



NOVATEL INC.

Quarterly Report

For the Three Months Ended March 31, 2000

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The dollar amounts presented in this Quarterly Report are in Canadian currency unless otherwise noted (CDN \$1 = US \$0.6765 on May 1, 2000), and are presented in accordance with accounting principles generally accepted in Canada. The material differences 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, are disclosed in Note 20 of Notes to Consolidated Financial Statements for the fiscal year ended December 31, 1999 filed as part of Form 20-F with the Securities and Exchange Commission and in Note 11 of Notes to Consolidated Financial Statements contained in this report.

Certain statements in this Annual Report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or developments in the Company's industry, to differ materially from the anticipated results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, operating results of affiliates and subsidiaries, including Point, Inc., 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 Management's Discussion and Analysis of Financial Condition and Results of Operations herein and in the Company's other filings with the United States Securities and Exchange Commission.

NOVATEL INC.
CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands)

| | March 31, 2000 | December 31, 1999 |
|--|---------------------------|------------------------------|
| ASSETS | | |
| (Note 1) | | |
| Current assets: | | |
| Cash and short term investments | \$ 7,088 | \$ 8,280 |
| Accounts receivable | 5,169 | 6,110 |
| Related party receivables (Note 9)..... | 1,435 | 1,340 |
| Related party note receivable (Note 9)..... | 436 | --- |
| Inventories (Note 3)..... | 4,671 | 3,684 |
| Prepaid expenses and deposits | <u>373</u> | <u>292</u> |
| Total current assets | 19,172 | 19,706 |
| Capital assets (Note 7)..... | 4,298 | 4,648 |
| Intangible assets | 2,979 | 3,047 |
| Deferred development costs (Note 4)..... | <u>2,024</u> | <u>1,803</u> |
| Total assets | <u>\$28,473</u> | <u>\$ 29,204</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| (Note 1) | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$4,334 | \$4,851 |
| Related party payables (Note 9)..... | 219 | 278 |
| Customer deposits | 34 | --- |
| Note payable..... | 436 | --- |
| Provision for future warranty costs | 243 | 246 |
| Deferred gain on sale/leaseback of capital assets – current portion (Note 7) | 153 | 153 |
| Capital lease obligations – current portion | <u>352</u> | <u>374</u> |
| Total current liabilities | 5,771 | 5,902 |
| Deferred gain on sale/leaseback of capital assets – long term portion (Note 7)..... | 897 | 936 |
| Capital lease obligations – long term portion | <u>480</u> | <u>549</u> |
| Total liabilities..... | <u>7,148</u> | <u>7,387</u> |
| Non-controlling interest..... | 62 | 65 |
| Shareholders' equity: | | |
| Capital stock (Note 5) | 35,607 | 35,602 |
| Deficit | <u>(14,344)</u> | <u>(13,850)</u> |
| Total shareholders' equity..... | <u>21,263</u> | <u>21,752</u> |
| Total liabilities and shareholders' equity..... | <u>\$28,473</u> | <u>\$ 29,204</u> |

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

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

| | Three Months Ended | |
|--|---------------------------|---------------------------|
| | March 31, 2000 | March 31, 1999 |
| Revenues | \$ 6,293 | \$ 5,270 |
| Cost of sales..... | <u>3,110</u> | <u>2,579</u> |
| Gross profit..... | <u>3,183</u> | <u>2,691</u> |
| Operating expenses: | | |
| Research and development..... | 1,932 | 1,885 |
| Selling and marketing..... | 994 | 973 |
| General and administration..... | <u>900</u> | <u>616</u> |
| Total operating expenses | <u>3,826</u> | <u>3,474</u> |
| Operating loss..... | (643) | (783) |
| Interest income | 76 | 94 |
| Other income (expense) | <u>42</u> | <u>(60)</u> |
| Loss from continuing operations before income taxes..... | (525) | (749) |
| Provision for (recovery of) income taxes..... | <u>(18)</u> | <u>21</u> |
| Net loss from continuing operations..... | (507) | (770) |
| Net income from discontinued operations..... | <u>13</u> | <u>---</u> |
| Net loss..... | <u>\$ (494)</u> | <u>\$ (770)</u> |
| Net income (loss) per share (basic) (Note 11) | | |
| Continuing operations..... | \$ (0.07) | \$ (0.10) |
| Discontinued operations..... | <u>0.01</u> | <u>---</u> |
| Net loss per share..... | <u>\$ (0.06)</u> | <u>\$ (0.10)</u> |
| Weighted average shares outstanding (basic) (Note 5) | <u>7,674</u> | <u>7,674</u> |
| Net income (loss) per share (fully diluted) (Note 11) | | |
| Continuing operations..... | \$ (0.07) | \$ (0.10) |
| Discontinued operations..... | <u>0.01</u> | <u>---</u> |
| Net loss per share..... | <u>\$ (0.06)</u> | <u>\$ (0.10)</u> |
| Weighted average shares outstanding (fully diluted) (Note 5) | <u>8,708</u> | <u>8,481</u> |

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

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

| | <u>Common Shares</u> | | <u>Deficit</u> | <u>Total</u> |
|--------------------------------|----------------------|------------------|--------------------|----------------------|
| | <u>Number</u> | <u>Amount</u> | | <u>Shareholders'</u> |
| Balance December 31, 1999..... | 7,674 | \$ 35,602 | \$ (13,850) | \$ 21,752 |
| Common shares issued..... | --- | 5 | --- | 5 |
| Net loss | --- | --- | (494) | (494) |
| Balance March 31, 2000..... | <u>7,674</u> | <u>\$ 35,607</u> | <u>\$ (14,344)</u> | <u>\$21,263</u> |

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

| | Three Months Ended | |
|---|---------------------------|---------------------------|
| | March 31, 2000 | March 31, 1999 |
| Operating activities: | | |
| Net loss from continuing operations..... | \$ (507) | \$ (770) |
| Net income from discontinued operations | 13 | --- |
| Charges and credits to operations not involving an outlay of cash: | | |
| Amortization..... | 688 | 678 |
| (Gain) loss on disposal of capital assets | (29) | 1 |
| Amortization of deferred gain on sale/leaseback of capital assets..... | (39) | (28) |
| Non-controlling interest..... | (3) | --- |
| Net change in non-cash working capital related to operations (Note 6) ... | <u>(344)</u> | <u>566</u> |
| Cash (used in) provided by operating activities | <u>(221)</u> | <u>447</u> |
| Financing activities: | | |
| Issuance of shares (Note 5)..... | 5 | --- |
| Decrease in capital lease obligations | <u>(91)</u> | <u>(85)</u> |
| Cash used in financing activities | <u>(86)</u> | <u>(85)</u> |
| (Decrease) increase in cash before investing activities | <u>(307)</u> | <u>362</u> |
| Investing activities: | | |
| Purchase of capital and intangible assets | (296) | (232) |
| Proceeds from disposal of capital assets..... | 55 | 6,932 |
| Settlement on divestiture proceeds..... | (423) | --- |
| Deferred development costs..... | <u>(221)</u> | <u>(274)</u> |
| Cash (used in) provided by investing activities | <u>(885)</u> | <u>6,426</u> |
| (Decrease) increase in cash and short term investments | (1,192) | 6,788 |
| Cash and short term investments, beginning of period | <u>8,280</u> | <u>4,486</u> |
| Cash and short term investments, end of period..... | <u>\$ 7,088</u> | <u>\$ 11,274</u> |
| Cash and short term investments consisted of: | | |
| Cash and cash equivalents..... | \$ 7,088 | \$ 2,524 |
| Short term investments (original maturities of greater than 90 days)..... | <u>---</u> | <u>8,750</u> |
| | <u>\$ 7,088</u> | <u>\$ 11,274</u> |
| Interest paid related to bank advances and capital lease obligations..... | <u>\$ 15</u> | <u>\$ 21</u> |
| Income taxes paid..... | <u>\$ ---</u> | <u>\$ ---</u> |

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 March 31, 2000 and March 31, 1999 presented in this Quarterly Report are prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) or Canadian principles, 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, 1999 filed on Form 20-F with the Securities and Exchange Commission.

Note 2 Adoption of New Accounting Standards**a) Income Taxes**

Effective January 1, 2000, the Company adopted the liability method of accounting for income taxes as outlined in the provisions of Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants.

Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

b) Post Employment Benefits

Effective January 1, 2000, the Company adopted the provisions of Section 3461 of the Handbook of the Canadian Institute of Chartered Accountants, with respect to employee future benefits.

The Company currently provides certain life insurance and extended health care benefits for employees as they retire. Substantially, all of the health care benefits are self-insured, while life insurance benefits are provided through insurance contract. Commencing January 1, 2000, the Company has recognized the cost of providing such benefits on an accrual basis.

Note 3 Inventories

| | <u>March 31, 2000</u> | <u>December 31, 1999</u> |
|-----------------------------------|-----------------------|--------------------------|
| Raw materials and components..... | \$ 3,273 | \$ 2,685 |
| Work-in-progress..... | 10 | 68 |
| Finished goods..... | <u>1,388</u> | <u>931</u> |
| | <u>\$ 4,671</u> | <u>\$ 3,684</u> |

Note 4 Deferred Development Costs

In the three month period ended March 31, 2000, the Company deferred \$221 of development costs related to the development of a certified aviation GPS receiver (\$274 in the three month period ending March 31, 1999). The Company has not commenced the amortization of these deferred costs.

Note 5 Capital Stock

The Company has authorized an unlimited number of common shares, of which 7,674 are outstanding as of March 31, 2000 (7,674 as of December 31, 1999 and 7,674 as of March 31, 1999).

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 2000 and 1999.

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 ten years from the date of the grant. As of March 31, 2000, 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 4 had been exercised.

A summary of the status of the Company's stock option plans as of March 31, 2000, and changes during the three month period ending on that date is presented below:

| Options | Number of Shares | Weighted Average Exercise Price |
|---|---------------------|---------------------------------------|
| Outstanding at beginning of year..... | 938 | US \$6.37 |
| Granted..... | 104 | 3.06 |
| Exercised..... | — | — |
| Forfeited..... | (8) | 4.93 |
| Outstanding at end of year..... | <u>1,034</u> | 6.05 |
| Options exercisable at March 31, 2000 | <u>607</u> | 7.11 |

The following table summarizes information about the stock option plans as of March 31, 2000:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|-----------------------------|-----------------------|---|------------------------------------|-----------------------|------------------------------------|
| | Number Outstanding | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| US \$7.50 to \$11.25 | 745 | 7.3 years | US \$7.63 | 561 | US \$7.59 |
| \$3.06 | 103 | 9.8 | 3.06 | 0 | 3.06 |
| \$1.38 | <u>186</u> | 9.0 | 1.38 | <u>46</u> | 1.38 |
| \$1.38 to \$11.25 | <u>1,034</u> | 7.8 | 6.05 | <u>607</u> | 7.11 |

Note 6 Consolidated Statements of Cash Flows

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

| | Three Months Ended | |
|---|-----------------------|-----------------------|
| | <u>March 31, 2000</u> | <u>March 31, 1999</u> |
| Decrease in accounts receivables and related party receivables.. | \$ 846 | \$ 1,280 |
| (Increase) decrease in inventories | (987) | 357 |
| Increase in prepaid expenses and deposits | (81) | (121) |
| Decrease in accounts payable, accrued liabilities and related party advances..... | (140) | (980) |
| Increase in customer deposits | 34 | --- |
| (Decrease) increase in provision for future warranty costs | <u>(3)</u> | <u>30</u> |
| Net change in non-cash working capital | (331) | 566 |
| Non-cash working capital items related to divestitures..... | <u>(13)</u> | <u>---</u> |
| Net change in non-cash working capital related to operations... | <u>\$ (344)</u> | <u>\$ 566</u> |

Note 7 Commitments and Contingencies

a) As at March 31, 2000, intangible assets included \$871 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 BAE Systems Canada 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 March 31, 2000.

b) 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.

c) 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, was sold for net proceeds of \$6,922 resulting in a gain of \$1,110. At the same time, the Company entered into a lease agreement with a minimum 10-year term and aggregate lease payments of \$7,573. The gain on the sale of the Calgary facility has been deferred and is being amortized over the term of the lease.

Note 8 Income Taxes

As described in Note 2, effective January 1, 2000, the Company changed its policy for accounting for income taxes by adopting the provisions of Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants. The provisions were applied retroactively without restatement of prior period financial statements and had no impact on the Company's financial position and reported results of operations for any prior periods.

Temporary differences that give rise to future income tax assets and liabilities as of January 1, 2000 are as follows:

| | <u>January 1, 2000</u> |
|---|------------------------|
| Future income tax assets | |
| Loss carryforwards..... | \$ 14,903 |
| Scientific research deductions and credits..... | 62,983 |
| Reserves not currently deductible for tax..... | 896 |
| Capital assets | 71 |
| Deferred gain on sale of building | 450 |
| Share issue costs | <u>218</u> |
| | 79,521 |
| Future income tax liabilities | |
| Intangible assets | (1,192) |
| Deferred development costs | (804) |
| Leased assets | <u>(37)</u> |
| | (2,033) |
| Valuation allowance..... | <u>(77,488)</u> |
| | <u>\$ —</u> |

Note 9 Related Party Transactions

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

| | <u>Three Months Ended</u> | |
|---|---------------------------|-----------------------|
| | <u>March 31, 2000</u> | <u>March 31, 1999</u> |
| Product sales to Point, Inc. | \$ 355 | \$ — |
| Services provided to Point, Inc. | 64 | — |
| Royalty income from Point, Inc. | 29 | — |
| Inventory purchases from BAE Systems Canada Inc. | — | 23 |
| Contracted development costs charged by BAE Systems Canada Inc... | 89 | — |
| Other expenses..... | 6 | 2 |

Significant related party receivables at March 31, 2000 consist of \$1,435 from Point, Inc. (\$1,308 at December 31, 1999). Related party payables at March 31, 2000 were comprised of amounts due to BAE Systems Canada Inc. of \$215 (\$151 at December 31, 1999) and \$4 to Point, Inc. (\$127 at December 31, 1999).

The related party note receivable of \$436 relates to the Company's share of the borrowing by Point, Inc. of US\$1,200 on March 15, 2000 from NovAtel and Sokkia Co., Ltd. The loan is repayable on December 31, 2000, is secured by the assets of Point, Inc. and bears interest at the U.S. prime rate.

Note 10 Investment in Point, Inc.

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

| | <u>March 31, 2000</u> | <u>December 31, 1999</u> |
|-----------------------------|---------------------------|------------------------------|
| Current assets | \$ 2,506 | \$ 2,577 |
| Non-current assets | <u>73</u> | <u>106</u> |
| Total assets | <u>\$ 2,579</u> | <u>\$ 2,683</u> |
| Current liabilities | \$ 1,251 | \$ 1,220 |
| Long-term liabilities | <u>—</u> | <u>—</u> |
| Total liabilities | <u>\$ 1,251</u> | <u>\$ 1,220</u> |
| | <u>Three Months Ended</u> | |
| | <u>March 31, 2000</u> | <u>March 31, 1999</u> |
| Revenue | \$ 1,115 | \$ — |
| Expenses..... | <u>1,802</u> | <u>—</u> |
| Net income | <u>\$ (687)</u> | <u>\$ —</u> |
| Cash provided by (used in) | | |
| Operating activities | \$ (1,074) | \$ — |
| Investing activities..... | \$ — | \$ — |
| Financing activities | \$ 436 | \$ — |

Included in current liabilities is the Company's share of a note payable by Point, Inc. to Sokkia Co., Ltd., in the amount of \$436. The note is repayable on December 31, 2000, is secured by the assets of Point, Inc. and bears interest at the U.S. prime rate.

Note 11 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 three month period ended March 31, 2000, the Company deferred \$221 of development costs (\$274 in the three month period ending March 31, 1999) 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 loss of \$19 in the three month period ending March 31, 2000 and an additional income of \$189 in the three month period ending March 31, 1999 under US 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) *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, it would not have reported any significant items within comprehensive income for the three month periods ended March 31, 2000 and 1999.

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:

| | <u>Three Month Period Ended</u> | |
|--|---|---|
| | <u>March 31,</u> <u>2000</u> | <u>March 31,</u> <u>1999</u> |
| Net income (loss) from continuing operations | | |
| – Canadian GAAP | \$ (507) | \$ (770) |
| Adjustments to U.S. GAAP | | |
| Deferred development costs | (221) | (274) |
| Fair value of financial instruments | <u>(19)</u> | <u>189</u> |
| Net loss from continuing operations – U.S. GAAP | <u>\$ (747)</u> | <u>\$ (855)</u> |
| | | |
| Net income from discontinued operations – Canadian GAAP..... | \$ 13 | \$ --- |
| Adjustments to U.S. GAAP..... | <u>---</u> | <u>---</u> |
| Net income from discontinued operations – U.S. GAAP..... | <u>\$ 13</u> | <u>\$ ---</u> |
| | | |
| Net income (loss) – U.S. GAAP | <u>\$ (734)</u> | <u>\$ (855)</u> |

| | <u>March 31,</u> <u>2000</u> | <u>December 31,</u> <u>1999</u> |
|---|---------------------------------|------------------------------------|
| Total Assets | | |
| Canadian GAAP | \$28,473 | \$ 29,204 |
| Adjustments to U.S. GAAP | | |
| Deferred development costs | (2,024) | (1,803) |
| Fair value of financial instruments | <u>2</u> | <u>21</u> |
| U.S. GAAP | <u>\$26,451</u> | <u>\$ 27,422</u> |
| Total Shareholders' Equity | | |
| Canadian GAAP | \$21,263 | \$ 21,752 |
| Adjustments to U.S. GAAP | | |
| Deferred development costs | (2,024) | (1,803) |
| Fair value of financial instruments | <u>2</u> | <u>21</u> |
| U.S. GAAP | <u>\$19,241</u> | <u>\$ 19,970</u> |

e) *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:

| Three Months Ended | <u>Canadian GAAP</u> | | <u>U.S. GAAP</u> | |
|-----------------------------|--|----------------------|--|----------------------|
| | Net Income (Loss) per Share - Basic | | Net Income (Loss) per Share - Basic | |
| | <u>Mar. 31, 2000</u> | <u>Mar. 31, 1999</u> | <u>Mar. 31, 2000</u> | <u>Mar. 31, 1999</u> |
| Continuing operations | \$(0.07) | \$(0.10) | \$(0.10) | \$(0.11) |
| Discontinued operations | <u>0.01</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |
| Net income (loss) per share | <u>\$(0.06)</u> | <u>\$(0.10)</u> | <u>\$(0.10)</u> | <u>\$(0.11)</u> |
| | Net Income (Loss) per Share - Fully Diluted | | Net Income (Loss) per Share - Diluted | |
| | <u>Mar. 31, 2000</u> | <u>Mar. 31, 1999</u> | <u>Mar. 31, 2000</u> | <u>Mar. 31, 1999</u> |
| Continuing operations | \$(0.07) | \$(0.10) | \$(0.10) | \$(0.11) |
| Discontinued operations | <u>0.01</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |
| Net income (loss) per share | <u>\$(0.06)</u> | <u>\$(0.10)</u> | <u>\$(0.10)</u> | <u>\$(0.11)</u> |

f) *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.

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 | | |
|---|---------------------------|---------------------------|---------------------|
| | <u>March 31, 2000</u> | <u>March 31, 1999</u> | <u>% Change</u> |
| Revenues..... | \$ 6,293 | \$ 5,270 | 19% |
| Cost of sales..... | <u>\$ 3,110</u> | <u>\$ 2,579</u> | <u>21%</u> |
| Gross profit..... | <u>3,183</u> | <u>2,691</u> | <u>18%</u> |
| Operating expenses: | | | |
| Research and development..... | 1,932 | 1,885 | 2% |
| Selling and marketing..... | 994 | 973 | 2% |
| General and administration..... | <u>900</u> | <u>616</u> | <u>46%</u> |
| Total operating expenses..... | <u>3,826</u> | <u>3,474</u> | <u>10%</u> |
| Operating loss..... | (643) | (783) | (18%) |
| Interest income..... | 76 | 94 | (19%) |
| Other income (expense)..... | <u>42</u> | <u>(60)</u> | <u>N/A</u> |
| Loss from continuing operations before income taxes.... | (525) | (749) | (30%) |
| Provision for (recovery of) income taxes..... | <u>(18)</u> | <u>21</u> | <u>N/A</u> |
| Net loss from continuing operations..... | (507) | (770) | (34%) |
| Net income from discontinued operations..... | <u>13</u> | <u>---</u> | <u>100%</u> |
| Net loss..... | <u>\$ (494)</u> | <u>\$ (770)</u> | <u>(36%)</u> |
| Net income (loss) per share (basic) | | | |
| Continuing operations..... | \$ (0.07) | \$ (0.10) | |
| Discontinued operations..... | <u>0.01</u> | <u>---</u> | |
| Net loss per share..... | <u>\$ (0.06)</u> | <u>\$ (0.10)</u> | |
| Weighted average shares outstanding (basic)..... | <u>7,674</u> | <u>7,674</u> | |
| Net income (loss) per share (fully diluted) | | | |
| Continuing operations..... | \$ (0.07) | \$ (0.10) | |
| Discontinued operations..... | <u>0.01</u> | <u>---</u> | |
| Net loss per share..... | <u>\$ (0.06)</u> | <u>\$ (0.10)</u> | |
| Weighted average shares outstanding (fully diluted).... | <u>8,708</u> | <u>8,481</u> | |

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

| | Three Months Ended | | |
|---|--------------------|-------------------|--------------|
| | March 31, 2000 | March 31, 1999 | % Change |
| Revenues..... | \$ 4,257 | \$ 3,565 | 19% |
| Cost of sales..... | <u>2,104</u> | <u>1,745</u> | <u>21%</u> |
| Gross profit..... | <u>2,153</u> | <u>1,820</u> | <u>18%</u> |
| Operating expenses: | | | |
| Research and development..... | 1,307 | 1,275 | 2% |
| Selling and marketing..... | 672 | 658 | 2% |
| General and administration..... | <u>609</u> | <u>417</u> | <u>46%</u> |
| Total operating expenses | <u>2,588</u> | <u>2,350</u> | <u>10%</u> |
| Operating loss..... | (435) | (530) | (18%) |
| Interest income | 51 | 63 | (19%) |
| Other income (expense) | <u>29</u> | <u>(40)</u> | <u>N/A</u> |
| Loss from continuing operations before income taxes.... | (355) | (507) | (30%) |
| Provision for (recovery of) income taxes..... | <u>(12)</u> | <u>14</u> | <u>N/A</u> |
| Net loss from continuing operations..... | (343) | (521) | (34%) |
| Net income from discontinued operations | <u>9</u> | <u>---</u> | <u>100%</u> |
| Net loss | <u>\$ (334)</u> | <u>\$ (521)</u> | <u>(36%)</u> |
| Net income (loss) per share (basic) | | | |
| Continuing operations..... | \$ (0.05) | \$ (0.07) | |
| Discontinued operations..... | <u>0.01</u> | <u>---</u> | |
| Net loss per share..... | <u>\$ (0.04)</u> | <u>\$ (0.07)</u> | |
| Weighted average shares outstanding (basic)..... | <u>7,674</u> | <u>7,674</u> | |
| Net income (loss) per share (fully diluted) | | | |
| Continuing operations..... | \$ (0.05) | \$ (0.07) | |
| Discontinued operations..... | <u>0.01</u> | <u>---</u> | |
| Net loss per share..... | <u>\$ (0.04)</u> | <u>\$ (0.07)</u> | |
| Weighted average shares outstanding (fully diluted).... | <u>8,708</u> | <u>8,481</u> | |

| | <u>December 31, 1999</u> | <u>March 31, 2000</u> | <u>US \$ Equivalent March 31, 2000(2)</u> |
|---|------------------------------|---------------------------|---|
| Balance Sheet Data (1): (Canadian \$, thousands) | | | |
| Working capital | \$ 13,804 | \$ 13,401 | \$ 9,066 |
| Total assets | 29,204 | 28,473 | 19,262 |
| Long-term liabilities | 1,485 | 1,377 | 932 |
| Total shareholders' equity | 21,752 | 21,263 | 14,384 |

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

a) *Deferred Development Costs*

In the three month period ended March 31, 2000, the Company deferred \$221 of development costs (\$274 in the three month period ending March 31, 1999) 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 loss of \$19 in the three month period ending March 31, 2000 and an additional income of \$189 in the three month period ending March 31, 1999 under US 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) *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, it would not have reported any significant items within comprehensive income for the three month periods ended March 31, 2000 and 1999.

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:

| | <u>Three Month Period Ended</u> | |
|--|---|--|
| | <u>March 31,</u> <u>2000</u> | <u>March 31,</u> <u>1999</u> |
| Net income (loss) from continuing operations | | |
| – Canadian GAAP | \$ (507) | \$ (770) |
| Adjustments to U.S. GAAP | | |
| Deferred development costs | (221) | (274) |
| Fair value of financial instruments | <u>(19)</u> | <u>189</u> |
| Net loss from continuing operations – U.S. GAAP | <u>\$ (747)</u> | <u>\$ (855)</u> |
| | | |
| Net income from discontinued operations – Canadian GAAP..... | \$ 13 | \$ --- |
| Adjustments to U.S. GAAP..... | <u>---</u> | <u>---</u> |
| Net income from discontinued operations – U.S. GAAP..... | <u>\$ 13</u> | <u>\$ ---</u> |
| | | |
| Net income (loss) – U.S. GAAP | <u>\$ (734)</u> | <u>\$ (855)</u> |
| | | |
| | <u>March 31,</u> <u>2000</u> | <u>December 31,</u> <u>1999</u> |
| Total Assets | | |
| Canadian GAAP..... | \$28,473 | \$ 29,204 |
| Adjustments to U.S. GAAP | | |
| Deferred development costs | (2,024) | (1,803) |
| Fair value of financial instruments | <u>2</u> | <u>21</u> |
| U.S. GAAP | <u>\$26,451</u> | <u>\$ 27,422</u> |
| | | |
| Total Shareholders' Equity | | |
| Canadian GAAP..... | \$21,263 | \$ 21,752 |
| Adjustments to U.S. GAAP | | |
| Deferred development costs..... | (2,024) | (1,803) |
| Fair value of financial instruments | <u>2</u> | <u>21</u> |
| U.S. GAAP | <u>\$19,241</u> | <u>\$ 19,970</u> |

e) 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:

| Three Months Ended | Canadian GAAP | | U.S. GAAP | |
|-----------------------------|--|------------------|--|------------------|
| | Net Income (Loss) per Share - Basic | | Net Income (Loss) per Share - Basic | |
| | Mar. 31, 2000 | Mar. 31, 1999 | Mar. 31, 2000 | Mar. 31, 1999 |
| Continuing operations | \$ (0.07) | \$ (0.10) | \$ (0.10) | \$ (0.11) |
| Discontinued operations | <u>0.01</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |
| Net income (loss) per share | <u>\$ (0.06)</u> | <u>\$ (0.10)</u> | <u>\$ (0.10)</u> | <u>\$ (0.11)</u> |
| | Net Income (Loss) per Share - Fully Diluted | | Net Income (Loss) per Share - Diluted | |
| | Mar. 31, 2000 | Mar. 31, 1999 | Mar. 31, 2000 | Mar. 31, 1999 |
| Continuing operations | \$ (0.07) | \$ (0.10) | \$ (0.10) | \$ (0.11) |
| Discontinued operations | <u>0.01</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |
| Net income (loss) per share | <u>\$ (0.06)</u> | <u>\$ (0.10)</u> | <u>\$ (0.10)</u> | <u>\$ (0.11)</u> |

f) *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.

(2) Canadian dollar amounts have been translated into U.S. dollars solely for the convenience of the reader at the rate of US \$0.6765 per CDN \$1.00 which was the exchange rate as of May 1, 2000. 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. Revenues include product sales, non-recurring engineering ("NRE") fees and consolidated revenues of subsidiaries and Point. Product sales revenues consist primarily of sales of original equipment manufacturer ("OEM") boards, software, software upgrades and Wide Area Augmentation System ("WAAS") type receivers.

In July 1999, the Company commenced a transition to a new GPS surveying partner, Sokkia Co., Ltd. ("Sokkia"). 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. ("Point"). The ownership of Point is 51% Sokkia and 49% the Company. The Company's Customer Products Group, which was responsible for the development of survey products, was transferred to Point effective August 1, 1999. Sokkia transferred in the Sokkia Technology, Inc. organization which had been conducting advanced measurement solutions research and development for Sokkia. Point will provide Sokkia's global marketing organization with advanced measurement solutions

for the fields of surveying, mapping, geographical information systems (“GIS”), construction and construction machine control. Sokkia’s distribution system includes more than 25 subsidiaries and additional representatives around the world, each having its own dealer network. 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. Effective May 5, 2000, the Company’s President, Doug Reid, assumed the role of interim President of Point in addition to his responsibilities with the Company.

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 one of the Company’s subcontract manufacturers, Raven Industries Inc., are currently reported as Other Revenue. The Company anticipates discontinuing reporting sales of components to Raven Industries Inc. as revenue once a new manufacturing contract is signed. The Company anticipates that a new manufacturing contract with Raven Industries Inc. will be concluded prior to the end of the second quarter.

On May 1, 2000, President Clinton announced that the United States would immediately stop intentional degradation, also known as selective availability, of the GPS signal available to the public. This means that typical accuracies of 100 meters with the degradation are now significantly improved to the level of a few meters without differential aiding but with the same equipment. The Company anticipates this action will allow new GPS applications to emerge.

Total revenues increased 19.4% from \$5.3 million in the first quarter 1999 to \$6.3 million in the first quarter 2000.

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 \$2.0 million in the first quarter 2000 compared to \$1.8 million in the first quarter 1999, an increase of 6%. The Nikon US distribution agreement expired September 30, 1999, both parties electing not to renew the agreement. The Nikon Japan agreements expired December 31, 1999, the Company electing not to renew the agreements. The Company sold product to Point, predominantly in the fourth quarter of 1999, and benefited from sales by Point since the third quarter 1999. Net revenues contributed from the Point/Sokkia relationship were a majority of the Geomatics revenue in the first quarter 2000. Newly developed GPS survey products were announced by Point in October 1999 and are now being delivered through the Sokkia distribution channels. The Company has also earned revenue, primarily in the third and fourth quarters 1999, 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 that links the City of Puerto Limón and Sixaola City 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 \$743,000 for the first quarter 2000 compared to \$772,000 for the first quarter 1999, a decrease of 4%. The first quarter 2000 revenues are primarily related to development efforts for the European Geostationary Overlay System (“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 developed new GPS receiver processing for Satellite Failure Detection and began software qualification. In addition, in 1999 the Company delivered a number of receivers for use in developmental activities. The EGNOS receivers have the same hardware configuration as the Company's WAAS receivers, with added software qualification and functionality. Development work under the initial contract was completed during the first quarter 2000. 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 that the Company will receive commitments for future participation in the EGNOS program. Sales in this sector have also included 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. There were no sales of WAAS receivers to the WAAS and MSAS programs in the first quarter 2000. 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 that augmented GPS can satisfy performance requirements to be the only navigation system installed in an aircraft and the only FAA provided navigation system 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 that it is 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 that the Company will receive commitments for future participation in the WAAS, MSAS or LAAS programs.

Special Apps

The Special Apps sector is made up of marine, agriculture, robotics, construction/grading, scientific, dealers (other than those that can be identified with a particular market sector) and miscellaneous markets. Special Apps revenues were \$3.4 million in the first quarter 2000 compared to \$2.4 million in the first quarter 1999, an increase of 41%. The higher revenue in the Special Apps segment is attributable to a number of factors including increased demand from dealers and stronger shipments to customers involved in agricultural and scientific applications.

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 that these products will result in increased revenues in any of the market sectors.

Other revenue related to the sale of manufacturing components was \$189,000 for the first quarter 2000 compared to \$237,000 in the first quarter 1999.

In the first quarter 2000, the Company derived approximately 47% of its total revenues from the sale of its products to countries outside the United States and Canada, compared to 50% in the first quarter 1999. Revenues from international sales increased from \$2.7 million in the first quarter 1999 to \$3.0 million in the first quarter 2000.

Gross Profit. Gross profit as a percentage of total revenues remained constant at 51% for the first quarter 1999 and the first quarter 2000. Lower gross margins at Point and from NRE fees were offset by higher gross margins for software upgrades and reduced provisions for obsolete inventory. Point earns lower

gross margins than the Company due to the purchase of third party accessories that provide lower gross margins and the fact that Point is closer to the end user in the distribution chain.

Research and development. Research and development expenses consist primarily of engineering personnel expenses, contracted research and development expenses, amortization of purchased technology, equipment costs and facility and computer support costs. Research and development expenses increased 2.5% from just under \$1.9 million in the first quarter 1999 to slightly more than \$1.9 million in the first quarter 2000 and decreased as a percentage of total revenues from 35.8% in the first quarter 1999 to 30.7% in the first quarter 2000. The increase in research and development expenses for the first quarter 2000 is primarily attributable to the consolidated proportionate share of Point's research and development expenses, approximately 31% of the Company's consolidated research and development expenses. In the first quarter 2000, the Company deferred development costs of \$221,000 related to the development of a certified aviation GPS receiver, compared to \$274,000 in the first quarter 1999. The Company believes that significant investments in research and development are required to maintain its technological leadership and 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 increased 2.2% from \$973,000 in the first quarter 1999 to \$994,000 in the first quarter 2000 and decreased as a percentage of total revenues from 18.5% in the first quarter 1999 to 15.8% in the first quarter 2000. The increase in selling and marketing expenses is primarily the result of the consolidated proportionate share of Point's selling and marketing expenses included in the Company's selling and marketing expenses, approximately 19% of the Company's consolidated selling and marketing expenses for the first quarter 2000, partially offset by lower personnel costs as a result of the restructuring and staff reductions in November 1998 and July 1999 and reduced advertising and product promotions.

General and administration. General and administration expenses consist primarily of salaries of administrative personnel, corporate overhead and facilities expenses. General and administration expenses increased by 46.1% from \$616,000 in the first quarter 1999 to \$900,000 in the first quarter 2000 and increased as a percentage of total revenues from 11.7% in the first quarter 1999 to 14.3% in the first quarter 2000. The increase in general and administration expenses is due in part to the consolidated proportionate share of Point's general and administration expenses being included in the Company's general and administration expenses, approximately 26% of the Company's consolidated general and administrative expenses in the first quarter 2000.

Interest income. The Company earned net interest income of \$76,000 in the first quarter 2000 compared with \$94,000 in the first quarter 1999. The Company's cash deposits not required for operations are invested in short term interest bearing instruments.

Other income(expense). Other income (expense) consists primarily of foreign currency income (loss) and miscellaneous items. Other income was \$42,000 in the first quarter 2000 compared with other expense of \$60,000 in the first quarter 1999.

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, decreased from \$21,000 in the first quarter 1999 to a recovery of \$18,000 in the first quarter 2000. The change is primarily related to a tax loss carryback at Point.

Discontinued operations. The Company recorded net income from discontinued operations of \$13,000 in the first quarter 2000 primarily from the determination of the final purchase price of a former division .

RECENT DEVELOPMENTS

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 March 31, 2000, losses, investment tax credits, depreciation and research and development costs are available to reduce future taxable income in Canada. The Company has determined that the acquisition of a majority of the Common Shares of the Company by Canadian Marconi in 1998 and BAE SYSTEMS' indirect acquisition of the majority of the common shares of BAE Systems Canada Inc. 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.

Similarly, the Company has not recorded a provision for income tax in the United States related to Point due to the net operating losses recorded by Point since it began operations in 1999.

LIQUIDITY AND CAPITAL RESOURCES

In the three months ended March 31, 2000, cash used in operations was \$221,000, compared to cash provided by operations of \$447,000 in the same period of 1999. Cash used in operations in the three month period ended March 31, 2000 consisted primarily of a \$507,000 loss from continuing operations and higher working capital, which increased primarily because of last time buys of certain inventory components being phased out of production by certain of the Company's suppliers.

In the three months ended March 31, 2000, cash used in financing activities was \$86,000, related to a decrease in capital lease obligations. In the comparable period in 1999, \$85,000 cash was used by financing activities, also related to a decrease in capital lease obligations.

In the three months ended March 31, 2000, cash used in investing activities was \$885,000, primarily related to the payment of \$423,000 to Harris Canada, Inc. related to the settlement of the purchase price of the Company's former wireless access products divested in 1995, deferred development expenditures of \$221,000 related to the development of a certified aviation GPS receiver and other capital expenditures of \$296,000. In the first quarter of 1999, cash provided by investing activities was \$6,426, primarily as a result of the sale/leaseback of the Company's Calgary facility.

At March 31, 2000, the Company had cash and short term investments of \$7.1 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 March 31, 2000, portions of the lines of credit were utilized to support \$666,000 of letters of credit (\$665,000 at December 31, 1999) and the margin requirements on US\$2.5 million in forward exchange contracts leaving \$984,000 available for day-to-day operating requirements and the margin capacity necessary to enter into an additional US\$5.0 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 "Initial Loan"). The Loan is 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. On April 14, 2000, the Company's Board of Directors approved loaning Point up to US\$1.96 million (inclusive of the US\$588,000 loan), provided Sokkia contributes its pro rata share of any financing, that Point continues to repay the outstanding accounts receivable balance as agreed and that the loans be on commercial terms.

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

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

EFFECTS OF FOREIGN CURRENCY EXCHANGE RATES

Most of the Company's revenues (over 97% for the first three months of 2000) are earned in currencies other than the Canadian dollar, principally the U.S. dollar. A substantial portion of the Company's expenses, however, have been and will continue to be incurred in Canadian dollars. Accordingly, fluctuations in exchange rates between the U.S. dollar and the Canadian dollar could materially affect the Company's results of operations. In the normal course of business the Company uses foreign currency options and forward foreign currency contracts to reduce its exposure to fluctuations in the U.S. dollar. At March 31, 2000, the Company had foreign currency options and forward foreign currency contracts to sell US\$2.5 million between April 24, 2000 and August 31, 2000 at rates between \$0.6818 and \$0.6890. In addition, at March 31, 2000, the Company had entered into forward currency contracts obligating it to buy US\$0.5 million at a rate of \$0.6798 on June 30, 2000. Derivative financial instruments are not used for speculative purposes. There can be no assurance that the Company will be successful in such hedging activities.

LEGAL PROCEEDINGS

On August 24, 1999, Simon Newby, a former employee based in the United Kingdom, filed an application with the Employment Tribunals in Manchester, England, complaining that he had been wrongfully and unfairly dismissed, not provided with a sufficient period of notice, his dismissal was a breach of his contract or alternatively that he was constructively dismissed from his employment. Mr. Newby is claiming unspecified compensation. The Company has filed a response to the claim stating that Mr. Newby resigned his employment during the course of a working notice period that had been provided to him. A hearing of the matter was held April 5, 2000. The Company was ruled to have wrongfully and unfairly dismissed Mr. Newby. A compensation hearing is set for June 14, 2000. Notwithstanding this finding, the Company intends to appeal the decision as it believes that this claim is without merit and that it has valid defenses to this claim.

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, 1999 filed with the Securities and Exchange Commission.