



NOVATEL INC.

Quarterly Report

For the Three and Six Months Ended June 26, 1999

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The dollar amounts presented in this Quarterly Report are in Canadian currency unless otherwise noted (CDN \$1 = US \$0.6633 on July 23, 1999), and are presented in accordance with accounting principles generally accepted in Canada. To the Company's knowledge there is no material difference between Canadian and U.S. generally accepted accounting principles ("GAAP") which would bear upon its financial statements and, more particularly, income applicable to equity share and retained earnings, except as disclosed in Note 20 of Notes to Consolidated Financial Statements for the fiscal year ended December 31, 1998 filed as part of Form 20-F with the Securities and Exchange Commission and in Note 9 of Notes to Consolidated Financial Statements contained in this report.

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

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

{PRIVATE }	ASSETS (Note 1)	<u>June 26, 1999</u>	<u>December 31, 1998</u>
Current assets:			
Cash and short term investments.....		\$ 9,746	\$ 4,486
Accounts receivable		3,216	5,357
Inventories (Note 2)		3,434	3,595
Prepaid expenses and deposits		<u>480</u>	<u>315</u>
Total current assets		16,876	13,753
Capital assets (Note 6).....		5,672	11,755
Intangible assets		3,259	3,424
Deferred development costs (Note 3).....		<u>1,155</u>	<u>528</u>
Total assets.....		<u>\$26,962</u>	<u>\$ 29,460</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
(Note 1)			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 4,173	\$ 5,170
Provision for future warranty costs		146	110
Deferred gain on sale/leaseback of capital assets – current portion (Note 6)		153	42
Capital lease obligation – current portion (Note 6).....		<u>361</u>	<u>350</u>
Total current liabilities.....		4,833	5,672
Deferred gain on sale/leaseback of capital assets – long term portion (Note 6).....		1,012	80
Capital lease obligation – long term portion (Note 6)		<u>739</u>	<u>922</u>
Total liabilities.....		<u>6,584</u>	<u>6,674</u>
Non-controlling interest.....		36	---
Shareholders' equity:			
Capital stock (Note 4)		35,602	35,602
Deficit		<u>(15,260)</u>	<u>(12,816)</u>
Total shareholders' equity		<u>20,342</u>	<u>22,786</u>
Total liabilities and shareholders' equity		<u>\$26,962</u>	<u>\$ 29,460</u>

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 26,</u>	<u>July 4,</u>	<u>June 26,</u>	<u>July 4,</u>
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Revenues.....	\$ 3,307	\$ 5,744	\$ 8,577	\$10,509
Cost of sales.....	<u>1,763</u>	<u>2,367</u>	<u>4,342</u>	<u>4,658</u>
Gross profit.....	<u>1,544</u>	<u>3,377</u>	<u>4,235</u>	<u>5,851</u>
Operating expenses:				
Research and development.....	1,680	2,098	3,565	3,987
Selling and marketing.....	965	1,027	1,938	1,988
General and administration.....	<u>630</u>	<u>935</u>	<u>1,246</u>	<u>1,785</u>
Total operating expenses.....	<u>3,275</u>	<u>4,060</u>	<u>6,749</u>	<u>7,760</u>
Operating loss.....	(1,731)	(683)	(2,514)	(1,909)
Interest income.....	105	66	199	125
Other income (expense).....	<u>(27)</u>	<u>27</u>	<u>(87)</u>	<u>39</u>
Loss from continuing operations before income taxes.....	(1,653)	(590)	(2,402)	(1,745)
Provision for income taxes.....	<u>21</u>	<u>20</u>	<u>42</u>	<u>39</u>
Net loss from continuing operations.....	(1,674)	(610)	(2,444)	(1,784)
Net income from discontinued operations (Note 7).....	<u>—</u>	<u>7</u>	<u>—</u>	<u>1,227</u>
Net loss.....	<u>\$(1,674)</u>	<u>\$ (603)</u>	<u>\$(2,444)</u>	<u>\$ (557)</u>
Net income (loss) per share (basic) (Note 9)				
Continuing operations.....	\$(0.22)	\$ (0.08)	\$(0.32)	\$ (0.23)
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.16</u>
Net income (loss) per share.....	<u>\$(0.22)</u>	<u>\$ (0.08)</u>	<u>\$(0.32)</u>	<u>\$ (0.07)</u>
Weighted average shares outstanding (basic) (Note 4)	<u>7,674</u>	<u>7,674</u>	<u>7,674</u>	<u>7,673</u>
Net income (loss) per share (fully diluted) (Note 9)				
Continuing operations.....	\$(0.22)	\$ (0.08)	\$(0.32)	\$ (0.23)
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.16</u>
Net income (loss) per share.....	<u>\$(0.22)</u>	<u>\$ (0.08)</u>	<u>\$(0.32)</u>	<u>\$ (0.07)</u>
Weighted average shares outstanding (fully diluted) (Note 4).	<u>8,679</u>	<u>8,633</u>	<u>8,578</u>	<u>8,623</u>

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

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

{PRIVATE }	Common Shares		Deficit	Total
	Number	Amount		Shareholders'
				Equity
Balance December 31, 1998..	7,674	\$35,602	\$(12,816)	\$22,786
Common Shares issued.....	—	—	—	—
Net loss	—	—	(2,444)	(2,444)
Balance June 26, 1999	7,674	\$35,602	\$(15,260)	\$20,342

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Six Months Ended	
	June 26, 1999	July 4, 1998
Operating activities:		
Net loss from continuing operations	\$ (2,444)	\$ (1,784)
Net income from discontinued operations.....	—	1,227
Charges and credits to operations not involving an outlay of cash:		
Amortization	1,317	1,123
Loss (gain) on disposal of capital assets	1	(11)
Amortization of deferred gain on sale/leaseback of capital assets.....	(66)	(32)
Net change in non-cash working capital related to operations (Note 5)....	<u>1,176</u>	<u>(4,909)</u>
Cash used in operating activities.....	<u>(16)</u>	<u>(4,386)</u>
Financing activities:		
Issuance of shares (Note 4)	—	43
(Decrease) increase in capital lease obligation.....	<u>(172)</u>	<u>1,439</u>
Cash (used in) provided by financing activities.....	<u>(172)</u>	<u>1,482</u>
Decrease in cash before investing activities	<u>(188)</u>	<u>(2,904)</u>
Investing activities:		
Purchase of capital and intangible assets	(857)	(3,406)
Proceeds from disposal of capital assets	6,932	1,705
Deferred development costs	<u>(627)</u>	<u>(123)</u>
Cash provided by (used in) investing activities	<u>5,448</u>	<u>(1,824)</u>
Increase (decrease) in cash and short term investments.....	5,260	(4,728)
Cash and short term investments, beginning of period.....	<u>4,486</u>	<u>10,732</u>
Cash and short term investments, end of period	<u>\$ 9,746</u>	<u>\$ 6,004</u>
Cash and short term investments consisted of:		
Cash and cash equivalents.....	\$ 1,746	\$ 1,504
Short term investments (original maturities of greater than 90 days)	<u>8,000</u>	<u>4,500</u>
	<u>\$ 9,746</u>	<u>\$ 6,004</u>
Interest paid related to bank advances and capital lease obligations	<u>\$ 40</u>	<u>\$ 70</u>

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

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

Note 1 Basis of Presentation

The consolidated financial statements for the three and six month periods ended June 26, 1999 and July 4, 1998 presented in this Quarterly Report are prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP), are stated in Canadian dollars and are unaudited. The financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim period presented. The adjustments are of a normal recurring nature. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 1998 filed on Form 20-F with the Securities and Exchange Commission.

Note 2 Inventories

	<u>June 26, 1999</u>	<u>December 31, 1998</u>
Raw materials and components	\$ 1,729	\$ 1,065
Work-in-progress.....	52	342
Finished goods.....	<u>1,653</u>	<u>2,188</u>
	<u>\$ 3,434</u>	<u>\$ 3,595</u>

Note 3 Deferred Development Costs

In the six month period ended June 26, 1999, the Company deferred \$627 of development costs related to the development of a certified aviation GPS receiver. In the comparable six month period ended July 4, 1998, the Company deferred \$123 of development costs.

Note 4 Capital Stock

	<u>June 26, 1999</u>		<u>December 31, 1998</u>	
	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>
	<u>Authorized</u>	<u>Issued</u>	<u>Authorized</u>	<u>Issued</u>
Common Shares.....	Unlimited	7,674	Unlimited	7,674

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

Under the Company's Employee Stock Option Plan and Directors Stock Option Plan, the following options were outstanding as of June 26, 1999:

<u>Option Plan</u>	<u>Year of Grant</u>	<u>Number of Options Outstanding as of June 26, 1999</u>	<u>Weighted Average Exercise Price</u> (US\$)
Employee	1997	542	\$7.58
Employee	1998	216	\$7.78
Employee	1999	186	\$1.38
Directors	1997	40	\$7.50
Directors	1999	21	\$1.38
		<u>1,005</u>	<u>\$6.34</u>

During the six month period ended June 26, 1999, the following activity occurred within the stock option plans:

	<u>Number of Options</u>	<u>Exercise Price Range</u> (US\$)
Options outstanding as of December 31, 1998	892	\$7.50 - \$11.25
Options granted.....	207	\$1.375
Options cancelled.....	(94)	\$1.375 - \$8.00
Options exercised.....	—	—
Options outstanding as of June 26, 1999	<u>1,005</u>	<u>\$1.375 - \$11.25</u>

Note 5 Consolidated Statements of Cash Flows

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

	<u>Six Months Ended</u>	
	<u>June 26, 1999</u>	<u>July 4, 1998</u>
Decrease (increase) in accounts receivable.....	\$ 2,141	\$ (1,726)
Decrease (increase) in inventories	161	(154)
Increase in prepaid expenses and deposits	(165)	(571)
Decrease in accounts payable and accrued liabilities.....	(997)	(1,787)
Increase in provision for future warranty costs.....	36	37
Net change in non-cash working capital.....	1,176	(4,201)
Non-cash working capital relating to divestitures.....	0	(708)
Net change in non-cash working capital relating to operations .	<u>\$ 1,176</u>	<u>\$ (4,909)</u>

Note 6 Commitments and Contingencies

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

b) In April 1998, Telexel, a former major shareholder of the Company, paid approximately \$5,500 to the Province of Alberta as deferred consideration for the acquisition of the Company. As a result, the Company's only continuing obligations to the Province of Alberta relate to providing information in the Company's

possession that may be required to support certain litigation affecting the Company that is the responsibility of the Province of Alberta.

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

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

Note 7 Discontinued Operations

The discontinued operations are substantially comprised of the results for the Wireless Access Products (WAP) division and its manufacturing operations and the Personal Communications Products (PCP) division. The net income from discontinued operations for the following periods is as set forth below.

	Discontinued Operations			
	Three months ended		Six months ended	
	June 26, 1999	July 4, 1998	June 26, 1999	July 4, 1998
Revenues.....	\$ —	\$ —	\$ —	\$ 512
Cost of sales.....	—	—	—	—
Research and development expenses.....	—	—	—	—
Selling and marketing expenses.....	—	(7)	—	(7)
General and administration expenses.....	—	—	—	2
Other (income) expenses.....	—	—	—	—
Income before gain on divestiture.....	—	7	—	517
Gain on divestiture.....	—	—	—	710
Net income from discontinued operations....	<u>\$ —</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ 1,227</u>

Note 8 Uncertainty Due to the Year 2000 Issue

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

Note 9 Difference 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). As described in Note 20 to the Consolidated Financial Statements for the year ended December 31, 1998, filed on Form 20-F with the Securities and Exchange Commission, there are significant differences between Canadian GAAP and United States generally accepted accounting principles (U.S. GAAP) that may affect the financial position and results of operations reported by the Company. The significant differences from U.S. GAAP for the six month periods ending June 26, 1999 and July 4, 1998 are as follows:

- (i) In the six month period ended June 26, 1999, the Company deferred \$627 of development costs (\$123 in the six month period ending July 4, 1998) in accordance with Canadian GAAP. Under U.S. GAAP, these costs would be expensed as incurred as research and development costs.
- (ii) The Company has entered into foreign exchange options and forward contracts to reduce its exposure to foreign exchange fluctuations. Under Canadian GAAP, any gains or losses on these financial instruments would be recognized in the period the underlying anticipated transactions occur. Under U.S. GAAP, these financial instruments would be recorded at fair value at the ending date of each reporting period, resulting in an additional gain under U.S. principles of \$341 in the six month period ending June 26, 1999 (\$0 in the six month period ending July 4, 1998).

	Three months ended		Six months ended	
	June 26, 1999	July 4, 1998	June 26, 1999	July 4, 1998
Net loss from continuing operations – Canadian GAAP	\$ (1,674)	\$ (610)	\$ (2,444)	\$ (1,784)
Adjustments to U.S. GAAP				
Deferred development costs (i).....	(353)	(93)	(627)	(123)
Fair value of financial instruments (ii)	152	—	341	—
Net loss from continuing operations – U.S. GAAP	<u>\$ (1,875)</u>	<u>\$ (703)</u>	<u>\$ (2,730)</u>	<u>\$ (1,907)</u>
Net income from discontinued operations – Canadian GAAP.....	\$ —	\$ 7	\$ —	\$ 1,227
Adjustments to U.S. GAAP.....	—	—	—	—
Net income from discontinued operations – U.S. GAAP.....	<u>\$ —</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ 1,227</u>
Net income (loss) – U.S. GAAP	<u>\$ (1,875)</u>	<u>\$ (696)</u>	<u>\$ (2,730)</u>	<u>\$ (680)</u>

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

Three Months Ended	Income (loss) per Share			
	Canadian GAAP		U.S. GAAP	
	Basic		Basic	
	<u>June 26, 1999</u>	<u>July 4, 1998</u>	<u>June 26, 1999</u>	<u>July 4, 1998</u>
Continuing operations	\$ (0.22)	\$ (0.08)	\$ (0.24)	\$ (0.09)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Income (loss) per share	<u>\$ (0.22)</u>	<u>\$ (0.08)</u>	<u>\$ (0.24)</u>	<u>\$ (0.09)</u>
	Fully Diluted		Diluted	
	<u>June 26, 1999</u>	<u>July 4, 1998</u>	<u>June 26, 1999</u>	<u>July 4, 1998</u>
Continuing operations	\$ (0.22)	\$ (0.08)	\$ (0.24)	\$ (0.09)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Income (loss) per share	<u>\$ (0.22)</u>	<u>\$ (0.08)</u>	<u>\$ (0.24)</u>	<u>\$ (0.09)</u>
	Income (loss) per Share			
Six Months Ended	Canadian GAAP		U.S. GAAP	
	Basic		Basic	
	<u>June 26, 1999</u>	<u>July 4, 1998</u>	<u>June 26, 1999</u>	<u>July 4, 1998</u>
Continuing operations	\$ (0.32)	\$ (0.23)	\$ (0.36)	\$ (0.25)
Discontinued operations	<u>0.00</u>	<u>0.16</u>	<u>0.00</u>	<u>0.16</u>
Income (loss) per share	<u>\$ (0.32)</u>	<u>\$ (0.07)</u>	<u>\$ (0.36)</u>	<u>\$ (0.09)</u>
	Fully Diluted		Diluted	
	<u>June 26, 1999</u>	<u>July 4, 1998</u>	<u>June 26, 1999</u>	<u>July 4, 1998</u>
Continuing operations	\$ (0.32)	\$ (0.23)	\$ (0.36)	\$ (0.25)
Discontinued operations	<u>0.00</u>	<u>0.16</u>	<u>0.00</u>	<u>0.16</u>
Income (loss) per share	<u>\$ (0.32)</u>	<u>\$ (0.07)</u>	<u>\$ (0.36)</u>	<u>\$ (0.09)</u>

The reconciliation of the selected financial data between U.S. and Canadian GAAP produce the following differences on the presented balance sheet data.

	<u>Period Ended</u>	
	<u>June 26,</u> <u>1999</u>	<u>Dec. 31,</u> <u>1998</u>
Total Assets		
Canadian GAAP.....	\$26,962	\$29,460
Adjustments to U.S. GAAP		
Deferred development costs.....	(1,155)	(528)
Fair value of financial instruments.....	<u>33</u>	<u>—</u>
U.S. GAAP.....	<u>\$25,840</u>	<u>\$28,932</u>
Total Shareholders' Equity(Deficit)		
Canadian GAAP.....	\$20,342	\$22,786
Adjustments to U.S. GAAP		
Deferred development costs.....	(1,155)	(528)
Fair value of financial instruments	<u>33</u>	<u>(308)</u>
U.S. GAAP.....	<u>\$19,220</u>	<u>\$21,950</u>

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

Note 10 Subsequent Events

- (a) On July 22, 1999, the Company realigned its organizational structure and as a consequence reduced its work force by six employees. The associated cost is expected to be approximately \$300 and will be charged against income in the three month period ending October 2, 1999.
- (b) On July 20, 1999, the Company entered into an agreement with Sokkia Co., Ltd. ("Sokkia") to form a jointly owned subsidiary known as Point, Inc. The Company will own 49% of Point, Inc., with the balance owned by Sokkia. The Company's Custom Product Group, which was responsible for the development of survey products, was transferred into Point, Inc., effective August 1, 1999. At the same time Sokkia transferred in the Sokkia Technology, Inc. organization which had been conducting research and development on advanced measurement solutions for Sokkia. Subsequent to a transition period, expected to be completed by the end of 1999, the Company's sales related to surveying, mapping, GIS, construction and construction machine control applications will be distributed through Point, Inc.

The Company's initial investment in Point, Inc. is expected to be approximately US\$490, consisting primarily of cash and fixed assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
STATEMENT OF OPERATIONS DATA (1)

 (unaudited, in **Canadian \$** thousands, except per share data)

	Three Months Ended			Six Months Ended		
	June 26, 1999	July 4, 1998	% Change	June 26, 1999	July 4, 1998	% Change
Revenues	\$ 3,307	\$ 5,744	(42%)	\$ 8,577	\$10,509	(18%)
Cost of sales	<u>1,763</u>	<u>2,367</u>	<u>(26%)</u>	<u>4,342</u>	<u>4,658</u>	<u>(7%)</u>
Gross profit.....	<u>1,544</u>	<u>3,377</u>	<u>(54%)</u>	<u>4,235</u>	<u>5,851</u>	<u>(28%)</u>
Operating expenses:						
Research and development.....	1,680	2,098	(20%)	3,565	3,987	(11%)
Selling and marketing	965	1,027	(6%)	1,938	1,988	(3%)
General and administration	<u>630</u>	<u>935</u>	<u>(33%)</u>	<u>1,246</u>	<u>1,785</u>	<u>(30%)</u>
Total operating expenses	<u>3,275</u>	<u>4,060</u>	<u>(19%)</u>	<u>6,749</u>	<u>7,760</u>	<u>(13%)</u>
Operating loss.....	(1,731)	(683)	(>100%)	(2,514)	(1,909)	(32%)
Interest income	105	66	59%	199	125	59%
Other income (expense).....	<u>(27)</u>	<u>27</u>	N/A	<u>(87)</u>	<u>39</u>	N/A
Loss from continuing operations before income taxes	(1,653)	(590)	(>100%)	(2,402)	(1,745)	(38%)
Provision for income taxes	<u>21</u>	<u>20</u>	<u>5%</u>	<u>42</u>	<u>39</u>	<u>8%</u>
Net loss from continuing operations.....	(1,674)	(610)	(>100%)	(2,444)	(1,784)	(37%)
Net income from discontinued operations.....	<u>—</u>	<u>7</u>	(100%)	<u>—</u>	<u>1,227</u>	(100%)
Net loss.....	<u>\$(1,674)</u>	<u>\$(603)</u>	(>100%)	<u>\$(2,444)</u>	<u>\$(557)</u>	(>100%)
Net income (loss) per share (basic)						
Continuing operations	\$ (0.22)	\$ (0.08)		\$ (0.32)	\$ (0.23)	
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>		<u>0.00</u>	<u>0.16</u>	
Net income (loss) per share	<u>\$(0.22)</u>	<u>\$(0.08)</u>		<u>\$(0.32)</u>	<u>\$(0.07)</u>	
Weighted average shares outstanding (basic).....	<u>7,674</u>	<u>7,674</u>		<u>7,674</u>	<u>7,673</u>	
Net income (loss) per share (fully diluted)						
Continuing operations	\$ (0.22)	\$ (0.08)		\$ (0.32)	\$ (0.23)	
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>		<u>0.00</u>	<u>0.16</u>	
Net income (loss) per share	<u>\$(0.22)</u>	<u>\$(0.08)</u>		<u>\$(0.32)</u>	<u>\$(0.07)</u>	
Weighted average shares outstanding (fully diluted) ...	<u>8,679</u>	<u>8,633</u>		<u>8,578</u>	<u>8,623</u>	

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

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

	<u>Three Months Ended</u>			<u>Six Months Ended</u>		
	<u>June 1999</u>	<u>July 4, 1998</u>	<u>% Change</u>	<u>June 26, 1999</u>	<u>July 4, 1998</u>	<u>% Change</u>
Revenues	\$ 2,194	\$ 3,810	(42%)	\$ 5,689	\$ 6,971	(18%)
Cost of sales	<u>1,170</u>	<u>1,570</u>	(26%)	<u>2,880</u>	<u>3,090</u>	(7%)
Gross profit.....	<u>1,024</u>	<u>2,240</u>	(54%)	<u>2,809</u>	<u>3,881</u>	(28%)
Operating expenses:						
Research and development.....	1,114	1,392	(20%)	2,365	2,645	(11%)
Selling and marketing	640	681	(6%)	1,285	1,319	(3%)
General and administration	<u>418</u>	<u>620</u>	(33%)	<u>827</u>	<u>1,183</u>	(30%)
Total operating expenses	<u>2,172</u>	<u>2,693</u>	(19%)	<u>4,477</u>	<u>5,147</u>	(13%)
Operating loss.....	(1,148)	(453)	(>100%)	(1,668)	(1,266)	(32%)
Interest income	70	44	59%	132	83	59%
Other income (expense).....	<u>(18)</u>	<u>18</u>	N/A	<u>(57)</u>	<u>26</u>	N/A
Loss from continuing operations before income taxes	(1,096)	(391)	(>100%)	(1,593)	(1,157)	(38%)
Provision for income taxes	<u>14</u>	<u>14</u>	<u>0%</u>	<u>28</u>	<u>26</u>	<u>8%</u>
Net loss from continuing operations.....	(1,110)	(405)	(>100%)	(1,621)	(1,183)	(37%)
Net income from discontinued operations.....	<u>—</u>	<u>5</u>	(100%)	<u>—</u>	<u>814</u>	(100%)
Net loss.....	<u>\$(1,110)</u>	<u>\$(400)</u>	(>100%)	<u>\$(1,621)</u>	<u>\$(369)</u>	(>100%)
Net income (loss) per share (basic)						
Continuing operations	\$ (0.15)	\$ (0.05)		\$ (0.21)	\$ (0.15)	
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>		<u>0.00</u>	<u>0.10</u>	
Net income (loss) per share	<u>\$(0.15)</u>	<u>\$(0.05)</u>		<u>\$(0.21)</u>	<u>\$(0.05)</u>	
Weighted average shares outstanding (basic).....	<u>7,674</u>	<u>7,674</u>		<u>7,674</u>	<u>7,673</u>	
Net income (loss) per share (fully diluted)						
Continuing operations	\$ (0.15)	\$ (0.05)		\$ (0.21)	\$ (0.15)	
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>		<u>0.00</u>	<u>0.10</u>	
Net income (loss) per share	<u>\$(0.15)</u>	<u>\$(0.05)</u>		<u>\$(0.21)</u>	<u>\$(0.05)</u>	
Weighted average shares outstanding (fully diluted)	<u>8,679</u>	<u>8,633</u>		<u>8,578</u>	<u>8,623</u>	

	<u>December 31, 1998</u>	<u>June 26, 1999</u>	<u>US \$ Equivalent June 26, 1999(2)</u>
Balance Sheet Data (1): (Canadian \$, thousands)			
Working capital	\$ 8,081	\$ 12,043	\$ 7,988
Total assets	29,460	26,962	17,884
Long-term liabilities	1,002	1,751	1,161
Total shareholders' equity	22,786	20,342	13,493

(1) The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP). As described in Note 20 to the Consolidated Financial Statements for the year ended December 31, 1998, filed on Form 20-F with the Securities and Exchange Commission, there are significant differences between Canadian GAAP and United States generally accepted accounting principles (U.S. GAAP) that may affect the financial position and results of operations reported by the Company. The significant differences from U.S. GAAP for the six month periods ending June 26, 1999 and July 4, 1998 are as follows:

- (i) In the six month period ended June 26, 1999, the Company deferred \$627 of development costs (\$123 in the six month period ending July 4, 1998) in accordance with Canadian GAAP. Under U.S. GAAP, these costs would be expensed as incurred as research and development costs.
- (ii) The Company has entered into foreign exchange options and forward contracts to reduce its exposure to foreign exchange fluctuations. Under Canadian GAAP, any gains or losses on these financial instruments would be recognized in the period the underlying anticipated transactions occur. Under U.S. GAAP, these financial instruments would be recorded at fair value at the ending date of each reporting period, resulting in an additional gain under U.S. principles of \$341 in the six month period ending June 26, 1999 (\$0 in the six month period ending July 4, 1998).

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 26, 1999</u>	<u>July 4, 1998</u>	<u>June 26, 1999</u>	<u>July 4, 1998</u>
Net loss from continuing operations – Canadian GAAP	\$ (1,674)	\$ (610)	\$ (2,444)	\$ (1,784)
Adjustments to U.S. GAAP				
Deferred development costs (i).....	(353)	(93)	(627)	(123)
Fair value of financial instruments (ii)	<u>152</u>	<u>—</u>	<u>341</u>	<u>—</u>
Net loss from continuing operations – U.S. GAAP	<u>\$ (1,875)</u>	<u>\$ (703)</u>	<u>\$ (2,730)</u>	<u>\$ (1,907)</u>
Net income from discontinued operations – Canadian GAAP	\$ —	\$ 7	\$ —	\$ 1,227
Adjustments to U.S. GAAP.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income from discontinued operations – U.S. GAAP	<u>\$ —</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ 1,227</u>
Net income (loss) – U.S. GAAP	<u>\$ (1,875)</u>	<u>\$ (696)</u>	<u>\$ (2,730)</u>	<u>\$ (680)</u>

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

Three Months Ended	Income (loss) per Share			
	Canadian GAAP		U.S. GAAP	
	Basic		Basic	
	<u>June 26, 1999</u>	<u>July 4, 1998</u>	<u>June 26, 1999</u>	<u>July 4, 1998</u>
Continuing operations	\$ (0.22)	\$ (0.08)	\$ (0.24)	\$ (0.09)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Income (loss) per share	<u>\$ (0.22)</u>	<u>\$ (0.08)</u>	<u>\$ (0.24)</u>	<u>\$ (0.09)</u>
	Fully Diluted		Diluted	
	<u>June 26, 1999</u>	<u>July 4, 1998</u>	<u>June 26, 1999</u>	<u>July 4, 1998</u>
Continuing operations	\$ (0.22)	\$ (0.08)	\$ (0.24)	\$ (0.09)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Income (loss) per share	<u>\$ (0.22)</u>	<u>\$ (0.08)</u>	<u>\$ (0.24)</u>	<u>\$ (0.09)</u>
	Income (loss) per Share			
Six Months Ended	Canadian GAAP		U.S. GAAP	
	Basic		Basic	
	<u>June 26, 1999</u>	<u>July 4, 1998</u>	<u>June 26, 1999</u>	<u>July 4, 1998</u>
Continuing operations	\$ (0.32)	\$ (0.23)	\$ (0.36)	\$ (0.25)
Discontinued operations	<u>0.00</u>	<u>0.16</u>	<u>0.00</u>	<u>0.16</u>
Income (loss) per share	<u>\$ (0.32)</u>	<u>\$ (0.07)</u>	<u>\$ (0.36)</u>	<u>\$ (0.09)</u>
	Fully Diluted		Diluted	
	<u>June 26, 1999</u>	<u>July 4, 1998</u>	<u>June 26, 1999</u>	<u>July 4, 1998</u>
Continuing operations	\$ (0.32)	\$ (0.23)	\$ (0.36)	\$ (0.25)
Discontinued operations	<u>0.00</u>	<u>0.16</u>	<u>0.00</u>	<u>0.16</u>
Income (loss) per share	<u>\$ (0.32)</u>	<u>\$ (0.07)</u>	<u>\$ (0.36)</u>	<u>\$ (0.09)</u>

The reconciliation of the selected financial data between U.S. and Canadian GAAP produce the following differences on the presented balance sheet data.

	<u>Period Ended</u>	
	<u>June 26,</u> <u>1999</u>	<u>Dec. 31,</u> <u>1998</u>
Total Assets		
Canadian GAAP.....	\$26,962	\$29,460
Adjustments to U.S. GAAP		
Deferred development costs.....	(1,155)	(528)
Fair value of financial instruments	<u>33</u>	<u>—</u>
U.S. GAAP.....	<u>\$25,840</u>	<u>\$21,950</u>
Total Shareholders' Equity(Deficit)		
Canadian GAAP.....	\$20,342	\$22,786
Adjustments to U.S. GAAP		
Deferred development costs.....	(1,155)	(528)
Fair value of financial instruments	<u>33</u>	<u>(308)</u>
U.S. GAAP.....	<u>\$19,220</u>	<u>\$21,950</u>

- (2) Canadian dollar amounts have been translated into U.S. dollars solely for the convenience of the reader at the rate of US \$0.6633 per CDN \$1.00 which was the exchange rate as of July 23, 1999. These translations are not necessarily representative of the amounts that would have been reported if the Company had historically reported its financial statements in U.S. dollars. In addition, the rates utilized are not necessarily indicative of the rates in effect at any other time.

Revenues. Revenues include product sales and non-recurring engineering (“NRE”) fees. Product sales revenues consist primarily of sales of original equipment manufacturer (“OEM”) boards, end-user products, software, software upgrades and Wide Area Augmentation System (“WAAS”) receivers. Revenues in the second quarter 1999 were \$3.3 million compared to \$5.7 million in the second quarter 1998 and \$5.3 million in the first quarter 1999, a decrease of 42% and 37% respectively. The decrease in revenues can be attributed to several factors. Survey sales were \$1.5 million for the second quarter 1999, \$2.0 million for the second quarter 1998 and \$2.4 million for the first quarter 1999, a decrease of 27% and 39% respectively. In the second quarter 1998 there was a one time sale of \$402,000 to IPC China. Sales to Carl Zeiss Jena GmbH (“Zeiss”) in the second quarter 1999 were \$295,000 compared to \$689,000 in the first quarter 1999, and \$59,000 in the second quarter 1998. Sales to Nikon Corporation (“Nikon Japan”) remained constant between the first and second quarters 1999 at \$227,000, compared to \$10,000 in the second quarter 1998. Revenues in the second quarter 1999 were \$92,000 for Nikon Incorporated (“Nikon US”), well below \$732,000 achieved in the first quarter 1999 and \$360,000 for the second quarter 1998. The Company believes that the reduction in orders from Nikon US is related to Nikon US and the Company agreeing not to renew their distribution agreement which expires September 30, 1999. The Company provided notice to Nikon Japan that it did not intend to renew the agreements with Nikon Japan that expire December 31, 1999.

On July 20, 1999, the Company entered into an agreement with Sokkia Co., Ltd. (“Sokkia”) to form a jointly owned subsidiary company known as Point, Inc. The ownership of Point, Inc. is 51% Sokkia and 49% the Company. The Company’s Custom Products Group, which was responsible for the development of survey products, was transferred to Point, Inc. effective August 1, 1999. In addition, Sokkia transferred in the Sokkia Technology, Inc. organization which had been conducting advanced measurement solutions

research and development for Sokkia. Point, Inc. will provide Sokkia's global marketing organization with advanced measurement solutions for the fields of surveying, mapping, geographical information systems (GIS), construction and construction machine control. Sokkia's distribution system includes more than 25 subsidiaries and additional representatives around the world, each having its own dealer network. Sales to Point, Inc. from the Company are anticipated to commence in the fourth quarter 1999. Upon completion of a transition period, expected to be not later than the end of 1999, all of the Company's sales in the fields of surveying, mapping, GIS, construction and construction machine control will be through Point Inc. As a result of the Nikon US, Nikon Japan and the Sokkia relationships being in differing stages of wind-down and start-up, the Company does not anticipate any significant survey revenues for the third quarter 1999.

Aviation revenues in the second quarter 1999 consisted of \$291,000 including \$146,000 of NRE, compared to \$1.3 million of revenues in the second quarter 1998, of which WAAS receivers contributed \$0.6 million. Aviation revenues in the first quarter 1999 were \$281,000. Sales to Cubic Defense Systems Inc. accounted for \$531,000 in the second quarter 1998 compared to no sales in the second quarter 1999. The Company was recently awarded an initial contract to supply wide area reference receivers for the European Geostationary Overlay System (EGNOS). The Company is teamed with Racal Avionics Ltd. to supply one section of the EGNOS Remote Integrity Monitoring System (RIMS-C). The Racal/NovAtel RIMS-C channel will provide integrity and correction data within the EGNOS ground network. Under the initial contract, the Company will develop new GPS receiver processing for Satellite Failure Detection, and will begin software qualification. In addition, the Company will deliver a number of receivers for use in development activities. The EGNOS receivers have the same hardware configuration as the Company's Wide Area Augmentation System (WAAS) receivers, with added software qualification and functionality. GPS use for aviation received support recently from a study by Johns Hopkins University Applied Physics Laboratory which concluded that an augmented GPS can satisfy the performance requirements to be the only navigation system installed in an aircraft and the only service by the FAA for operations anywhere in the National Airspace System ("NAS"). The FAA has recently signed partnership agreements with each of Raytheon Company ("Raytheon") and Honeywell Inc. ("Honeywell") to develop a Local Area Augmentation system ("LAAS"). The LAAS program is intended to complement the WAAS program. Together these will function to supply users of the U.S. NAS with seamless satellite based navigation for all phases of flight. The certified GPS receiver that the Company is developing with Canadian Marconi is targeted to be used by Honeywell for the LAAS program. The Company believes that it is well positioned to participate with Raytheon in the LAAS program given its past experience with Raytheon and the WAAS program. The FAA was scheduled to complete an investment analysis of the WAAS program in July 1999. Subject to the outcome of this analysis, commissioning of WAAS is scheduled for September 2000. The Company is expecting further participation in the MSAS program, the Japanese equivalent of the WAAS program, but has received no commitment at this time. While the Company has participated in previous phases of WAAS and MSAS and has relationships with Raytheon and Honeywell, the Company currently has no commitments for future participation in the WAAS, MSAS or LAAS programs and there can be no assurance that the Company will receive commitments for future participation in the WAAS, MSAS or LAAS programs.

Sales to OEM customers were \$1.3 million in the second quarter 1999 compared to \$1.9 million in the second quarter 1998 and \$2.3 million in the first quarter 1999, a decrease of 32% and 45% respectively. The decrease in revenue to OEM revenues reflect continuing competitive market conditions for the Company's OEM products. Sales to OEM customers have tended to significantly fluctuate from quarter to quarter. The Company is working with several OEM customers to help them develop new products. These opportunities are expected to broaden the Company's OEM customer base and continue to expand applications for GPS. However, these new product developments require time and are subject to normal product development risks. During the development cycle the Company provides technical support and experiences small volume sales to these OEM customers. There can be no assurances that these developments will be successful or that the Company will experience increased OEM sales from these efforts. However, the Company believes that there will be resulting OEM sales from these developments by the end of 1999. In addition, the Company is completing development and is expecting to release in the near future new OEM products which the Company expects will provide the foundation to rebuild its OEM base. The Company does not anticipate any significant improvement in sales to OEM customers for the third quarter 1999.

The Company recently announced that it entered into a joint venture with GOPS Servicios De Consultoria S.A. ("GOPS"), a group of Costa Rican engineers and businessmen, to provide GPS services and products in the region. Central America was identified as a key region that provided many opportunities for the introduction of GPS technology. There are numerous requirements for extensive maintenance, major refurbishing and expansion of the existing infrastructure and new infrastructure projects throughout the region. In June 1999, the Company announced that GOPS, the Company and Costa Rica's Ministry of Public Works and Transportation signed an agreement to conduct a capital project study of the 92 kilometre stretch of roadway that links the City of Puerto Limon and Sixaola City. The study is valued at approximately \$580,000 and is to be completed in the fourth quarter 1999.

NRE fees consist of revenues from development contracts. NRE fees increased from \$39,000 in the second quarter of 1998 to \$146,000 in the second quarter of 1999. The second quarter 1999 NRE revenues reflect an increase in NRE efforts. The EGNOS contract recently awarded to the Company includes approximately \$650,000 related to NRE fees, spread over the period of the third quarter 1999 to the first quarter 2000.

In the second quarter of 1999, the Company derived approximately 42% of its total revenues from the sale of its products to countries outside the United States and Canada.

Gross Profit. Gross profit as a percentage of revenue decreased from 59% in the second quarter 1998 and 51% in the first quarter 1999 to 47% in the second quarter 1999. The reduced gross profit percentage relative to a year ago is attributable to a combination of factors, including: 1) lower proportion of WAAS receiver sales; 2) the establishment of inventory provisions for certain survey products which are being transitioned out of production; and 3) the absorption of fixed manufacturing costs on a lower revenue base, all of which were partially offset by fewer sales of low margin manufacturing components to the Company's subcontract manufacturers (\$242,000 in the current quarter compared to \$552,000 a year ago) and higher absorption of manufacturing/logistical costs into inventory. The Company believes that the increasing percentage of revenues derived from sales of end user products and increasing competitive price pressures in the market will continue to adversely affect gross margins in the near future.

Research and Development. Research and development expenses consist primarily of engineering personnel expenses, contracted research and development expenses, amortization of purchased technology, equipment costs and facility and computer support costs. Research and development expenses decreased from \$2.1 million in the second quarter 1998 to \$1.7 million in the second quarter 1999, a 20% reduction, but increased as a percentage of revenue from 37% to 51% due to a decline in revenue. Research and development expenses are down approximately 23% from levels reached at the end of the third quarter 1998, prior to work force reductions that occurred in the fourth quarter 1998. In the six month period ended June 26, 1999, the Company deferred development costs of \$627,000 related to the development of a certified aviation GPS receiver. The Company believes that significant investments in research and development are required to maintain its technological leadership and compete in its business.

Selling and Marketing. Selling and marketing expenses consist primarily of compensation of sales and marketing personnel as well as expenses for advertising and promotion, trade shows, facilities and other expenses related to the sales of the Company's products. Selling and marketing expenses decreased 6% from \$1.0 million in the second quarter of 1998 to \$965,000 in the second quarter of 1999 but increased as a percentage of total revenues from 18% to 29% due to a decline in revenue. Sales and marketing expenses are down approximately 27% from the end of the third quarter 1998, prior to work force reductions that occurred in the fourth quarter 1998. In July 1999, the Company took further actions to reduce selling and marketing expenses including a reduction in headcount and a relocation and restructuring of the office in the United Kingdom.

General and Administration. General and administration expenses consist primarily of salaries of administrative personnel, corporate overhead and facilities expenses. General and administrative expenses decreased by 33% from \$935,000 in the second quarter 1998 to \$630,000 in the second quarter 1999 but increased as a percentage of total revenues from 16% to 19% due to a decline in revenue. General and

administrative expenses are down approximately 32% from the end of the third quarter 1998, prior to work force reductions that occurred in the fourth quarter 1998.

Interest Income. The Company earned a net interest income of \$105,000 in the second quarter 1999, compared with \$66,000 in the second quarter 1998. The Company's cash deposits not required for operations are invested in short term interest-bearing instruments. The Company expects that interest income will decline by approximately 30% on the expectation of lower cash balances for the remainder of 1999.

Other Income (Expense). Other income consists primarily of foreign currency exchange income (loss) and miscellaneous items. Other expense was \$27,000 in the second quarter 1999, primarily related to foreign exchange loss on the conversion of US dollar denominated net assets on the balance sheet, compared to other income of \$27,000 in the second quarter 1998.

Provision for Income Taxes. The provision for income taxes, which consists of federal large corporations tax, increased from \$20,000 in the second quarter 1998 to \$21,000 in the second quarter 1999.

Discontinued Operations. The Company had no discontinued operations activity in the second quarter 1999 compared to a net income of \$7,000 from discontinued operations in the second quarter 1998.

RECENT DEVELOPMENTS

TAXES

The Company has not recorded a provision for income taxes, other than for large corporations tax, due to previously incurred losses, credits and costs. As of June 26, 1999, losses which can be carried forward, investment tax credits, depreciation and research and development costs, may be available to reduce future taxable income in Canada. The Company has determined that Canadian Marconi's acquisition of a majority of the common shares of the Company would constitute acquisition-of-control of the Company for Canadian income tax purposes. Accordingly, the availability of certain of the Company's Canadian income tax losses, research and developments costs, depreciation deductible for tax purposes, and investment tax credits may be subject to limitation. Further, the net operating loss carryforwards available for U.S. tax purposes will be substantially limited due to the Canadian Marconi acquisition. The ultimate availability and amount of the losses and other tax benefits may be dependent upon the final resolution of future Revenue Canada, Taxation and Internal Revenue Service audits.

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended June 26, 1999, cash used in operations was \$16,000, compared to cash used in operations of \$4.4 million in the same period of 1998. In the six months ended June 26, 1999, cash used in operations consisted primarily of the net loss of \$2.4 million, offset by \$1.3 million in amortization and lower working capital of \$1.2 million, due mainly to the sales shortfall.

For the first six months of 1999, cash used in financing activities was \$172,000, related to a decrease in capital lease obligations. In the comparable period in 1998, the Company concluded a sale/leaseback of certain capital assets which was the main factor contributing to the \$1.5 million cash provided by financing activities.

In the first six months of 1999, the Company generated \$5.4 million cash from investing activities mainly from the sale of the Company's headquarters in a sale/leaseback transaction. Cash used in investing activities in the first six months 1998 was \$1.8 million.

As of June 26, 1999, the Company had cash and short term investments of \$9.7 million. The Company has a credit agreement with the Hongkong Bank of Canada whereby the Company can borrow up to \$1.0 million for day-to-day operating requirements and US \$1.0 million to support the margin requirement related to the purchase of foreign exchange contracts. On June 23, 1998, the Company entered into a second credit arrangement with The Toronto Dominion Bank under which the Company can borrow up to

\$650,000 for day to day operations. The credit line also supports the margin requirement related to the purchase of up to US\$2.5 million of foreign exchange contracts. The lines of credit are payable on demand and are secured by certain of the Company's assets. At June 26, 1999, portions of the lines of credit were utilized to support \$685,000 of letters of credit (\$93,000 at December 31, 1998) and the margin requirements on US\$2.0 million in forward foreign exchange contracts leaving \$965,000 available for day-to-day operating requirements and the margin capacity necessary to enter into an additional US\$5.5 million in forward foreign exchange contracts.

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

EFFECTS OF FOREIGN CURRENCY EXCHANGE RATES

Most of the Company's revenues (over 95% in the first six months of 1999) are earned in currencies other than the Canadian dollar, principally the U.S. dollar. A substantial portion of the Company's expenses, however, has been and will continue to be incurred in Canadian dollars. Accordingly, fluctuations in exchange rates between the U.S. dollar and other foreign currencies and the Canadian dollar could materially affect the Company's results of operations. The Company uses foreign currency options and forward foreign currency contracts to reduce its exposure to fluctuations in the U.S. dollar to Canadian dollar exchange rates. At June 26, 1999, the Company had foreign currency options and forward foreign currency contracts to sell US\$3.0 million between July 30, 1999 and October 1, 1999 at rates between \$0.6616 and \$0.6711. Derivative financial instruments are not used for speculative purposes. There can be no assurance that the Company will be successful in such hedging activities.

LEGAL PROCEEDINGS

In January 1999, a shareholder notified the Company of his intention to commence an action against certain unnamed parties associated with Canadian Marconi's purchase of the Company's shares. In March 1999, the same shareholder notified the Company of his intention to proceed with the commencement of a derivative action against all parties responsible for a loss in NovAtel share value since March 1998, including the Company, its officers and directors, Canadian Marconi Company and the selling shareholders. No action has been commenced. The Company believes that this claim is without merit and that it has valid defenses to this claim should formal proceedings be commenced.

In July 1999, the Company commenced a lawsuit against its former subcontract manufacturer, Harris Canada, Inc. ("Harris"), for damages incurred with respect to WAAS receivers manufactured by Harris. The damages sought are at least \$400,000, unspecified damages for loss of reputation and goodwill, damages in relation to a further rework of certain receivers to be proven at trial, interest and costs.

OTHER RISK FACTORS

NovAtel operates in a rapidly changing environment that involves a number of risks, some of which are beyond the Company's control. A discussion of some of these risks and the possible impact of these factors on future results from operations can be found in the Risk Factors section part of Form 20-F for the fiscal year ended December 31, 1998 filed with the Securities and Exchange Commission.

OTHER INFORMATION

Submission of Matters to a Vote of Security Holders

The annual meeting of shareholders of the Company was held in Calgary, Alberta, Canada on July 9, 1999.

An election of Directors was held with the following individuals elected to the Company's Board of Directors:

<u>Name</u>	<u>Votes</u>	
	<u>For</u>	<u>Withheld</u>
W. James Close	5,872,936	9,500
Pierre Y. Ducros	5,873,136	9,300
Richard D. Orman	5,873,136	9,300
Horst J. Pudwill	5,873,136	9,300
Douglas R. Reid	5,873,136	9,300
Joel A. Schleicher	5,873,136	9,300
Gregory Y. Yeldon	5,873,136	9,300

Other matters voted upon at the meeting and the results of the voting with respect to each such matter were as follows:

- 1) Ratification of the appointment of Arthur Andersen LLP as the auditors of the Company (5,880,886 For and 4,000 Withheld);

Year 2000 and GPS Week Rollover

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Computer programs that have time sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. GPS suppliers are experiencing a similar issue arising from GPS week rollover. The GPS system contains a field called a week number. At the end of each GPS cycle the receiver is required to reset the week number to zero to navigate and correctly display and use time. This reset will next occur on August 21, 1999. GPS receivers were not designed to automatically reset the week number to zero. For each of Year 2000 and GPS week rollover, these situations could result in a system failure or miscalculations causing disruptions to operations. Unless otherwise expressly provided, Year 2000 and GPS week rollover will be collectively discussed and referred to as Year 2000.

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

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

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

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

Contingency Plans. The Company's Year 2000 plan includes the development of contingency plans to mitigate the effects of a Year 2000 disruption. The Company reviewed and developed certain contingency plans during the second quarter of 1999. The Company will make an assessment during the third quarter 1999 as to whether it needs to stock up on any inventory.

General Electric Company, P.L.C./British Aerospace P.L.C.

On April 17, 1998, Canadian Marconi Company purchased approximately 58% of the Company's total shares outstanding from the Company's two principal shareholders. Canadian Marconi is owned 51% by the General Electric Company, P.L.C. ("GEC"). The Company's and Canadian Marconi's operations form a part of Marconi North America, a division of GEC's Marconi Electronic Systems. In April 1999, it was announced that GEC and British Aerospace P.L.C. ("BAe") have signed a definitive agreement in which GEC's Marconi Electronic Systems will merge with BAe to form a new business with leading positions in the global aerospace and defence markets. The deal is subject to approval of the relevant governmental regulatory authorities as well as the shareholders of both corporations. While there can be no assurance that this transaction will be completed, the parties are targeting a closing in the second half of 1999.