



**NOVATEL INC.**

Quarterly Report

For the Three Month Period Ended March 31, 2006

## INDEX

	Page
Condensed Consolidated Financial Statements (Unaudited)	3
• Condensed Consolidated Balance Sheets — March 31, 2006 and December 31, 2005 . . . . .	3
• Condensed Consolidated Statements of Operations — Three Months Ended March 31, 2006 and March 31, 2005. . . . .	4
• Condensed Consolidated Statement of Shareholders' Equity Three Months Ended March 31, 2006 . . . . .	5
• Condensed Consolidated Statements of Cash Flows — Three Months Ended March 31, 2006 and March 31, 2005. . . . .	6
• Notes to Condensed Consolidated Financial Statements. . . . .	7
Management's Discussion and Analysis of Financial Condition and Results of Operations	19

*The dollar amounts presented in this Quarterly Report are in Canadian currency unless otherwise noted (CDN \$1 = U.S. \$ 0.8992 on June 14, 2006), 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 and shareholders' equity, are disclosed in Note 23 of Notes to Condensed Consolidated Financial Statements for the fiscal year ended December 31, 2005 filed as part of Form 20-F with the U.S. Securities and Exchange Commission and in Note 12 of Notes to Condensed Consolidated Financial Statements for the three months ended March 31, 2006 contained in this report.*

*Certain statements in this Quarterly Report, including those about the Company's future plans and intentions, financial guidance, long-term growth prospects, levels of activity or other future events, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not based on historical facts but rather on management's current expectations regarding NovAtel's future growth, results of operations, performance, future capital and other expenditures, competitive advantages, business prospects and opportunities. Wherever possible, words such as "anticipate", "believe", "expect", "may", "could", "will", "potential", "intend", "estimate", "should", "plan", "predict", "forecast" or the negative or other variations of these words, or similar words or phrases, have been used to identify these forward-looking statements. Forward-looking statements involve significant known and unknown risks, uncertainties and assumptions. Many factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements, including operating results of the Company's joint venture Point, Inc. ("Point"), impact and timing of large orders, U.S. dollar to Canadian dollar exchange rate fluctuations, establishing and maintaining effective distribution channels, certification and market acceptance of NovAtel's new products, credit risks of customers and the Company's joint venture Point, pricing pressures in the market and other competitive factors, maintaining technological leadership, timing of revenue recognition in connection with certain contracts, the ability to maintain supply of products from subcontract manufacturers, the procurement of components to build products, product defects, the impact of industry consolidations, vulnerability to general economic, market and business conditions, competition, environmental and other actions by governmental authorities, reliance on key personnel and other factors described in the Company's Form 20-F for the year ended December 31, 2005 and other SEC filings, many of which are beyond the control of NovAtel. These factors should be considered carefully and undue reliance should not be placed on the forward-looking statements. These forward-looking statements are made as of the date of this Quarterly Report, and NovAtel assumes no obligation to update or revise them to reflect new events or circumstances.*

**NOVATEL INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**  
(in thousands, Canadian dollars)

	<u>March 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 3,043	\$ 2,721
Short-term investments (includes compensating balances of \$4,158 at March 31, 2006 and December 31, 2005) .....	34,397	32,363
Accounts receivable .....	14,905	10,694
Related party receivables (Note 9) .....	1,284	1,331
Related party notes receivable (Note 9) .....	1,945	1,552
Inventories (Note 3) .....	6,080	5,436
Prepaid expenses and deposits .....	478	599
Future income tax asset — current portion .....	2,582	2,370
Total current assets .....	<u>64,714</u>	<u>57,066</u>
Capital assets .....	3,655	3,095
Intangible assets (Notes 5 and 8) .....	4,831	4,722
Goodwill .....	1,494	1,494
Deferred development costs (Note 4) .....	1,492	1,657
Future income tax asset — long term portion .....	3,437	3,221
Total assets .....	<u>\$ 79,623</u>	<u>\$ 71,255</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities .....	\$ 11,577	\$ 9,784
Related party payables (Note 9) .....	11	15
Notes payable (Note 10) .....	2,109	1,552
Deferred revenue and customer deposits .....	1,056	752
Provision for future warranty costs .....	733	693
Total current liabilities .....	<u>15,486</u>	<u>12,796</u>
Deferred gain on sale/leaseback of capital assets .....	314	342
Total liabilities .....	<u>15,800</u>	<u>13,138</u>
Commitments, contingencies and guarantees (Note 8)		
Shareholders' equity:		
Capital stock (Note 6) (common shares issued and outstanding: 8,421 at March 31, 2006 and 8,365 at December 31, 2005) .....	40,044	39,667
Contributed surplus .....	1,047	953
Retained earnings .....	22,732	17,497
Total shareholders' equity .....	<u>63,823</u>	<u>58,117</u>
Total liabilities and shareholders' equity .....	<u>\$ 79,623</u>	<u>\$ 71,255</u>

See accompanying notes to the condensed consolidated financial statements.

**NOVATEL INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**  
(in thousands, except per share data, Canadian dollars)

	<b>Three Months Ended</b>	
	<b>March 31, 2006</b>	<b>March 31, 2005</b>
Revenues:		
Product sales (Note 9) .....	\$ 17,405	\$ 14,106
NRE fees .....	1,045	1,251
Total revenues .....	<u>18,450</u>	<u>15,357</u>
Cost of sales:		
Cost of product sales (Note 9) .....	6,734	5,697
Cost of NRE fees .....	622	603
Total cost of sales .....	<u>7,356</u>	<u>6,300</u>
Gross profit .....	<u>11,094</u>	<u>9,057</u>
Operating expenses:		
Research and development .....	3,189	2,338
Selling and marketing .....	1,700	1,567
General and administration .....	1,686	1,817
Foreign exchange (gain) loss .....	(102)	8
Total operating expenses .....	<u>6,473</u>	<u>5,730</u>
Operating income .....	4,621	3,327
Interest income, net. ....	287	153
Other expense .....	(20)	(14)
Benefit of investment tax credits .....	—	1,036
Income from operations before income taxes .....	<u>4,888</u>	<u>4,502</u>
Income taxes		
Current provision .....	81	1,313
Future income tax (benefit) expense .....	(428)	(555)
Total income tax (benefit) expense .....	<u>(347)</u>	<u>758</u>
Net income .....	<u>\$ 5,235</u>	<u>\$ 3,744</u>
Net income per share (basic) .....	\$ 0.62	\$ 0.45
Weighted average shares outstanding (basic) (Note 6) .....	8,377	8,261
Net income per share (diluted) .....	\$ 0.59	\$ 0.43
Weighted average shares outstanding (diluted) (Note 6) .....	8,817	8,730

See accompanying notes to the condensed consolidated financial statements.

**NOVATEL INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (unaudited)**  
**(in thousands, Canadian dollars)**

	<u>Common Shares</u>		<u>Contributed Surplus</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
	<u>Number</u>	<u>Amount</u>			
Balance January 1, 2006.....	8,365	\$39,667	\$953	\$17,497	\$58,117
Common shares issued pursuant to exercise of stock options (Note 11) .....	56	377	(76)	—	301
Stock-based compensation (Note 11) .....	—	—	170	—	170
Net income .....	—	—	—	5,235	5,235
Balance March 31, 2006.....	<u>8,421</u>	<u>\$40,044</u>	<u>\$1,047</u>	<u>\$22,732</u>	<u>\$63,823</u>

See accompanying notes to the condensed consolidated financial statements.

**NOVATEL INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**  
**(in thousands, Canadian dollars)**

	<b>Three Months Ended</b>	
	<b>March 31, 2006</b>	<b>March 31, 2005</b>
Operating activities:		
Net income .....	\$5,235	\$3,744
Charges and credits to operations not involving an outlay of cash:		
Amortization .....	847	743
Loss on disposal of capital assets .....	—	1
Current income tax provision and future income tax benefit .....	(367)	740
Benefit of investment tax credits .....	—	(1,036)
Stock-based compensation expense (recovery) (Note 11) .....	505	(126)
Amortization of deferred gain on sale/leaseback of capital assets .....	(28)	(28)
Accretion on royalty payable to CMC related to GPS OEM product line acquisition .....	—	7
Net change in non-cash working capital related to operations (Note 7) .....	(2,950)	(2,500)
Cash provided by operating activities .....	3,242	1,545
Financing activities:		
Issuance of shares (Note 6) .....	301	18
Related party notes receivable (Note 9) .....	(374)	—
Notes payable (Note 10) .....	535	—
Receipts related to share offering costs .....	—	57
Effect of exchange rate changes on financing activities .....	3	—
Cash provided by financing activities .....	465	75
Increase in cash before investing activities .....	3,707	1,620
Investing activities:		
Purchase of capital and intangible assets .....	(1,355)	(409)
Proceeds from disposal of capital assets .....	4	3
Purchase of short-term investments .....	(12,429)	(10,579)
Proceeds from short-term investments .....	10,395	5,000
Cash used in investing activities .....	(3,385)	(5,985)
Increase (decrease) in cash and cash equivalents .....	322	(4,365)
Cash and cash equivalents, beginning of period .....	2,721	8,949
Cash and cash equivalents, end of period .....	\$3,043	\$4,584
Interest paid related to bank advances and capital lease obligations .....	—	—
Income taxes paid .....	\$20	\$25

See accompanying notes to the condensed consolidated financial statements.

**NOVATEL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**(in thousands, Canadian dollars, except per share data)**

**Note 1 Basis of Presentation and Nature of Business**

The condensed consolidated financial statements for the three month periods ended March 31, 2006 and March 31, 2005 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 periods presented. The adjustments are of a normal recurring nature. The financial statements follow the same accounting policies and methods of their application as the audited annual consolidated financial statements for the year ended December 31, 2005, except as disclosed below. The notes presented in these interim consolidated financial statements include only significant events and transactions occurring since the Company's last fiscal year and are not fully inclusive of all matters normally disclosed in the Company's annual audited consolidated financial statements. Accordingly, the unaudited condensed 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, 2005 filed on Form 20-F with the U.S. Securities and Exchange Commission ("SEC").

**Note 2 Adoption of New Accounting Standards**

Effective January 1, 2006, the Company adopted Emerging Issues Committee Abstract No. 157 ("EIC-157"): EIC-157 addresses whether a company has an implicit variable interest in a variable interest entity ("VIE") or potential VIE when specific conditions exist. An implicit variable interest acts the same as an explicit variable interest except it involves the absorbing and/or receiving of variability indirectly from the entity (rather than directly). The identification of an implicit variable interest is a matter of judgment that depends on the relevant facts and circumstances. The implementation of EIC-157 did not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2006, the Company adopted the accounting standards of Section 3831, *Non-Monetary Transactions*, of the CICA Handbook. Section 3831 replaced Section 3830 of the same title. The new accounting standard requires all non-monetary transactions be measured at fair value unless certain conditions are satisfied. The new requirements are effective for non-monetary transactions initiated in periods beginning on or after January 1, 2006. The adoption of Section 3831 did not have a material impact on the Company's consolidated financial statements.

**Note 3 Inventories**

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
Raw materials and components.....	\$ 2,595	\$ 2,378
Work-in-progress.....	845	552
Finished goods.....	2,640	2,506
	<u>\$ 6,080</u>	<u>\$ 5,436</u>

**Note 4 Deferred Development Costs**

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
Deferred development costs.....	\$ 2,900	\$ 2,900
Accumulated amortization.....	(1,408)	(1,243)
	<u>\$ 1,492</u>	<u>\$ 1,657</u>

The Company has deferred certain costs related to the development of a certified aviation GPS receiver. The Company amortizes these deferred costs using a method similar to the unit-of-production method of amortization. The following table discloses the development costs which have been deferred and the related amortization.

	<u>Three Months Ended</u>	
	<u>March 31, 2006</u>	<u>March 31, 2005</u>
Deferred development costs.....	\$ —	\$ —
Amortization of deferred development costs.....	\$ 165	\$ 181

At March 31, 2006, the Company had deferred \$1,492 of development costs, net of accumulated amortization. The continued deferral of these costs is subject to recoverability based on estimates of future sales of the certified aviation GPS receiver. On April 5, 2004, the Company and CMC Electronics entered into a Strategic Cooperation Agreement which *inter alia* provides for certain guaranteed future payments over the following four years. Under the current business programs between the Company and CMC Electronics, the Company would expect these future

payments to substantially recover the \$1,492 of deferred development costs outstanding as of March 31, 2006. Should future actual or estimated sales of this receiver be materially lower than that currently estimated, all or a portion of the deferred development costs would be charged to results of operations.

#### Note 5 Intangible Assets

	March 31, 2006			December 31, 2005		
	Gross Value	Accumulated Amortization	Net Book Value	Gross Value	Accumulated Amortization	Net Book Value
Patents and trademarks . . . . .	\$4,305	\$2,953	\$1,352	\$4,262	\$2,860	\$1,402
Technology . . . . .	3,918	2,315	1,603	3,670	2,254	1,416
Software licences . . . . .	3,812	2,570	1,242	3,691	2,458	1,233
Market presence of CMC Electronics OEM GPS and Waypoint's product lines . . . . .	906	272	634	906	235	671
Total intangibles . . . . .	<u>\$12,941</u>	<u>\$8,110</u>	<u>\$4,831</u>	<u>\$12,529</u>	<u>\$7,807</u>	<u>\$4,722</u>

For the three months ended March 31, 2006 and March 31, 2005, the amortization expense of intangibles was \$303 and \$205, respectively. The weighted average amortization period is 6.9 years.

The estimated aggregate amortization expense for the five succeeding years is as follows:

2006 . . . . .	\$1,141
2007 . . . . .	997
2008 . . . . .	834
2009 . . . . .	659
2010 . . . . .	596

#### Note 6 Capital Stock

The Company has authorized an unlimited number of common shares and first preference shares, of which 8,421 common shares are outstanding as of March 31, 2006 (8,365 as of December 31, 2005).

Net income per share figures presented in the Company's financial statements are based upon the weighted average number of shares outstanding. Diluted net income per share figures are computed as if the dilutive instruments were exercised at the beginning of the period (or the time of issuance, if later) and the funds obtained were used to purchase common shares at the average market price during the period.

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 one to four years and expire between five and ten years from the date of the grant. As of March 31, 2006, the Company had issued 528 unexercised options to purchase common shares under its stock-based compensation plans.

A summary of the status of the Company's stock option plans as of March 31, 2006, and changes during the three month period ended on that date is presented below:

Options	Number of Options	Weighted-Average Exercise Price
Outstanding at January 1, 2006 . . . . .	584	U.S. \$7.46
Granted . . . . .	—	—
Exercised . . . . .	(56)	4.70
Forfeited . . . . .	—	—
Outstanding at March 31, 2006 . . . . .	<u>528</u>	<u>U.S. \$7.75</u>
Options exercisable at March 31, 2006 . . . . .	<u>358</u>	<u>U.S. \$4.38</u>

The following table summarizes information about the stock option plans as of March 31, 2006:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
U.S.\$32.50 . . . . .	6	4.3	U.S. \$32.50	—	U.S. \$32.50
\$13.16 to \$19.61 . . . . .	112	4.2	19.54	—	13.16
\$7.50 to \$11.25 . . . . .	138	1.3	7.88	137	7.86
\$4.00 to \$4.94 . . . . .	3	7.1	4.64	1	4.65
\$2.25 to \$3.44 . . . . .	234	6.3	2.34	185	2.34
\$1.38 to \$2.00 . . . . .	35	4.4	1.62	35	1.62
U.S.\$1.38 to \$32.50 . . . . .	528	4.4	U.S. \$7.75	358	U.S. \$4.38

The Company granted 142 options to purchase common shares of the Company to employees on April 28, 2006. The options have an exercise price of U.S. \$39.58, vest over four years and expire five years from the date of grant.

The following table represents the potential dilutive effect of options which have been issued, and could be exercised by the option holder:

	Number of Common Shares	
	Three Months Ended	
	March 31, 2006	March 31, 2005
Weighted average common shares outstanding (basic) . . . . .	8,377	8,261
Dilutive effect of options . . . . .	440	469
Weighted average common shares outstanding (diluted) . . . . .	8,817	8,730

There were no options that were excluded from the calculation of net income per share (diluted) due to an anti-dilutive effect as a result of the exercise price of the options being higher than the market price of the stock in the three month periods ended March 31, 2006 and 2005.

**Note 7 Consolidated Statements of Cash Flows**

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

	Three Months Ended	
	March 31, 2006	March 31, 2005
(Increase) decrease in accounts receivables and related party receivables . . . . .	\$ (4,164)	\$ 456
(Increase) decrease in inventories . . . . .	(644)	145
Decrease (increase) in prepaid expenses and deposits . . . . .	121	(448)
Increase (decrease) in accounts payable, accrued liabilities and related party payables . . . . .	1,393	(2,562)
Increase (decrease) in deferred revenue and customer deposits . . . . .	304	(124)
Increase in provision for future warranty costs . . . . .	40	33
Net change in non-cash working capital . . . . .	\$ (2,950)	\$ (2,500)

**Note 8 Commitments, Contingencies and Guarantees**

a) As at March 31, 2006, intangible assets included \$43 related to the Company’s 1996 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 direct change in control. On June 26, 2001, the Company received notice from Trimble terminating the licenses and rights under the settlement agreement in connection with the share acquisition by CMC Electronics Inc. (“CMC Electronics”) in April 1998. The Company has sought legal advice regarding Trimble’s termination rights under the 1996 settlement agreement and is continuing to evaluate the impact, if any, of Trimble’s notice of termination. As this matter has not been resolved as of March 31, 2006, the Company has not provided for any impairment of these intangible assets. The Company does not expect this issue to materially affect the financial position, results of operations, or liquidity of the Company.

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.

c) In the normal course of operations, the Company provides indemnifications that are often standard contractual terms to counterparties in transactions such as purchase and sale contracts and service agreements. These indemnification

agreements may require the Company to compensate the counterparties for costs incurred as a result of various events, changes in (or in the interpretation of) laws and regulations, or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract, the nature of which prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay counterparties. Historically, the Company has not made any payments under such indemnifications and no amounts have been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees.

d) In the normal course of business, the Company uses forward foreign currency contracts to reduce its exposure to fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar, and between the Canadian dollar and the Euro. The Company documents the relationship between hedging instruments and hedged items, as well as its risk management objective for undertaking hedging transactions. The process includes linking hedging instruments to forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the foreign currency contracts that are used in hedging transactions are effective in offsetting changes in cash flows of hedged items. The contracts are normally for terms of up to twelve months and are used as hedges of a portion of the Company's U.S. dollar and Euro denominated revenues. The contracts are not used for trading or speculative purposes. Foreign exchange gains and losses on foreign currency contracts used to hedge anticipated U.S. dollar and Euro revenues beyond 60 days are applied against the underlying revenues when these revenues are recognized.

At March 31, 2006, the Company had forward foreign currency contracts to sell U.S. \$ 12,000 between April 28, 2006 and December 29, 2006 at rates between \$0.8266 and \$0.8780 U.S. dollar per Canadian dollar. In addition, the Company had forward foreign currency contracts to sell €410 on May 15, 2006 at a rate of €0.7366 per Canadian dollar.

The carrying values of other financial instruments, which include cash equivalents and short-term investments, accounts receivable, related party receivables, related party notes receivable, deposits, accounts payable, related party payables, notes payable and customer deposits approximate their fair value because of the near-term maturity of these instruments.

#### **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:

	<b>Three Months Ended</b>	
	<b>March 31, 2006</b>	<b>March 31, 2005</b>
Product sales to Point, Inc.	\$ 423	\$ 632
Services provided to Point, Inc.	44	39
Inventory sold to CMC Electronics Inc.	—	124
Royalties charged to CMC Electronics Inc.	—	241
Other expenses from CMC Electronics Inc.	—	10
Engineering services charged by Point, Inc.	14	138
Engineering services charged to Point, Inc.	61	218
Inventory purchased from Point, Inc.	16	—

Related party receivables at March 31, 2006 consist of \$1,284 from Point, Inc. (\$1,331 at December 31, 2005). Related party payables at March 31, 2006 consist of amounts due to Point, Inc. of \$11 (\$15 at December 31, 2005).

The related party notes receivable of \$1,945 (\$1,552 at December 31, 2005) reflects the Company's interest in the aggregate borrowings by Point, Inc. from the Company and Sokkia Co., Ltd. ("Sokkia") of U.S. \$6,915. The loans are secured by the assets of Point, Inc., bear interest at 3% and are due on August 31, 2006 (see Note 10).

On February 3, 2006, the Company and Sokkia advanced U.S. \$1,585 in new loans to Point, Inc. with the Company's share being U.S. \$637.

From January 2005 through August 2005, CMC Electronics sold its interest in NovAtel and does not maintain any representation on the Company's Board of Directors. For the three months ended March 31, 2005, CMC Electronics was still considered a related party.

#### **Note 10 Investment in Point, Inc.**

The Company and Sokkia Co., Ltd. participate in a joint venture, Point, Inc., to distribute GPS based products for surveying, mapping, geographical information systems, construction and construction machine control applications, on a worldwide basis. The consolidated financial statements presented herein include the Company's proportionate share of the accounts of 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, 2006</u>	<u>December 31, 2005</u>
Current assets .....	\$ 1,979	\$ 1,332
Non-current assets .....	147	118
Total assets .....	<u>\$ 2,126</u>	<u>\$ 1,450</u>
Current liabilities .....	3,175	2,729
Long-term liabilities .....	—	—
Total liabilities .....	<u>\$ 3,175</u>	<u>\$ 2,729</u>
	<u>Three Months Ended</u>	
	<u>March 31, 2006</u>	<u>March 31, 2005</u>
Revenues .....	\$ 1,783	\$ 1,233
Gross profit .....	534	339
Expenses .....	650	568
Loss .....	<u>\$ (116)</u>	<u>\$ (229)</u>
Cash provided by (used in)		
Operating activities .....	(783)	157
Investing activities .....	(48)	(6)
Financing activities .....	547	—
Effect of exchange rate changes on financing activities .....	10	8

Included in current liabilities is the Company's share of notes payable by Point, Inc. to Sokkia, in the amount of \$2,109 (\$1,552 at December 31, 2005). The loans are secured by the assets of Point, Inc., bear interest at 3% and are due on August 31, 2006. On February 3, 2006, the Company and Sokkia advanced U.S. \$1,585 in new loans to Point, Inc. with the Company's share being \$637. As of March 31, 2006, Point, Inc. has borrowed U.S. \$6,915 in aggregate from the Company and Sokkia.

Point, Inc. is dependent on the Company and Sokkia for product supply, distribution, sales and financing. Should Sokkia and the Company discontinue their support, Point, Inc.'s ability to continue as a going concern would be impaired. If the existing loans to Point, Inc. of U.S. \$6,915 were ultimately not repaid by Point, Inc. to the Company and Sokkia, and/or if Point, Inc. were liquidated in an orderly wind-down, the Company believes that its maximum loss exposure in the statement of operations to Point, Inc., as of March 31, 2006, after consideration of the effects of the proportionate consolidation of Point, Inc., would be approximately \$500, comprised primarily of working capital related items and the costs that would be incurred to cease operations. These financial statements do not reflect any adjustments that would be required if Point, Inc.'s operations were discontinued.

#### **Note 11 Stock-Based Compensation**

At March 31, 2006, the Company had issued 528 unexercised options to employees and directors to purchase common shares under its stock-based compensation plans (see Note 6).

Effective January 1, 2004, the Company adopted the fair value method of accounting for stock options awarded to employees on or after January 1, 2002, as required by amended CICA Handbook Section 3870 *Stock-Based Compensation and Other Stock-Based Payments*. Under Section 3870, the fair value of stock options is recognized over the applicable vesting period as a charge to stock-based compensation expense and a credit to contributed surplus. For the three month periods ended March 31, 2006 and 2005, stock-based compensation expense of \$170 and \$82 was recognized, respectively.

The fair value of each option granted was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions used for options granted in 2005: dividend yield of 0%; expected lives of 3 years; expected volatility of 84% and a risk-free interest rate of 3.34%.

The Company granted 142 options to purchase common shares of the Company to employees on April 28, 2006. The options have an exercise price of U.S. \$39.58, vest over four years and expire five years from the date of grant.

Effective January 1, 2004, the Company established a new Long Term Incentive Plan ("LTI Plan"), which authorized the grant of approximately 44 phantom shares to employees of the Company. All grants of phantom shares under the LTI Plan have a three-year cliff vesting and would vest on December 31, 2006, if certain performance objectives are achieved. Payments under the LTI Plan are made in cash.

As of March 31, 2006, the Company estimated that the fair value of the granted and outstanding phantom shares was \$1,728, based on a 20-day average price of the Company's common shares.

For the three month period ended March 31, 2006, the Company recognized \$335 in compensation expense related to phantom shares (\$208 compensation expense recovery in the three month period ended March 31, 2005).

## **Note 12 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 (see Note 4)***

As of March 31, 2006, the Company had deferred \$1,492 of development costs, net of accumulated amortization, related to the development of a certified aviation GPS receiver. There were no deferrals of development costs in the three month periods ended March 31, 2006 and 2005. Under U.S. GAAP, these costs would be expensed as incurred as research and development costs.

In the three month periods ended March 31, 2006 and March 31, 2005, the Company amortized \$165 and \$181, respectively, of deferred development costs respectively in accordance with Canadian GAAP. Under U.S. GAAP, these costs would have been expensed in the periods when the originating expenditures were incurred.

In addition, for Canadian GAAP purposes, in connection with the recognition of prior year's investment tax credits, the Company reduced the deferred development costs by \$164 in the three month period ended March 31, 2005. Under U.S. GAAP, this amount would have been accounted for as an offset to expense when the originating expenditures were incurred.

### **b) *Stock-Based Compensation***

At March 31, 2006, the Company had issued 528 unexercised options to employees and directors to purchase common shares under its stock-based compensation plans (see Note 6).

Effective January 1, 2004, the Company established a new Long Term Incentive Plan ("LTI Plan"), which authorized the grant of approximately 44 phantom shares to employees of the Company. All grants of phantom shares under the LTI Plan have a three-year cliff vesting and would vest on December 31, 2006, if certain performance objectives are achieved. Payments under the LTI Plan are made in cash.

Effective January 1, 2004, under Canadian GAAP, the Company adopted the fair value method of accounting for stock options awarded to employees on or after January 1, 2002 as required by amended CICA Handbook Section 3870 *Stock-Based Compensation and Other Stock-Based Payments*. As permitted by the transitional provisions of Section 3870, the change was adopted retroactively without restatement. Under Section 3870, the fair value of stock options is recognized over the applicable vesting period as stock-based compensation expense and a credit to contributed surplus. When options are exercised, the proceeds are credited to share capital, and the applicable fair value is reclassified from contributed surplus to share capital.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123R"), which requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense in the consolidated financial statements based on their fair values. SFAS 123R also modifies certain measurement and expense recognition provisions of SFAS 123 that will impact the Company, including the requirement to estimate employee forfeitures each period when recognizing compensation expense and requiring that the initial and subsequent measurement of the cost of liability-based awards each period be based on the fair value (instead of the intrinsic value) of the award, resulting in differences from Canadian GAAP. Prior to the adoption of SFAS 123R, the Company accounted for stock-based compensation to employees and directors using the intrinsic value method in accordance with APB Opinion No. 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Under the intrinsic value method, no stock-based compensation expense related to the Company's stock options had been recognized in the Company's consolidated statement of operations for U.S. GAAP purposes, as the exercise price of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant.

Effective January 1, 2006, under U.S. GAAP, the Company adopted SFAS 123R using the modified prospective transition method and accordingly, the results of prior periods have not been restated. As a result, the Company's financial statements for fiscal periods after December 31, 2005 will include stock-based compensation expenses that are not comparable to financial statements of fiscal periods prior to December 31, 2005. SFAS 123R requires stock-based compensation to be estimated using the fair value on the date of grant using an option pricing model. Under the modified prospective method, the Company expenses the value of the portion of the stock based awards that is expected to vest over the related employees' requisite service periods for U.S. GAAP purposes. The adoption of SFAS 123R under U.S. GAAP created differences in the accounting treatment of stock based compensation from Canadian GAAP, relating primarily to the application of forfeiture rates.

The Company estimates the fair value of stock options using the Black-Scholes option pricing model, consistent with the provisions of SFAS 123R, and the Company's prior period pro forma disclosures of net income, including share-based compensation. The key input assumptions used to estimate the fair value of stock options include the grant price of the award, the expected term of the options, the expected volatility of the Company's stock, the risk-free rate, the annual forfeiture rate and the Company's dividend yield. The expected term of the options is estimated based on historical grants with similar vesting periods. The expected volatility of the Company's stock is estimated using the daily historical stock prices over a prior period in relation to the expected term of the awards. The Company believes that the Black-Scholes option pricing model utilized to develop the underlying assumptions is appropriate in calculating the fair values of the Company's stock options.

The phantom shares are accounted for as a liability award under U.S. GAAP and are remeasured to fair value at the end of each reporting period. The Company estimates the fair value of the phantom shares granted under the LTI Plan based on an option pricing model (Black-Scholes). The fair value estimated using the Black-Scholes model is consistent with the market value of the Company's common shares at each reporting date.

SFAS 123R requires forfeitures to be estimated at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. As share-based compensation expense recognized in the consolidated statement of operations for the three months ended March 31, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Prior to the adoption of SFAS 123R, the Company recognized forfeitures as they occurred. The Company recorded a gain of \$23 as a cumulative effect of an accounting change, as a result of the change in accounting for forfeitures under SFAS 123R. In the Company's pro forma information required under SFAS 123 for the period prior to fiscal 2006, the Company accounted for forfeitures as they occurred.

As of March 31, 2006, the annual forfeiture rates applied to the Company's stock option plans and the phantom share awards were 2% and 2.4%, respectively.

Stock-based compensation under U.S. GAAP recorded during the three months ended was as follows:

	<u>March 31, 2006</u>	<u>March 31, 2005</u>
<b>Stock-based compensation:</b>		
Stock option expense .....	\$ 160	\$ —
Phantom Share expense (recovery) .....	329	(208)
Total stock-based compensation expense (recovery) reported .....	<u>\$ 489</u>	<u>(\$208)</u>

The compensation cost that has been charged against income for the Company's share-based award plans was \$489 for the three months ended March 31, 2006, (a recovery of \$208 for the three months ended March 31, 2005). The total income tax benefit recognized in the statements of operations for stock-based award compensation was nil for the three months ended March 31, 2006 and 2005.

As of March 31, 2006, there was \$1,136 of unrecognized compensation cost related to the Company's stock option plans that is expected to be recognized over a weighted average period of 2.4 years. As of March 31, 2006, there was \$422 of total unrecognized compensation cost related to the Company's phantom share awards granted which is expected to be recognized over a weighted average period of 0.75 years.

Cash received from exercise under all share-based payment arrangements was \$301 for the three months ended March 31, 2006 and \$18 for the three months ended March 31, 2005. Tax benefits realized by the Company related to these exercises were nil and nil, for the three months ended March 31, 2006 and 2005, respectively.

During the three months ended March 31, 2006 and the three months ended March 31, 2005, no stock options or phantom shares were granted.

Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value of the options at the grant dates, the Company's pro forma net income and net income per share for the three months ended March 31, 2005 would have been as follows:

		<u>Three Months Ended</u> <u>March 31, 2005</u>
Net income – U.S. GAAP .....	As reported	\$ 4,202
Less: Fair value of stock options .....		<u>83</u>
Net income – U.S. GAAP .....	Pro forma	<u>\$ 4,119</u>
Net income – per share (basic) .....	As reported	\$ 0.51
	Pro forma	\$ 0.50
Net income – per share (diluted) .....	As reported	\$ 0.48
	Pro forma	\$ 0.47

c) ***Derivatives and Hedging Activities***

The Company has historically entered into foreign exchange options and forward contracts to manage its exposure to foreign currency fluctuations. Under U.S. GAAP the accounting for derivative instruments and hedging activities is contained in the Statement of Financial Accounting Standard No. 133, as amended by SFAS 137, SFAS 138 and SFAS 149 (“SFAS 133”). SFAS 133 establishes accounting and reporting standards requiring that all derivative instruments be recorded in the balance sheet as either an asset or a liability measured at fair value and requires that changes in the fair value be recognized currently in income unless specific hedge accounting criteria are met. For cash flow hedges, changes in the fair value of the derivative instrument are recognized in net earnings in the same period as the hedged item and any changes in the fair value prior to that period are recognized in other comprehensive income. For fair value hedges, both the derivative instrument and the underlying commitment are recognized on the balance sheet at their fair value and any changes in the fair value are recognized currently in net income. The Company’s foreign exchange contracts have been accounted for as cash flow hedges.

Under U.S. GAAP, SFAS 133 would result in a decrease in total assets of \$82 as of March 31, 2006 (a \$192 increase as of December 31, 2005) related to the fair value of the Company’s foreign exchange contracts.

d) ***Intangibles Related to Acquisition of CMC Electronics OEM GPS Business***

On May 14, 2003, the Company acquired the CMC Electronics non-aviation GPS product line. The fair value of the net assets acquired included \$497 in intangibles, comprised primarily of technology, product design, customer relationships and an established market presence. Under U.S. GAAP, when accounting for transfer of assets between entities under common control, the entity that receives the net assets or the equity interest would initially recognize the assets and liabilities transferred at their carrying amounts at the date of transfer. Any excess of consideration given over the controlling shareholders’ carrying value would be accounted for as a reduction of equity.

e) ***Investment in Joint Ventures***

The accounts of the Company’s 49% joint venture interest 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 this joint venture would be accounted for using the equity method. As permitted by SEC guidance, the effects of this difference in accounting principles have not been reflected in the accompanying tables.

f) ***Provision for Future Warranty Costs***

The changes in the provision for future warranty costs during the three month periods ended March 31, 2006 and March 31, 2005 are as follows:

	<u>March 31, 2006</u>	<u>March 31, 2005</u>
Opening balance, beginning of period .....	\$ 693	\$ 538
Additions to provision .....	89	100
Costs incurred .....	(49)	(67)
Ending balance, end of period .....	<u>\$ 733</u>	<u>\$ 571</u>

g) ***Investment Tax Credits***

Under Canadian GAAP, the Company uses the cost reduction method to account for its investment tax credits. The investment tax credits relate to certain research and development expenses and are recognized when there is reasonable assurance that the Company will be able to realize the benefit of these credits. In the three month period ended March 31, 2005, the Company recognized \$1,200 (\$nil in the three month period ended March 31, 2006) of investment tax credits, of which \$1,036 was recorded on the statement of operations as a benefit of investment tax credits and \$164 was recorded as a reduction of deferred development costs on the balance sheet.

Under U.S. GAAP, the Company would use the flow through method to account for its investment tax credits and would record the recognition of the \$1,200 of investment tax credits in 2005 as a reduction of the current income tax provision.

The net effect of these reconciling items would be an increase in net income of \$164 in the three month period ended March 31, 2005 under U.S. GAAP.

h) **Comprehensive Income**

U.S. GAAP utilizes the concept of comprehensive income, which includes net income and other comprehensive income. Other comprehensive income represents the change in equity during the period from transactions and other events from non-owner sources and includes such items as changes in the fair value of cash flow hedges.

i) **Summary of the Differences between Canadian and U.S. GAAP**

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 Months Ended</u>	
	<u>March 31,</u>	<u>March 31,</u>
	<u>2006</u>	<u>2005</u>
<b>Net income — Canadian GAAP</b> .....	\$ 5,235	\$ 3,744
Adjustments to U.S. GAAP		
Deferred development costs (a) .....	—	—
Amortization of deferred development costs (a) .....	165	181
Stock-based compensation expense (b) .....	16	82
Reduction of deferred development costs related to recognition of investment tax credits (a), (g) .....	—	164
Amortization of intangibles acquired from CMC Electronics (d) .....	<u>31</u>	<u>31</u>
<b>Net income before cumulative effect of accounting change — U.S. GAAP</b> .....	\$ 5,447	\$ 4,202
Cumulative effect of accounting changes (b) .....	<u>23</u>	<u>—</u>
<b>Net income — U.S. GAAP</b> .....	<u>\$ 5,470</u>	<u>\$ 4,202</u>
Net unrealized (loss) gain on foreign exchange contracts (c) .....	(107)	31
Reclassification to income of gains and losses on cash flow hedges .....	<u>(167)</u>	<u>(146)</u>
<b>Comprehensive income</b> .....	<u>\$ 5,196</u>	<u>\$ 4,087</u>

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
<b>Total Assets</b>		
Canadian GAAP .....	\$ 79,623	\$ 71,255
Adjustments to U.S. GAAP		
Deferred development costs (a) .....	(1,492)	(1,657)
Fair value of financial instruments (c) .....	(82)	192
Reduction of intangibles acquired from CMC Electronics to carrying value (d) .....	(151)	(182)
U.S. GAAP .....	<u>\$ 77,898</u>	<u>\$ 69,608</u>
<b>Total Shareholders' Equity</b>		
Canadian GAAP .....	\$ 63,823	\$ 58,117
Adjustments to U.S. GAAP		
Deferred development costs (a) .....	(1,492)	(1,657)
Stock-based compensation (b) .....	28	—
Reduction of intangibles acquired from CMC Electronics to carrying value (d) .....	(492)	(492)
Amortization of intangibles acquired from CMC Electronics (d) .....	<u>341</u>	<u>310</u>
U.S. GAAP — before other comprehensive income .....	<u>62,208</u>	<u>56,278</u>
Accumulated other comprehensive (loss) income .....	<u>(82)</u>	<u>192</u>
U.S. GAAP — including accumulated other comprehensive income .....	<u>\$ 62,126</u>	<u>\$ 56,470</u>

j) **Net Income per Share**

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

	<u>Three Months Ended</u>	
	<u>March 31, 2006</u>	<u>March 31, 2005</u>
<b><u>Net Income per share</u></b>		
Canadian GAAP — basic .....	\$ 0.62	\$ 0.45
U.S. GAAP before cumulative effect of accounting change - basic .....	\$ 0.65	\$ 0.51
U.S. GAAP — basic .....	\$ 0.65	\$ 0.51
Canadian GAAP — diluted .....	\$ 0.59	\$ 0.43
U.S. GAAP before cumulative effect of accounting change - diluted .....	\$ 0.62	\$ 0.48
U.S. GAAP — diluted .....	\$ 0.62	\$ 0.48

The fair value of each option granted was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions used for options granted in 2005: dividend yield of 0%; expected lives of 3 years; a risk free interest rate of 3.34%, and expected volatility of 84%.

k) **Consolidated Statement of Cash Flows**

The effects of the differences between Canadian and U.S. GAAP on the consolidated statement of cash flows are as follows:

	<u>Three Months Ended</u>	
	<u>March 31, 2006</u>	<u>March 31, 2005</u>
Cash flow provided by operations — Canadian GAAP .....	\$ 3,242	\$ 1,545
Adjustments to U.S. GAAP		
Deferred development costs (a) .....	—	—
Cash flow provided by operations — U.S. GAAP .....	<u>\$ 3,242</u>	<u>\$ 1,545</u>

	Three Months Ended	
	March 31, 2006	March 31, 2005
Cash flow provided by financing activities — Canadian GAAP .....	\$ 465	\$ 75
Adjustments to U.S. GAAP .....	—	—
Cash flow provided by financing activities — U.S. GAAP .....	<u>\$ 465</u>	<u>\$ 75</u>
Cash used in investing activities — Canadian GAAP .....	\$ (3,385)	\$ (5,985)
Adjustments to U.S. GAAP		
Deferred development costs (a) .....	—	—
Cash used in investing activities — U.S. GAAP .....	<u>\$ (3,385)</u>	<u>\$ (5,985)</u>
Increase (decrease) in cash and cash equivalents .....	\$ 322	\$ (4,365)
Cash and cash equivalents, beginning of period .....	2,721	8,949
Cash and cash equivalents, end of period .....	<u>\$ 3,043</u>	<u>\$ 4,584</u>

#### 1) *New Canadian and U.S. GAAP Accounting Pronouncements*

##### **Canadian Pronouncements**

In January 2005, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 1530, “Comprehensive Income”, Section 3251, “Equity”, Section 3855, “Financial Instruments — Recognition and Measurement” and Section 3865, “Hedges”. The new standards increase harmonization with U.S. GAAP and will require the following:

- Financial assets will be classified as either held-to-maturity, held-for-trading or available-for-sale. Held-to-maturity classification will be restricted to fixed maturity instruments that the company intends and is able to hold to maturity and will be accounted for at amortized cost. Held-for-trading instruments will be recorded at fair value with realized and unrealized gains and losses reported in net income. The remaining financial assets will be classified as available-for-sale. These will be recorded at fair value with unrealized gains and losses reported in a new category of the consolidated balance sheet under shareholders’ equity called other comprehensive income (“OCI”); and
- Derivatives will be classified as held-for-trading unless designated as hedging instruments. All derivatives, including embedded derivatives that must be separately accounted for, will be recorded at fair value on the consolidated balance sheet. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivatives’ fair value will be reported in net income and be substantially offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of the changes in the derivatives’ fair value will be initially recognized in OCI and the ineffective portion will be recorded in net income. The amounts temporarily recorded in OCI will subsequently be reclassified to net income in the periods when net income is affected by the variability in the cash flows of the hedged item.

The above guidance will apply for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption will be permitted only as of the beginning of a fiscal year. The impact of implementing these new standards is not yet determinable as it is highly dependent on fair values, outstanding positions and hedging strategies at the time of adoption.

Commencing with the Company’s 2007 fiscal year, the proposed amended recommendations of the CICA for accounting for business combinations will apply to the Company’s business combinations, if any, with an acquisition date of January 1, 2007, or later. Whether the Company would be materially affected by the proposed amended recommendations would depend upon the specific facts of the business combinations, if any, occurring on or after January 1, 2007. Generally, the proposed recommendations will result in measuring business acquisitions at the fair value of the acquired entities and a prospectively applied shift from a parent company conceptual view of consolidation theory (which results in the parent company recording the book values attributable to non-controlling interests) to an entity conceptual view (which results in the parent company recording the fair values attributable to non-controlling interests).

In early 2006, Canada’s Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards over a transitional period. During 2006, the Accounting Standards Board is expected to develop and publish a detailed implementation plan with a transition period expected to be approximately five years. As this convergence initiative is very much in its infancy as of the date of these interim consolidated financial statements, it would be premature to currently assess the impact of the initiative, if any, on the Company.

## U.S. Pronouncements

In June 2004, the FASB issued an exposure draft of a proposed Statement, “Fair Value Measurements” to provide guidance on how to measure the fair value of financial and non-financial assets and liabilities when required by other authoritative accounting pronouncements. The proposed statement attempts to address concerns about the ability to develop reliable estimates of fair value and inconsistencies in fair value guidance provided by current U.S. GAAP, by creating a framework that clarifies the fair value objective and its application in GAAP. In addition, the proposal expands disclosures required about the use of fair value to remeasure assets and liabilities. The standard will be effective for fiscal years beginning after December 15, 2006, and interim periods in those fiscal years, except that the disclosure requirements will be effective for fiscal years ending after December 15, 2006.

In June 2005, the FASB published an exposure draft containing proposals to change the accounting for business combinations. The proposed standards would replace the existing requirements of the FASB’s Statement No. 141, *Business Combinations*. The proposals would result in fewer exceptions to the principle of measuring assets acquired and liabilities assumed in a business combination at fair value. Additionally, the proposals would result in payments to third parties for consulting, legal, audit, and similar services associated with an acquisition being recognized generally as expenses when incurred rather than capitalized as part of the business combination. The FASB also published an exposure draft that proposes, among other changes, that noncontrolling interests be classified as equity within the consolidated financials statements. The FASB’s proposed standard would replace Accounting Research Bulletin No. 51, *Consolidated Financial Statements*.

On July 14, 2005, the FASB published an exposure draft entitled *Accounting for Uncertain Tax Positions* — an interpretation of FASB Statement No. 109. The proposed interpretation is intended to reduce the significant diversity in practice associated with recognition and measurement of income taxes by establishing consistent criteria for evaluating uncertain tax positions. The proposed interpretation would be effective for the first fiscal year beginning after December 15, 2006. Earlier application would be encouraged. Only tax positions meeting the probable recognition threshold at that date would be recognized. The transition adjustment resulting from application of this interpretation would be recorded as a cumulative-effect change in the income statement as of the end of the period of adoption. Restatement of prior periods or pro forma disclosures under APB Opinion No. 20, *Accounting Changes*, would not be permitted. Management is in the process of reviewing the requirements of this exposure draft.

On September 30, 2005, the FASB issued an exposure draft that would amend FASB Statement 128, Earnings per Share, to clarify guidance for mandatorily convertible instruments, the treasury stock method, contracts that may be settled in cash or shares and contingently issuable shares. The proposed Statement would be effective for interim and annual periods ending after June 15, 2006. Retrospective application would be required for all changes to Statement 128, except that retrospective application would be prohibited for contracts that were either settled in cash prior to adoption or modified prior to adoption to require cash settlement. Management is in the process of reviewing the requirements of this exposure draft.

In February 2006, the FASB issued Statement of Financial Accounting Standard (“SFAS”) No. 155, “Accounting for Certain Hybrid Financial Instruments — an amendment to FASB Statements No. 133 and 140” (“SFAS 155”). SFAS 155 simplifies the accounting for certain hybrid financial instruments containing embedded derivatives. SFAS 155 allows fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”). In addition, it amends SFAS No. 140 “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” (“SFAS 140”), to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired, issued, or subject to a re-measurement event occurring after the beginning of an entity’s first fiscal year that begins after September 15, 2006. The Company will adopt the provisions of SFAS 155 on January 1, 2007. The implementation of SFAS 155 is not expected to have a material impact on the Company’s results of operations and financial condition.

## Note 13 Comparative Figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted in 2006.

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

*Management's discussion and analysis is a review of the results of operations and the liquidity and capital resources of the Company. It should be read in conjunction with the selected financial data and the consolidated financial statements of the Company and the notes thereto included elsewhere in this Quarterly Report. Certain information included herein is forward looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected.*

*The Company prepares its financial statements in Canadian dollars and in conformity with Canadian generally accepted accounting principles ("Canadian GAAP"). The Company is required to reconcile the material differences between Canadian GAAP and U.S. generally accepted accounting principles ("U.S. GAAP"). Such reconciliation is set forth in Note 12 of the consolidated financial statements of the Company included elsewhere in this Quarterly Report.*

### Executive Overview

NovAtel designs, markets and sells high-precision GPS and other positioning component technology and sub-systems for a wide variety of commercial applications principally in the aviation, geomatics (surveying and mapping), mining, precision agriculture, marine and defence industries. NovAtel's solutions combine hardware, such as receivers and antennas, with software to enable its customers to fully integrate the Company's high-precision GPS technology into their respective products and systems. Unless the context requires otherwise, references herein to "NovAtel" or the "Company" refer to NovAtel Inc., including its interest in its joint venture, Point.

The Company's goal is to become the leading provider of high precision GPS component technology and subsystems. In order to achieve this objective, NovAtel's management focuses on achieving average long-run organic revenue growth of 15% to 20% per year (prior to currency fluctuations). Since the Company's top ten customers generated 64% of revenue in 2005, NovAtel's ability to achieve its revenue projections and revenue growth will be largely dependent on maintaining successful relationships with its key customers and strategic partners, as well as forming relationships with new key OEM customers.

A substantial portion of the Company's operating costs are relatively fixed in the short-term, and consequently, NovAtel's short-term profitability is largely dependent on achieving projected revenues and forecasted gross margins as a percentage of revenue.

In order for the Company to maintain its technology position within its market, the Company's management believes that continued significant investment in research and product development programs is required and expects research and development costs, net of customer funding, will be 16% to 19% of revenue in the near term.

As part of the Company's growth strategy, the Company also focuses on managing working capital, particularly inventory and trade accounts receivable.

The Company uses performance based incentive programs for both senior management and employees. Incentive pay under these programs is dependent on the Company achieving certain corporate objectives, such as operating income targets.

Most of the Company's revenues (over 95% in 2005) 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 results of operations.

The Company's results of operations have fluctuated and can be expected to continue to fluctuate on a periodic basis as a result of a number of factors which affect revenue, gross margin and operating expenses. Annual and quarterly revenues have fluctuated because of a number of factors, including acquisition of new product lines, timing of major contracts, U.S. dollar to Canadian dollar exchange rates, operating results of subsidiary and joint venture entities, certification and market acceptance of the Company's new products, impact and timing of large orders, pricing pressures in the market, establishing and maintaining effective distribution channels, fluctuations in non-recurring engineering ("NRE") fees, seasonality of customer purchase patterns and the timing of industry trade shows.

NovAtel's consolidated financial statements include a 49% proportionate share of the accounts of Point, a geomatics joint venture with Sokkia, as required under Canadian GAAP. The Company sells products to Point which incorporates them into surveying systems that are in turn sold through the Sokkia distribution channels and through independent dealers and distributors. In addition, the Company provides facilities, computer support and development and logistical support for Point's Calgary operations. The Company's consolidated Statements of Operations include the proportionate share of each of the equivalent line items reflected on Point's Statement of Operations. Similarly, the Company consolidates its proportionate share of each line item of Point's balance sheet.

## **Revenue and Expenses**

Revenues include product sales and NRE fees. NRE fees are received by the Company from its customers under engineering service contracts. Revenues from product sales consist primarily of sales of OEM receivers, software upgrades, GPS antennas, WAAS type receivers and end user products primarily for the survey and mapping market. The Company classifies its revenues into the following three primary categories, Geomatics, Aerospace and Defence, and Special Applications.

The Geomatics category is made up of surveying and mapping markets. Geomatics revenues are largely comprised of NovAtel's sales to Point, net of intercompany eliminations, and NovAtel's 49% proportionate share of sales by Point.

The Aerospace and Defence category is made up of aviation and defence markets. These markets utilize the Company's precision positioning technology for critical components in civil air traffic navigation, flight management systems, and certain military applications.

The Special Applications category is made up of marine, precision agriculture, unmanned vehicles, construction/grading, dealers (other than those that can be identified with a particular market sector) and miscellaneous markets.

The Company typically maintains control of the technology developed under NRE contracts allowing it to use these technologies to improve its current products and develop new products and solutions.

Total revenue has increased year over year from 2001 to 2005 at a compounded annual growth rate of 22% through sales to new customers as well as through sales of additional products and services to existing customers.

Cost of product sales consists primarily of the cost of the raw materials and components, labour, manufacturing overhead and provisions for obsolete inventory and provisions for warranty obligations. Cost of NRE fees consists primarily of personnel and related costs incurred in providing the engineering services.

Gross margin as a percentage of revenue varies primarily as a result of product sales mix, changes in materials and contract manufacturing costs, liquidation of discontinued inventory and absorption of fixed manufacturing costs.

Research and development expenses consist primarily of compensation and benefit costs of engineering personnel, contracted research and development expenses, amortization of purchased technology, amortization of equipment costs, and facility and computer support costs. Research and development expenses are reduced to the extent they are funded under customer contracts and other engineering development contracts.

Selling and marketing expenses consist primarily of compensation and benefit costs of sales and marketing personnel as well as expenses for advertising, promotion and trade shows, dealer and agent's commissions, facilities and other expenses related to the sale of products.

General and administration expenses consist primarily of compensation and benefit costs of administrative personnel, professional fees such as legal, audit and insurance costs, corporate overhead, computer support costs and facilities expenses.

## **Critical Accounting Policies and Accounting Estimates**

The Company applies a number of critical accounting policies and estimates in preparing the consolidated financial statements. There have been no material changes to the Company's critical accounting policies and estimates since December 31, 2005. For more information, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Accounting Estimates" in the Company's Form 20-F for the year ended December 31, 2005.

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

	Three Months Ended		
	March 31, 2006	March 31, 2005	% Change
Revenues:			
Product sales . . . . .	\$ 17,405	\$ 14,106	23%
NRE fees . . . . .	1,045	1,251	(17)%
Total revenues . . . . .	<u>18,450</u>	<u>15,357</u>	<u>20%</u>
Cost of sales:			
Cost of product sales . . . . .	6,734	5,697	18%
Cost of NRE fees . . . . .	622	603	3%
Total cost of sales . . . . .	<u>7,356</u>	<u>6,300</u>	<u>17%</u>
Gross profit . . . . .	<u>11,094</u>	<u>9,057</u>	<u>22%</u>
Operating expenses:			
Research and development . . . . .	3,189	2,338	36%
Selling and marketing . . . . .	1,700	1,567	8%
General and administration . . . . .	1,686	1,817	(7)%
Foreign exchange (gain) loss . . . . .	(102)	8	N/A
Total operating expenses . . . . .	<u>6,473</u>	<u>5,730</u>	<u>13%</u>
Operating income . . . . .	4,621	3,327	39%
Interest income, net . . . . .	287	153	88%
Other expense . . . . .	(20)	(14)	43%
Benefit of investment tax credits . . . . .	<u>—</u>	<u>1,036</u>	<u>(100)%</u>
Income from operations before income taxes . . . . .	4,888	4,502	9%
Income taxes			
Current provision . . . . .	81	1,313	(94)%
Future income tax expense (benefit) . . . . .	(428)	(555)	(23)%
Total income tax expense (benefit) . . . . .	<u>(347)</u>	<u>758</u>	<u>N/A</u>
Net income . . . . .	<u>\$ 5,235</u>	<u>\$ 3,744</u>	<u>40%</u>
Net income per share (basic) . . . . .			
	\$ 0.62	\$ 0.45	
Weighted average shares outstanding (basic) . . . . .			
	8,377	8,261	
Net income per share (diluted) . . . . .			
	\$ 0.59	\$ 0.43	
Weighted average shares outstanding (diluted) . . . . .			
	8,817	8,730	

STATEMENT OF OPERATIONS DATA (1), (2) (unaudited)  
(in thousands, U.S. dollars, except per share data)

	<u>Three Months Ended</u> <u>March 31, 2006 (2)</u>
Revenues:	
Product sales .....	\$ 15,651
NRE fees .....	939
Total revenues .....	<u>16,590</u>
Cost of sales:	
Cost of product sales .....	6,055
Cost of NRE fees .....	559
Total cost of sales .....	<u>6,614</u>
Gross profit .....	<u>9,976</u>
Operating expenses:	
Research and development .....	2,868
Selling and marketing .....	1,529
General and administration .....	1,516
Foreign exchange (gain) loss .....	(92)
Total operating expenses .....	<u>5,821</u>
Operating income .....	4,155
Interest income, net .....	258
Other expense .....	<u>(18)</u>
Income from operations before income taxes .....	4,395
Income taxes	
Current provision .....	73
Future income tax expense (benefit) .....	(385)
Total income tax expense (benefit) .....	<u>(312)</u>
Net income .....	<u>\$ 4,707</u>
Net income per share (basic) .....	\$ 0.56
Weighted average shares outstanding (basic) .....	8,377
Net income per share (diluted) .....	\$ 0.53
Weighted average shares outstanding (diluted) .....	8,817

	<u>December 31, 2005</u>	<u>March 31, 2006</u>	<u>U.S. \$ Equivalent</u> <u>March 31, 2006 (2)</u>
Balance Sheet Data (1): (in thousands, Canadian dollars)			
Working capital .....	\$ 44,270	\$ 49,228	\$ 44,266
Total assets .....	71,255	79,623	71,597
Total shareholders' equity .....	58,117	63,823	57,390

(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 disclosed in Note 12 of the Notes to Consolidated Financial Statements contained in this report.

(2) Canadian dollar amounts have been translated into U.S. dollars solely for the convenience of the reader at the rate of U.S. \$0.8992 per CDN \$1.00 which was the exchange rate as of June 14, 2006. 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.

### **Three Month Period Ended March 31, 2006 Compared to Three Month Period Ended March 31, 2005**

#### ***Revenues***

Total revenues were \$18.5 million in the first quarter of 2006, representing a 20% increase over the \$15.4 million revenue in the first quarter of 2005, despite the adverse impact of a weaker U.S. dollar relative to the Canadian dollar. Since the majority of the Company's revenue is denominated in U.S. dollars, a weaker U.S. dollar adversely affects NovAtel's revenues. NovAtel's U.S. dollar denominated revenue declined to an average of CDN\$1.17 per U.S. dollar in the first quarter of 2006 from an average of CDN\$1.24 per U.S. dollar in the first quarter of 2005, a decline of approximately 6%. The following table sets out revenues of the Company by the categories indicated for the three month periods ended March 31, 2006 and March 31, 2005 and revenues as a percentage of total revenue.

	Three Months Ended (\$ thousands)					
	March 31, 2006		March 31, 2005		Change	
	\$	%	\$	%	\$	%
Geomatics .....	\$ 2,371	13%	\$ 2,466	16%	(95)	(4%)
Aerospace & Defence.	1,970	11%	1,668	11%	302	18%
Special Applications..	14,065	76%	11,058	72%	3,007	27%
Other .....	44	—	165	1%	(121)	(73%)
<b>TOTAL .....</b>	<b>\$ 18,450</b>	<b>100%</b>	<b>\$ 15,357</b>	<b>100%</b>	<b>\$ 3,093</b>	<b>20%</b>

#### **Geomatics**

Geomatics revenue was \$2.4 million in the first quarter of 2006, a decrease of 4% from the \$2.5 million revenue in the first quarter of 2005, due primarily to the lower U.S. dollar relative to the Canadian dollar as well as the timing of shipments to certain third party customers.

Effective with the fourth quarter of 2002, the Company changed its policy of recognizing shipments of product revenue from the Company to Point from revenue recognition at the time of shipment to revenue recognition at the time of receiving payment from Point. As of March 31, 2006, the Company had deferred revenue related to product shipments to Point of approximately \$800,000, after inter-company eliminations.

Point Inc.'s operations were restructured in April 2002, with the aim of focusing operating activities on sales, marketing and distribution as opposed to product development. The Company had been disappointed in the operating performance of Point, Inc. particularly the lower than expected revenues which the Company had anticipated would increase after the April 2002 restructuring. The Company continues to work with Point, Inc.'s management and Sokkia to improve the operating results of Point, Inc.

#### **Aerospace and Defence**

Aerospace and Defence sales were \$2.0 million for the first quarter of 2006, an increase of 18% from \$1.7 million for the first quarter of 2005. The Company's Aerospace and Defence revenues are highly dependent on the timing of large, government-funded programs. The increase in Aerospace and Defence revenues of the Company in the first quarter of 2006 relative to the first quarter of 2005 stems from contracts funded by the Canadian Space Agency that the Company announced previously in 2005, to develop technology for Europe's Galileo program, as well as higher revenues with Raytheon Company in a number of aviation related programs.

In October 2004, the Canadian Space Agency ("CSA") awarded a contract to the Company for demonstration and prototype receiver development for the European Galileo system. The value of CSA's contribution to NovAtel under the contract is \$997,000, of which \$595,000 was recognized as revenue in 2005. This contract is expected to be completed in the first half of 2006.

In November 2005, the Company commenced work on the Galileo Safety of Life project under a CSA contract with CMC Electronics. The Company expects to receive \$500,000 funding on this program over approximately 18 months, with equipment deliveries scheduled for May 2007.

In 2005, the Company received an initial contract for a portion of the Galileo Reception Chain (“GRC”) reference receiver development as part of the European Galileo program. The initial contract was valued at €1.3 million and has subsequently been extended in 2006 to a value of up to €3.0 million. Should the contract proceed to a full award, the program may have a value up to €6.3 million over the next two and a half years with delivery of up to 25 production receivers subsystems by mid-2008. The Company recognized \$154,000 in revenue in the first quarter of 2006 relating to this contract, compared to \$nil revenue in the first quarter of 2005.

## Special Applications

Special Applications revenues were \$14.1 million in the first quarter of 2006, an increase of 27% from the \$11.1 million in the first quarter of 2005. The increase was primarily attributable to higher product shipments to Leica Geosystems of \$1.6 million and increased shipments of product to the Company's dealer network in Europe and China, offsetting lower revenues from the agricultural market which declined to \$1.0 million in the first quarter of 2006 from \$1.7 million in the first quarter of 2005. The Company expects that revenue with Leica Geosystems will comprise 18% to 22% of total revenue in 2006.

## Revenues by Geographic Market

The Company derived approximately 60% of its total revenues from the sale of its products to countries outside the United States and Canada in the first quarter of 2006 compared to 56% in the first quarter of 2005. Revenues from international sales increased to \$11.1 million in the first quarter of 2006 from \$8.7 million in the first quarter of 2005, mainly as a result of increased sales to Leica Geosystems in Switzerland and higher shipments to China.

**Gross Profit.** Gross profit increased to \$11.1 million in the first quarter of 2006 from \$9.1 million in the first quarter of 2005, primarily as a result of increased revenue. Gross profit as a percentage of total revenues was 60.1% in the first quarter of 2006 compared to 59.0% in the first quarter of 2005, with the increase attributable to improved product mix, including the benefit of sales of Waypoint products, which are primarily software products and earn higher gross margin percentages, as well as lower provisions for inventory obsolescence.

**Research and development.** Research and development expenses increased 36% from \$2.3 million in the first quarter of 2005 to \$3.2 million in the first quarter in 2006 and increased as a percentage of total revenues from 15.2% in the first quarter of 2005 to 17.3% in the first quarter of 2006. The increase in research and development expenses is primarily attributable to higher employee compensation and benefit costs of \$731,000, higher materials/services costs of \$330,000, and higher amortization costs of \$88,000, offset by higher recovery of expenses from customer funded programs of \$324,000. The Company believes that significant investments in research and development are required to maintain its technology and compete in its business. The Company expects to spend approximately 17% to 19% of revenue in research and development activities in 2006.

**Selling and marketing.** Selling and marketing expenses increased 8% from \$1.6 million in the first quarter of 2005 to \$1.7 million in the first quarter of 2006 but decreased as a percentage of total revenues from 10.2% in the first quarter of 2005 to 9.2% in the first quarter of 2006. The increased selling and marketing costs in the current quarter are due primarily to higher employee compensation and benefit costs of \$223,000, higher recruiting and relocations costs of \$67,000, higher advertising and product promotion costs of \$40,000 and higher supplies/materials costs of \$22,000, partially offset by lower customer and product support costs of \$186,000 and a lower provision for doubtful customer accounts of \$66,000. The Company expects to spend approximately 10% to 11% of revenue in selling and marketing activities in 2006.

**General and administration.** General and administration expenses decreased 7% from \$1.8 million in the first quarter of 2005 to \$1.7 million in the first quarter of 2006 and decreased as a percentage of revenue from 11.8% in the first quarter of 2005 to 9.1% in the first quarter of 2006. The decrease in general and administration expenses was a result of lower professional fees for legal and audit services of \$387,000, partially offset by higher employee compensation and benefit costs of \$103,000, higher insurance costs of \$48,000, higher consulting costs related to the Company's Sarbanes-Oxley 404 compliance project of \$46,000 and higher facility costs of \$34,000. The Company expects to spend approximately 9.5% to 10.5% of revenue in general and administration activities in 2006.

**Foreign exchange (gain) loss.** The Company recorded a foreign exchange gain of \$102,000 in the first quarter of 2006 as a result of relative changes in the Canadian dollar to U.S. dollar in the first three months of 2006, compared to a foreign exchange loss of \$8,000 in the first quarter of 2005.

**Interest income, net.** The Company earned net interest income of \$287,000 in the first quarter of 2006 compared with \$153,000 in the first quarter of 2005, with the increase attributable to higher cash balances being available for investment and higher interest rates. The Company's cash deposits that are not required for operations are invested in short-term interest bearing instruments.

**Benefit of Investment Tax Credits.** In the first quarter of 2005, the Company recognized a \$1.0 million benefit of investment tax credits related to the use of investment tax credits to shelter tax otherwise payable in the period. There was no comparable benefit of investment tax credits in the first quarter of 2006, as the Company used other tax deductible expenses to shelter tax otherwise payable.

**Provision for Current Income Taxes and Future Income Tax Benefit.** The provision for current income taxes consisted primarily of an expense related to the benefit of investment tax credits recognized elsewhere on the statement of operations, a provision for income tax payable in the U.S., U.K., and Canadian federal large corporations' tax. The provision for current income taxes was \$81,000 in the first quarter of 2006, compared to \$1.3 million in the first quarter of

2005. The decrease was mainly attributable to a \$1.2 million expense incurred with the recognition of the benefit of investment tax credits in 2005.

In the first quarter of 2006, the Company recognized \$428,000 of future income tax benefit compared to \$555,000 in the first quarter of 2005. The Company recognized the future income tax benefit in the current period on the basis of its improving profitability from 2001 to March 31, 2006 and the Company's forecasted profitability in the foreseeable future.

## **Taxes**

The Company's operations are substantially located in Canada and accordingly, Canada is the Company's main tax jurisdiction. The Company has not recorded a provision for current income taxes payable in Canada, other than for Canadian federal large corporations tax, income tax related to Waypoint's operations prior to amalgamation with NovAtel, due to previously incurred losses, credits and costs. As of December 31, 2005, the Company had approximately \$140 million of losses, investment tax credits, depreciation and research and development costs that are available to reduce future taxable income and taxes payable primarily in Canada. The Company has determined that the acquisition of a majority of its Common Shares by CMC Electronics in 1998, BAE SYSTEMS p.l.c.'s acquisition of the majority of the common shares of CMC Electronics in November 1999, and ONCAP's acquisition of the majority of the common shares of CMC Electronics in April 2001 each constitute an 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 credit may be subject to limitation. The ultimate availability and amount of these losses, credits and costs may be dependent upon future Canada Revenue Agency audits.

Prior to 2004, the Company had established a full valuation allowance against the calculated tax benefits associated with tax shields, since it was uncertain that these tax benefits were more likely than not to be realized. In determining the valuation allowances to establish against these deferred tax benefits, the Company considers many factors, including the specific taxing jurisdiction, the carry forward period, income tax strategies, limitations due to acquisitions-of-control and forecasted earnings. A valuation allowance is recognized if, based on the weight of available evidence, the Company concludes that it is more likely than not that some portion or all of the future tax benefits will not be realized. In 2004 and 2005, the Company determined, on the basis of consecutive years of increasing profitability from 2001 to 2005 and the Company's forecasts of operating results for the foreseeable future, that it was more likely than not that a portion of the future income tax assets would be realized. As part of this analysis, the Company used a seven year moving average to forecast profitability of its operations subject to Canadian income tax.

Accordingly, the Company has recognized future income tax assets of \$6.0 million (\$2.6 million current and \$3.4 million long term) on its balance sheet as of March 31, 2006. The Company recognized a corresponding \$2.4 million future income tax benefit in its statement of operations for the year ended December 31, 2005 and an additional \$428,000 future income tax benefit in the first quarter of 2006.

## **Liquidity and Capital Resources**

In the three month period ended March 31, 2006, cash provided by operations was \$3.2 million, compared to cash provided by operations of \$1.5 million in the first quarter of 2005. Cash provided by operations in the three month period ended March 31, 2006 consisted primarily of net income of \$5.2 million, \$847,000 of amortization expenses, partially offset by \$367,000 of non-cash tax related items and an increase in working capital of \$2.6 million. The increase in non-cash working capital from December 31, 2005 to March 31, 2006 was caused primarily by an increase in accounts receivable due to growth in the Company's business and timing of shipments towards the latter part of the first quarter of 2006, partially offset by an increase in accounts payable and accrued liabilities.

In the three month period ended March 31, 2006, cash provided by financing activities was \$465,000, consisting of employee exercises of stock options of \$301,000, and new loans advanced to Point, Inc. by Sokkia Co., Ltd. and the Company. In the comparable period in 2005, \$75,000 cash was provided by financing activities, primarily related to a reimbursement from CMC Electronics relating to the proposed public offering/private placement of the Company's shares in 2004.

In the three month period ended March 31, 2006, cash used in investing activities was \$3.4 million, consisting of purchases of \$12.4 million of short-term investments, partially offset by proceeds from maturities of short-term investments of \$10.4 million and purchases of \$1.4 million of capital equipment and intangible assets. In the three month period ended March 31, 2005, cash provided by investing activities was \$6.0 million, attributable to proceeds of \$10.6 million received upon the maturity of short-term investments, partially offset by the purchase of \$5.0 million in short-term investments and \$409,000 of capital equipment and intangible assets.

At March 31, 2006, the Company had cash and short-term investments of \$37.4 million. The Company has credit agreements with the HSBC Bank Canada and the Toronto Dominion Bank under which the Company can borrow up to \$1.7 million for day-to-day operating requirements and \$3.4 million to support the margin requirement related to the purchase of up to U.S. \$14.0 to 15.0 million of foreign exchange contracts (depending on the maturity date of the contracts). The lines of credit are payable on demand and are secured by certain of the Company's assets. At March 31, 2006, portions of the lines of credit were utilized to support approximately U.S. \$12.5 million of foreign exchange contracts (U.S. \$8.5 million at December 31, 2005), leaving \$1.7 million available for day-to-day operating

requirements and the margin capacity necessary to enter into an additional U.S. \$1.5 to \$2.5 million in forward foreign exchange contracts (depending on the maturity date of the contracts).

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.

### **Inflation**

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.

### **Off Balance Sheet Arrangements**

As of March 31, 2006, the Company had no off balance sheet arrangements other than operating leases entered into in the normal course of business.

### **Contractual Obligations**

There have been no material changes to the Company's contractual obligations and commitments to make future payments under contracts, excluding trade and related party trade payables, from those disclosed in the Company's Form 20-F for the year ended December 31, 2005.

### **Quantitative and Qualitative Disclosure About Market Risk**

Most of the Company's revenues (approximately 95% in 2005) 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 to Canadian dollar exchange rates. The contracts are normally for terms of up to twelve months and are used as hedges of a portion of the Company's U.S. dollar denominated revenues. Gains and losses arising on these financial instruments are offset against the gains and losses arising on the maturity of the underlying transactions. Derivative financial instruments are not used for speculative purposes. There can be no assurance that the Company will be successful in these activities.

At March 31, 2006, the Company had forward foreign currency contracts to sell U.S. \$12.0 million between April 28, 2006 and December 29, 2006, at rates between \$0.8266 and \$0.8780 U.S. dollar per Canadian dollar. In addition, the Company had forward foreign exchange contracts to sell €410,000 on May 15, 2006 at a rate of €0.7366 per Canadian dollar.

The Company's operating budget for 2006 is based on an exchange rate of U.S. \$0.85 per Canadian dollar. The Company estimates that each \$0.01 change in the U.S. dollar to Canadian dollar exchange rate would impact the Company's 2006 budgeted net income by approximately \$500,000, prior to taking into consideration the Company's 2006 hedging program. The following table sets forth the potential impact of various hypothetical U.S. dollar to Canadian dollar exchange rates on the Company's 2006 budgeted net income, prior to taking into consideration the Company's 2006 hedging program.

U.S. \$ per Canadian \$

Impact on 2006 Budgeted Net Income )  
Favourable/(Unfavourable  
(CDNS)

\$0.81 .....	\$2.2 million
\$0.82 .....	\$1.6 million
\$0.83 .....	\$1.1 million
\$0.84 .....	\$0.5 million
\$0.85 .....	—
\$0.86 .....	\$(0.5) million
\$0.87 .....	\$(1.0) million
\$0.88 .....	\$(1.5) million
\$0.89 .....	\$(2.0) million
\$0.90 .....	\$(2.5) million
\$0.91 .....	\$(2.9) million
\$0.92 .....	\$(3.4) million
\$0.93 .....	\$(3.8) million

As of June 14, 2006, the exchange rate was U.S. \$0.8992 per Canadian dollar.

The Company is not subject to significant interest rate risk due to the short-term maturities of its outstanding loans and short-term investments.

**Legal Proceedings**

There has been no material change in legal proceedings since the Form 20-F for the fiscal year ended December 31, 2005 filed with the Securities and Exchange Commission.