease payments of

$1.9 million. The leases are accounted for as capital leases. The balance of the cash provided by financing activities arose from the exercise of stock options.

In February 1997, the Company raised $22.1 million, net of offering costs, from its initial public offering of 2,470,000 Common Shares. The Company repaid all advances and borrowings under its lines of credit with the Hongkong Bank of Canada using proceeds of the public offering and operating cash. The Company intends to use the remaining proceeds for general corporate purposes, including additions to working capital and future acquisitions. The Company has no present plans, agreements or commitments, and is not currently engaged in any negotiations with respect to future acquisitions, however, the Company is considering and reviewing certain opportunities that could result in an acquisition.

In the first quarter of 1998, the Company used $0.9 million cash in investing activities mainly on net expenditures of capital assets. Cash used in investing activities in the first quarter 1997 was $1.9 million.

As of April 4, 1998 the Company had cash and cash equivalents of $8.9 million. The Company has a credit agreement with the Hongkong Bank of Canada whereby the Company can borrow up to $1.0 million for day-to-day operating requirements and US $1.0 million to support the margin requirement related to the purchase of foreign exchange contracts. The lines of credit are payable on demand and are secured by certain of the Company's assets.

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

EFFECTS OF FOREIGN CURRENCY EXCHANGE RATES

Most of the Company's revenues (96% in 1997) are earned in currencies other than the Canadian dollar, principally the US dollar. A substantial portion of the Company's expenses, however, have been and will continue to be incurred in Canadian dollars. Accordingly, fluctuations in exchange rates between the US dollar and other foreign currencies and the Canadian dollar could materially affect the Company's results of operations. The Company uses foreign currency options and forward foreign currency contract to reduce its exposure to fluctuations in the US dollar. The Company has purchased foreign exchange contracts to sell US $2.3 million between April 30, 1998 and June 30, 1998 at rates between $0.7017 per Canadian dollar and 0.7213. In January 1998, the Company purchased foreign currency options to sell US $5.0 million between October 30 and December 31, 1998 at a rate of $0.6993. These contracts represent approximately 90% of anticipated net US dollar operating cash flows during the period. Derivative financial instruments are not used for speculative purposes. There can be no assurances that the Company will be successful in such hedging activities.

LEGAL PROCEEDINGS

In March 1998, the Company received a written notice from the United States Department of the Navy (the "Navy") alleging patent infringement of one of their patents relating to the Company's BeeLine technology. No formal claim has been brought by the Navy. The Company believes that it has valid defenses to this claim should formal proceedings be commenced and has responded to the Navy denying the alleged patent infringement.

In July 1996, the Company and Trimble Navigation Limited ("Trimble") entered into a settlement agreement as a result of actions brought by each party against the other. The settlement agreement includes a provision that Trimble may, at its sole option, terminate the rights granted thereunder, including licenses, should the Company undergo a change in control. The acquisition of a majority of the outstanding Common Shares of the Company by Canadian Marconi constitutes a change in control, for purposes of the settlement agreement. However, the Company believes that Trimble will not terminate these licenses and rights.

OTHER RISK FACTORS

NovAtel operates in a rapidly changing environment that involves a number of risks, some of which are beyond the Company's control. A discussion of some of these risks and the possible impact of these factors on future results from operations can be found in the Risk Factors section part of Form 20-F for the fiscal year ended December 31, 1997 filed with the Securities and Exchange Commission.