



NOVATEL INC.

Quarterly Report

For the Three and Six Months Ended June 30, 2000

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The dollar amounts presented in this Quarterly Report are in Canadian currency unless otherwise noted (CDN \$1 = US \$0.6751 on July 17, 2000), and are presented in accordance with accounting principles generally accepted in Canada. The material differences between Canadian and U.S. generally accepted accounting principles ("GAAP") which would bear upon its financial statements and, more particularly, income applicable to equity share and retained earnings, are disclosed in Note 20 of Notes to Consolidated Financial Statements for the fiscal year ended December 31, 1999 filed as part of Form 20-F with the Securities and Exchange Commission and in Note 11 of Notes to Consolidated Financial Statements contained in this report.

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

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

	<u>June 30, 2000</u>	<u>December 31, 1999</u>
ASSETS		
(Note 1)		
Current assets:		
Cash and short term investments	\$ 7,161	\$ 8,280
Accounts receivable	4,700	6,110
Related party receivables (Note 9)	773	1,340
Related party note receivable (Note 9)	642	—
Inventories (Note 3)	4,777	3,684
Prepaid expenses and deposits	<u>499</u>	<u>292</u>
Total current assets	18,552	19,706
Capital assets	4,015	4,648
Intangible assets	2,870	3,047
Deferred development costs (Note 4).....	<u>2,184</u>	<u>1,803</u>
Total assets	<u>\$ 27,621</u>	<u>\$ 29,204</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
(Note 1)		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,878	\$ 4,851
Related party payables (Note 9)	240	278
Customer deposits	4	—
Note payable (Note 9).....	642	—
Provision for future warranty costs	223	246
Capital lease obligations – current portion	<u>316</u>	<u>374</u>
Total current liabilities	5,303	5,749
Deferred gain on sale/leaseback of capital assets.....	1,011	1,089
Capital lease obligations – long term portion	<u>423</u>	<u>549</u>
Total liabilities.....	<u>6,737</u>	<u>7,387</u>
Non-controlling interest	70	65
Shareholders' equity:		
Capital stock (Note 5).....	35,607	35,602
Deficit.....	<u>(14,793)</u>	<u>(13,850)</u>
Total shareholders' equity	<u>20,814</u>	<u>21,752</u>
Total liabilities and shareholders' equity	<u>\$ 27,621</u>	<u>\$ 29,204</u>

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u> <u>2000</u>	<u>June 26,</u> <u>1999</u>	<u>June 30,</u> <u>2000</u>	<u>June 26,</u> <u>1999</u>
Revenues.....	\$ 6,470	\$ 3,307	\$12,763	\$ 8,577
Cost of sales.....	<u>2,538</u>	<u>1,763</u>	<u>5,648</u>	<u>4,342</u>
Gross profit	<u>3,932</u>	<u>1,544</u>	<u>7,115</u>	<u>4,235</u>
Operating expenses:				
Research and development	2,121	1,680	4,053	3,565
Selling and marketing	1,256	965	2,250	1,938
General and administration	<u>1,036</u>	<u>630</u>	<u>1,936</u>	<u>1,246</u>
Total operating expenses	<u>4,413</u>	<u>3,275</u>	<u>8,239</u>	<u>6,749</u>
Operating loss	(481)	(1,731)	(1,124)	(2,514)
Interest income	67	105	143	199
Other income (expense).....	<u>(41)</u>	<u>(27)</u>	<u>1</u>	<u>(87)</u>
Loss from continuing operations before income taxes.....	(455)	(1,653)	(980)	(2,402)
Provision for (recovery of) income taxes.....	<u>(6)</u>	<u>21</u>	<u>(24)</u>	<u>42</u>
Net loss from continuing operations	(449)	(1,674)	(956)	(2,444)
Net income from discontinued operations	<u>—</u>	<u>—</u>	<u>13</u>	<u>—</u>
Net loss	<u>\$ (449)</u>	<u>\$ (1,674)</u>	<u>\$ (943)</u>	<u>\$ (2,444)</u>
Net loss per share (basic) (Note 11)				
Continuing operations	\$ (0.06)	\$ (0.22)	\$ (0.12)	\$ (0.32)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net loss per share	<u>\$ (0.06)</u>	<u>\$ (0.22)</u>	<u>\$ (0.12)</u>	<u>\$ (0.32)</u>
Weighted average shares outstanding (basic) (Note 5)	<u>7,675</u>	<u>7,674</u>	<u>7,674</u>	<u>7,674</u>
Net loss per share (fully diluted) (Note 11)				
Continuing operations	\$ (0.06)	\$ (0.22)	\$ (0.12)	\$ (0.32)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net loss per share	<u>\$ (0.06)</u>	<u>\$ (0.22)</u>	<u>\$ (0.12)</u>	<u>\$ (0.32)</u>
Weighted average shares outstanding (fully diluted) (Note 5) .	<u>8,704</u>	<u>8,679</u>	<u>8,706</u>	<u>8,578</u>

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

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

	<u>Common Shares</u>		<u>Deficit</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>		<u>Shareholders'</u>
Balance December 31, 1999...	7,674	\$35,602	\$(13,850)	\$21,752
Common shares issued.....	1	5	—	5
Net loss	<u>—</u>	<u>—</u>	<u>(943)</u>	<u>(943)</u>
Balance June 30, 2000	<u>7,675</u>	<u>\$35,607</u>	<u>\$(14,793)</u>	<u>\$20,814</u>

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Six Months Ended	
	June 30, 2000	June 26, 1999
Operating activities:		
Net loss from continuing operations	\$ (956)	\$ (2,444)
Net income from discontinued operations.....	13	—
Charges and credits to operations not involving an outlay of cash:		
Amortization.....	1,379	1,317
(Gain) loss on disposal of capital assets	(41)	1
Amortization of deferred gain on sale/leaseback of capital assets	(78)	(66)
Non-controlling interest	5	—
Net change in non-cash working capital related to operations (Note 6)	<u>70</u>	<u>1,176</u>
Cash provided by (used in) operating activities.....	<u>392</u>	<u>(16)</u>
Financing activities:		
Issuance of shares (Note 5)	5	—
Decrease in capital lease obligations	<u>(184)</u>	<u>(172)</u>
Cash used in financing activities	<u>(179)</u>	<u>(172)</u>
Increase (decrease) in cash before investing activities	<u>213</u>	<u>(188)</u>
Investing activities:		
Purchase of capital and intangible assets	(604)	(857)
Proceeds from disposal of capital assets	76	6,932
Settlement on divestiture proceeds	(423)	—
Deferred development costs.....	<u>(381)</u>	<u>(627)</u>
Cash (used in) provided by investing activities	<u>(1,332)</u>	<u>5,448</u>
(Decrease) increase in cash and short term investments	(1,119)	5,260
Cash and short term investments, beginning of period	<u>8,280</u>	<u>4,486</u>
Cash and short term investments, end of period	<u>\$ 7,161</u>	<u>\$ 9,746</u>
Cash and short term investments consisted of:		
Cash and cash equivalents	\$ 2,661	\$ 1,746
Short term investments (original maturities of greater than 90 days)	<u>4,500</u>	<u>8,000</u>
	<u>\$ 7,161</u>	<u>\$ 9,746</u>
Interest paid related to bank advances and capital lease obligations	<u>\$ 28</u>	<u>\$ 40</u>
Income taxes paid	<u>\$ 50</u>	<u>\$ —</u>

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

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

Note 1 Basis of Presentation

The consolidated financial statements for the three and six month periods ended June 30, 2000 and June 26, 1999 presented in this Quarterly Report are prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP or Canadian principles), are stated in Canadian dollars and are unaudited. The financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim period presented. The adjustments are of a normal recurring nature. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 1999 filed on Form 20-F with the Securities and Exchange Commission.

Note 2 Adoption of New Accounting Standards

a) Income Taxes

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

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

b) Post Employment Benefits

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

The Company currently provides certain life insurance and extended health care benefits for employees as they retire. Substantially all of the health care benefits are self-insured, while life insurance benefits are provided through an insurance contract. Commencing January 1, 2000, the Company is recognizing the cost of providing such benefits as the related services are rendered by employees.

Note 3 Inventories

	<u>June 30, 2000</u>	<u>December 31, 1999</u>
Raw materials and components	\$ 2,835	\$ 2,685
Work-in-progress	17	68
Finished goods	<u>1,925</u>	<u>931</u>
	<u>\$ 4,777</u>	<u>\$ 3,684</u>

Note 4 Deferred Development Costs

In the six month period ended June 30, 2000, the Company deferred \$381 of development costs related to the development of a certified aviation GPS receiver compared to \$627 in the six month period ending June 26, 1999. The Company has not commenced the amortization of these deferred costs.

Note 5 Capital Stock

The Company has authorized an unlimited number of common shares, of which 7,675 are outstanding as of June 30, 2000 (7,674 as of December 31, 1999).

Net income (loss) per share figures presented in the Company's financial statements are based upon the weighted average number of shares outstanding. Fully diluted net income (loss) per share figures assume the exercise of options, if dilutive, effective on their dates of issue and that the funds derived therefrom would have been invested at an annual rate of return of 5% for the first quarter 2000, 5.4% for the second quarter 2000 and 5% for 1999.

The Company maintains stock option plans for employees and members of the Board of Directors. Under the plans, participants are granted options to purchase common shares of the Company at no less than the market value on the date of the grant. The options have vesting periods ranging from three to four years and expire ten years from the date of the grant. As of June 30, 2000, the Company has authorized the granting of up to 1,101 options to purchase common shares of the Company under the stock option plans, of which 5 had been exercised.

A summary of the status of the Company's stock option plans as of June 30, 2000, and changes during the six month period ending on that date is presented below:

Options	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of period	938	US \$6.37
Granted	105	3.07
Exercised	(1)	5.14
Forfeited	(12)	4.55
Outstanding at June 30, 2000	<u>1,030</u>	6.05
Options exercisable at June 30, 2000.....	<u>606</u>	7.11

The following table summarizes information about the stock option plans as of June 30, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
US \$7.50 to \$11.25	743	7.0	US \$7.59	560	US \$7.59
\$3.06 to \$3.44	103	9.6	3.07	0	3.07
\$1.38	184	8.75	1.38	46	1.38
	<u>1,030</u>	7.6	6.05	<u>606</u>	7.11

Note 6 Consolidated Statements of Cash Flows

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

	Six Months Ended	
	June 30, 2000	June 26, 1999
Decrease in accounts receivables and related party receivables ..	\$ 1,977	\$ 2,141
(Increase) decrease in inventories	(1,093)	161
Increase in prepaid expenses and deposits	(207)	(165)
Decrease in accounts payable, accrued liabilities and related party advances	(575)	(997)
Increase in customer deposits.....	4	—
(Decrease) increase in provision for future warranty costs	<u>(23)</u>	<u>36</u>
Net change in non-cash working capital	83	1,176
Non-cash working capital items related to divestitures	<u>(13)</u>	<u>—</u>
Net change in non-cash working capital related to operations	<u>\$ 70</u>	<u>\$ 1,176</u>

Note 7 Commitments and Contingencies

a) As at June 30, 2000, intangible assets included \$837 related to the Company's settlement agreement with Trimble Navigation Limited (Trimble). This settlement agreement with Trimble includes a provision that Trimble may, at its sole option, terminate rights granted there under, including licenses, should the Company undergo a direct change in control. The share acquisition by BAE Systems Canada in 1998 constitutes a change of control for purposes of the settlement agreement. However, the Company has received no notice of termination from Trimble and believes that Trimble will not terminate these licenses and rights. Accordingly, the Company has not provided for any impairment of these intangible assets as at June 30, 2000.

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

Note 8 Income Taxes

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

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

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

Note 9 Related Party Transactions

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

	<u>Six Months Ended</u>	
	<u>June 30, 2000</u>	<u>June 26, 1999</u>
Product sales to Point, Inc.	\$ 548	\$ —
Services provided to Point, Inc.	131	—
Royalty income from Point, Inc.	85	—
Inventory purchases from BAE Systems Canada Inc.	—	78
Contracted development costs charged by BAE Systems Canada Inc. ..	89	52
Other expenses	29	2

Significant related party receivables at June 30, 2000 consist of \$770 from Point, Inc. (\$1,308 at December 31, 1999). Related party payables at June 30, 2000 were comprised of amounts due to BAE Systems Canada Inc. of \$236 (\$151 at December 31, 1999) and \$4 to Point, Inc. (\$127 at December 31, 1999).

The related party note receivable of \$642 reflects the Company's proportionate interest in the borrowings by Point, Inc. of US\$1,200 on March 15, 2000 and US \$500 on June 22, 2000 from NovAtel and Sokkia Co., Ltd. The loans are repayable on December 31, 2000, are secured by the assets of Point, Inc. and bear interest at the U.S. prime rate.

Note 10 Investment in Point, Inc.

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

	<u>June 30, 2000</u>	<u>December 31, 1999</u>
Current assets.....	\$ 2,337	\$ 2,577
Non-current assets.....	45	106
Total assets.....	<u>\$ 2,382</u>	<u>\$ 2,683</u>
Current liabilities.....	\$ 1,636	\$ 1,220
Long-term liabilities.....	—	—
Total liabilities.....	<u>\$ 1,636</u>	<u>\$ 1,220</u>
	<u>Six Months Ended</u>	
	<u>June 30, 2000</u>	<u>June 26, 1999</u>
Revenue.....	\$ 3,322	\$ —
Expenses.....	4,363	—
Net loss.....	<u>\$ (1,041)</u>	<u>\$ —</u>
Cash provided by (used in)		
Operating activities.....	\$ (820)	\$ —
Investing activities.....	\$ (5)	\$ —
Financing activities.....	\$ 642	\$ —

Included in current liabilities is the Company's share of notes payable by Point, Inc. to Sokkia Co., Ltd., in the amount of \$642. The notes are repayable on December 31, 2000, are secured by the assets of Point, Inc. and bear interest at the U.S. prime rate.

Note 11 Differences between Canadian and United States Generally Accepted Accounting Principles

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

a) Deferred Development Costs

In the six month period ended June 30, 2000, the Company deferred \$381 of development costs (\$627 in the six month period ending June 26, 1999) in accordance with Canadian GAAP. Under U.S. GAAP, these costs would be expensed as incurred as research and development costs.

b) Derivatives and Hedging Activities

The Company has entered into foreign exchange options and forward contracts to manage its exposure to foreign currency fluctuations. Under Canadian GAAP, any gains or losses on these financial instruments would be recognized in the period the underlying anticipated transactions occur. Under U.S. GAAP, these financial instruments would be recorded at fair value at the ending date of each reporting period, resulting in an additional loss of \$26 in the six month period ending June 30, 2000 and an additional income of \$341 in the six month period ending June 26, 1999 under US principles.

c) *Investment in Point, Inc.*

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

d) *Comprehensive Income*

Under U.S. GAAP, during 1998, the Company would have been required to adopt SFAS 130, "Reporting Comprehensive Income". Had the Company adopted SFAS 130, it would not have reported any significant items within comprehensive income for the six-month periods ended June 30, 2000 and June 26, 1999.

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30, 2000</u>	<u>June 26, 1999</u>	<u>June 30, 2000</u>	<u>June 26, 1999</u>
Net loss from continuing operations – Canadian GAAP	\$ (449)	\$ (1,674)	\$ (956)	\$ (2,444)
Adjustments to U.S. GAAP				
Deferred development costs.....	(160)	(353)	(381)	(627)
Fair value of financial instruments	<u>(7)</u>	<u>152</u>	<u>(26)</u>	<u>341</u>
Net loss from continuing operations – U.S. GAAP	<u>\$ (616)</u>	<u>\$ (1,875)</u>	<u>\$ (1,363)</u>	<u>\$ (2,730)</u>
Net income from discontinued operations – Canadian GAAP	\$ —	\$ —	\$ 13	\$ —
Adjustments to U.S. GAAP.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income from discontinued operations – U.S. GAAP.....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13</u>	<u>\$ —</u>
Net income (loss) – U.S. GAAP	<u>\$ (616)</u>	<u>\$ (1,875)</u>	<u>\$ (1,350)</u>	<u>\$ (2,730)</u>

	<u>June 30, 2000</u>	<u>December 31, 1999</u>
Total Assets		
Canadian GAAP	\$ 27,621	\$ 29,204
Adjustments to U.S. GAAP		
Deferred development costs.....	(2,184)	(1,803)
Fair value of financial instruments	<u>(6)</u>	<u>21</u>
U.S. GAAP	<u>\$ 25,431</u>	<u>\$ 27,422</u>
Total Shareholders' Equity		
Canadian GAAP	\$ 20,814	\$ 21,752
Adjustments to U.S. GAAP		
Deferred development costs.....	(2,184)	(1,803)
Fair value of financial instruments	<u>(6)</u>	<u>21</u>
U.S. GAAP	<u>\$ 18,624</u>	<u>\$ 19,970</u>

e) Net Income/Loss per Share

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

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

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

Three Months Ended	<u>Canadian GAAP</u>		<u>U.S. GAAP</u>	
	Net Income (Loss) per Share – Basic		Net Income (Loss) per Share – Basic	
	<u>June 30, 2000</u>	<u>June 26, 1999</u>	<u>June 30, 2000</u>	<u>June 26, 1999</u>
Continuing operations.....	\$ (0.06)	\$ (0.22)	\$ (0.08)	\$ (0.24)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net income (loss) per share	<u>\$ (0.06)</u>	<u>\$ (0.22)</u>	<u>\$ (0.08)</u>	<u>\$ (0.24)</u>
	Net Income (Loss) per Share – Fully Diluted		Net Income (Loss) per Share – Diluted	
	<u>June 30, 2000</u>	<u>June 26, 1999</u>	<u>June 30, 2000</u>	<u>June 26, 1999</u>
Continuing operations.....	\$ (0.06)	\$ (0.22)	\$ (0.08)	\$ (0.24)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net income (loss) per share	<u>\$ (0.06)</u>	<u>\$ (0.22)</u>	<u>\$ (0.08)</u>	<u>\$ (0.24)</u>

Six Months Ended	Canadian GAAP		U.S. GAAP	
	Net Income (Loss) per Share – Basic		Net Income (Loss) per Share – Basic	
	June 30, 2000	June 26, 1999	June 30, 2000	June 26, 1999
Continuing operations.....	\$ (0.12)	\$ (0.32)	\$ (0.18)	\$ (0.36)
Discontinued operations	0.00	0.00	0.00	0.00
Net income (loss) per share	<u>\$ (0.12)</u>	<u>\$ (0.32)</u>	<u>\$ (0.18)</u>	<u>\$ (0.36)</u>
	Net Income (Loss) per Share – Fully Diluted		Net Income (Loss) per Share – Diluted	
	June 30, 2000	June 26, 1999	June 30, 2000	June 26, 1999
Continuing operations.....	\$ (0.12)	\$ (0.32)	\$ (0.18)	\$ (0.36)
Discontinued operations	0.00	0.00	0.00	0.00
Net income (loss) per share	<u>\$ (0.12)</u>	<u>\$ (0.32)</u>	<u>\$ (0.18)</u>	<u>\$ (0.36)</u>

f) Derivative Instruments and Hedging Activities

In June 1998, the FASB issued SFAS 133, “Accounting for Derivative Instruments and Hedging Activities” effective beginning in the first quarter of 2000. Subsequently, the FASB issued SFAS 137 and SFAS 138, which amended SFAS 133 and deferred the effective date to the first quarter of 2001. These pronouncements establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require companies to recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company is currently evaluating the impact of SFAS 133, 137 and 138 on its financial position and results of operations as disclosed in accordance with U.S. GAAP.

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

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

	<u>Three Months Ended</u>			<u>Six Months Ended</u>		
	<u>June 30,</u> <u>2000</u>	<u>June 26,</u> <u>1999</u>	<u>%</u> <u>Change</u>	<u>June 30,</u> <u>2000</u>	<u>June 26,</u> <u>1999</u>	<u>%</u> <u>Change</u>
Revenues	\$ 6,470	\$ 3,307	96%	\$12,763	\$ 8,577	49%
Cost of sales.....	<u>2,538</u>	<u>1,763</u>	<u>44%</u>	<u>5,648</u>	<u>4,342</u>	<u>30%</u>
Gross profit.....	<u>3,932</u>	<u>1,544</u>	<u>155%</u>	<u>7,115</u>	<u>4,235</u>	<u>68%</u>
Operating expenses:						
Research and development	2,121	1,680	26%	4,053	3,565	14%
Selling and marketing	1,256	965	30%	2,250	1,938	16%
General and administration	<u>1,036</u>	<u>630</u>	<u>64%</u>	<u>1,936</u>	<u>1,246</u>	<u>55%</u>
Total operating expenses.....	<u>4,413</u>	<u>3,275</u>	<u>35%</u>	<u>8,239</u>	<u>6,749</u>	<u>22%</u>
Operating loss	(481)	(1,731)	(72%)	(1,124)	(2,514)	(55%)
Interest income	67	105	(36%)	143	199	(28%)
Other income (expense).....	<u>(41)</u>	<u>(27)</u>	<u>52%</u>	<u>1</u>	<u>(87)</u>	<u>N/A</u>
Loss from continuing operations before income taxes	(455)	(1,653)	(72%)	(980)	(2,402)	(59%)
Provision for (recovery of) income taxes	<u>(6)</u>	<u>21</u>	<u>N/A</u>	<u>(24)</u>	<u>42</u>	<u>N/A</u>
Net loss from continuing operations	(449)	(1,674)	(73%)	(956)	(2,444)	(61%)
Net income from discontinued operations	<u>—</u>	<u>—</u>	<u>N/A</u>	<u>13</u>	<u>—</u>	<u>N/A</u>
Net loss.....	<u>\$ (449)</u>	<u>\$ (1,674)</u>	<u>(73%)</u>	<u>\$ (943)</u>	<u>\$ (2,444)</u>	<u>(61%)</u>
Net income (loss) per share (basic)						
Continuing operations	\$(0.06)	\$(0.22)		\$ (0.12)	\$ (0.32)	
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>		<u>0.00</u>	<u>0.00</u>	
Net income (loss) per share	<u>\$(0.06)</u>	<u>\$(0.22)</u>		<u>\$ (0.12)</u>	<u>\$ (0.32)</u>	
Weighted average shares outstanding (basic)	<u>7,675</u>	<u>7,674</u>		<u>7,674</u>	<u>7,674</u>	
Net income (loss) per share (fully diluted)						
Continuing operations	\$(0.06)	\$(0.22)		\$ (0.12)	\$ (0.32)	
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>		<u>0.00</u>	<u>0.00</u>	
Net income (loss) per share	<u>\$(0.06)</u>	<u>\$(0.22)</u>		<u>\$ (0.12)</u>	<u>\$ (0.32)</u>	
Weighted average shares outstanding (fully diluted) ..	<u>8,704</u>	<u>8,679</u>		<u>8,706</u>	<u>8,578</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 2000</u>	<u>June 26, 1999</u>	<u>% Change</u>	<u>June 30, 2000</u>	<u>June 26, 1999</u>	<u>% Change</u>
Revenues	\$4,368	\$ 2,233	96%	\$ 8,616	\$ 5,790	49%
Cost of sales.....	<u>1,714</u>	<u>1,191</u>	<u>44%</u>	<u>3,813</u>	<u>2,931</u>	<u>30%</u>
Gross profit.....	<u>2,654</u>	<u>1,042</u>	<u>155%</u>	<u>4,803</u>	<u>2,859</u>	<u>68%</u>
Operating expenses:						
Research and development	1,432	1,134	26%	2,736	2,407	14%
Selling and marketing	848	651	30%	1,519	1,308	16%
General and administration	<u>699</u>	<u>426</u>	<u>64%</u>	<u>1,307</u>	<u>841</u>	<u>55%</u>
Total operating expenses.....	<u>2,979</u>	<u>2,211</u>	<u>35%</u>	<u>5,562</u>	<u>4,556</u>	<u>22%</u>
Operating loss	(325)	(1,169)	(72%)	(759)	(1,697)	(55%)
Interest income	45	71	(37%)	97	134	(28%)
Other income (expense).....	<u>(27)</u>	<u>(18)</u>	<u>50%</u>	<u>0</u>	<u>(59)</u>	<u>N/A</u>
Loss from continuing operations before income taxes	(307)	(1,116)	(72%)	(662)	(1,622)	(59%)
Provision for (recovery of) income taxes	<u>(4)</u>	<u>14</u>	<u>N/A</u>	<u>(17)</u>	<u>28</u>	<u>N/A</u>
Net loss from continuing operations	(303)	(1,130)	(73%)	(645)	(1,650)	(61%)
Net income from discontinued operations	<u>—</u>	<u>—</u>	<u>N/A</u>	<u>8</u>	<u>—</u>	<u>N/A</u>
Net loss.....	<u>\$ (303)</u>	<u>\$(1,130)</u>	<u>(73%)</u>	<u>\$ (637)</u>	<u>\$(1,650)</u>	<u>(61%)</u>
Net income (loss) per share (basic)						
Continuing operations	\$(0.04)	\$(0.15)		\$ (0.08)	\$ (0.21)	
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>		<u>0.00</u>	<u>0.00</u>	
Net income (loss) per share	<u>\$(0.04)</u>	<u>\$(0.15)</u>		<u>\$ (0.08)</u>	<u>\$ (0.21)</u>	
Weighted average shares outstanding (basic)	<u>7,675</u>	<u>7,674</u>		<u>7,674</u>	<u>7,674</u>	
Net income (loss) per share (fully diluted)						
Continuing operations	\$(0.04)	\$(0.15)		\$ (0.08)	\$ (0.21)	
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>		<u>0.00</u>	<u>0.00</u>	
Net income (loss) per share	<u>\$(0.04)</u>	<u>\$(0.15)</u>		<u>\$ (0.08)</u>	<u>\$ (0.21)</u>	
Weighted average shares outstanding (fully diluted) ..	<u>8,704</u>	<u>8,679</u>		<u>8,706</u>	<u>8,578</u>	

	<u>December 31, 1999</u>	<u>June 30, 2000</u>	<u>US \$ Equivalent June 30, 2000(2)</u>
Balance Sheet Data (1): (Canadian \$, thousands)			
Working capital	\$ 13,957	\$ 13,249	\$ 8,944
Total assets	29,204	27,621	18,647
Long-term liabilities	1,638	1,434	968
Total shareholders' equity	21,752	20,814	14,052

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

a) Deferred Development Costs

In the six month period ended June 30, 2000, the Company deferred \$381 of development costs (\$627 in the six month period ending June 26, 1999) in accordance with Canadian GAAP. Under U.S. GAAP, these costs would be expensed as incurred as research and development costs.

b) Derivatives and Hedging Activities

The Company has entered into foreign exchange options and forward contracts to manage its exposure to foreign currency fluctuations. Under Canadian GAAP, any gains or losses on these financial instruments would be recognized in the period the underlying anticipated transactions occur. Under U.S. GAAP, these financial instruments would be recorded at fair value at the ending date of each reporting period, resulting in an additional loss of \$26 in the six month period ending June 30, 2000 and an additional income of \$341 in the six month period ending June 26, 1999 under US principles.

c) Investment in Point, Inc.

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

d) Comprehensive Income

Under U.S. GAAP, during 1998, the Company would have been required to adopt SFAS 130, "Reporting Comprehensive Income". Had the Company adopted SFAS 130, it would not have reported any significant items within comprehensive income for the six-month periods ended June 30, 2000 and June 26, 1999.

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30, 2000</u>	<u>June 26, 1999</u>	<u>June 30, 2000</u>	<u>June 26, 1999</u>
Net loss from continuing operations – Canadian GAAP	\$ (449)	\$ (1,674)	\$ (956)	\$ (2,444)
Adjustments to U.S. GAAP				
Deferred development costs.....	(160)	(353)	(381)	(627)
Fair value of financial instruments	<u>(7)</u>	<u>152</u>	<u>(26)</u>	<u>341</u>
Net loss from continuing operations – U.S. GAAP	<u>\$ (616)</u>	<u>\$ (1,875)</u>	<u>\$ (1,363)</u>	<u>\$ (2,730)</u>
Net income from discontinued operations – Canadian GAAP	\$ —	\$ —	\$ 13	\$ —
Adjustments to U.S. GAAP.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income from discontinued operations – U.S. GAAP.....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13</u>	<u>\$ —</u>
Net income (loss) – U.S. GAAP	<u>\$ (616)</u>	<u>\$ (1,875)</u>	<u>\$ (1,350)</u>	<u>\$ (2,730)</u>

	<u>June 30, 2000</u>	<u>December 31, 1999</u>
Total Assets		
Canadian GAAP	\$ 27,621	\$ 29,204
Adjustments to U.S. GAAP		
Deferred development costs.....	(2,184)	(1,803)
Fair value of financial instruments	<u>(6)</u>	<u>21</u>
U.S. GAAP	<u>\$ 25,431</u>	<u>\$ 27,422</u>
Total Shareholders' Equity		
Canadian GAAP	\$ 20,814	\$ 21,752
Adjustments to U.S. GAAP		
Deferred development costs.....	(2,184)	(1,803)
Fair value of financial instruments	<u>(6)</u>	<u>21</u>
U.S. GAAP	<u>\$ 18,624</u>	<u>\$ 19,970</u>

e) **Net Income/Loss per Share**

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

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

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

Three Months Ended	<u>Canadian GAAP</u>		<u>U.S. GAAP</u>	
	Net Income (Loss) per Share – Basic		Net Income (Loss) per Share – Basic	
	<u>June 30, 2000</u>	<u>June 26, 1999</u>	<u>June 30, 2000</u>	<u>June 26, 1999</u>
Continuing operations.....	\$ (0.06)	\$ (0.22)	\$ (0.08)	\$ (0.24)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net income (loss) per share	<u>\$ (0.06)</u>	<u>\$ (0.22)</u>	<u>\$ (0.08)</u>	<u>\$ (0.24)</u>
	Net Income (Loss) per Share – Fully Diluted		Net Income (Loss) per Share – Diluted	
	<u>June 30, 2000</u>	<u>June 26, 1999</u>	<u>June 30, 2000</u>	<u>June 26, 1999</u>
Continuing operations.....	\$ (0.06)	\$ (0.22)	\$ (0.08)	\$ (0.24)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net income (loss) per share	<u>\$ (0.06)</u>	<u>\$ (0.22)</u>	<u>\$ (0.08)</u>	<u>\$ (0.24)</u>
	<u>Canadian GAAP</u>		<u>U.S. GAAP</u>	
	Net Income (Loss) per Share – Basic		Net Income (Loss) per Share – Basic	
	<u>June 30, 2000</u>	<u>June 26, 1999</u>	<u>June 30, 2000</u>	<u>June 26, 1999</u>
Continuing operations.....	\$ (0.12)	\$ (0.32)	\$ (0.18)	\$ (0.36)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net income (loss) per share	<u>\$ (0.12)</u>	<u>\$ (0.32)</u>	<u>\$ (0.18)</u>	<u>\$ (0.36)</u>
	Net Income (Loss) per Share – Fully Diluted		Net Income (Loss) per Share – Diluted	
	<u>June 30, 2000</u>	<u>June 26, 1999</u>	<u>June 30, 2000</u>	<u>June 26, 1999</u>
Continuing operations.....	\$ (0.12)	\$ (0.32)	\$ (0.18)	\$ (0.36)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net income (loss) per share	<u>\$ (0.12)</u>	<u>\$ (0.32)</u>	<u>\$ (0.18)</u>	<u>\$ (0.36)</u>

f) Derivative Instruments and Hedging Activities

In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" effective beginning in the first quarter of 2000. Subsequently, the FASB issued SFAS 137 and SFAS 138, which amended SFAS 133 and deferred the effective date to the first quarter of 2001. These pronouncements establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require companies to recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company is currently evaluating the impact of SFAS 133, 137 and 138 on its financial position and results of operations as disclosed in accordance with U.S. GAAP.

(2) Canadian dollar amounts have been translated into U.S. dollars solely for the convenience of the reader at the rate of US \$0.6751 per CDN \$1.00 which was the exchange rate as of July 17, 2000. These translations are not necessarily representative of the amounts that would have been reported if the

Company had historically reported its financial statements in U.S. dollars. In addition, the rates utilized are not necessarily indicative of the rates in effect at any other time.

Revenues. Revenues include product sales, non-recurring engineering (“NRE”) fees and consolidated revenues of subsidiaries and Point’s results reflected on the basis described below. Product sales revenues consist primarily of sales of original equipment manufacturer (“OEM”) boards, antennas, software, software upgrades and Wide Area Augmentation System (“WAAS”) type receivers.

In July 1999, the Company commenced a transition to a new GPS surveying partner, Sokkia Co., Ltd. (“Sokkia”). Sokkia and the Company formed a jointly owned company known as Point, Inc. (“Point”), owned 51% by Sokkia and 49% by the Company. The Company’s consolidated financial statements include sales to Point, net of intercompany eliminations, and the Company’s proportionate share of the Point revenues. Effective May 5, 2000, the Company’s President, Doug Reid, assumed the role of interim President of Point in addition to his responsibilities with the Company.

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

Total revenues increased 96% from \$3.3 million in the second quarter 1999 to \$6.5 million in the second quarter 2000.

Geomatics

The Geomatics sector is made up of the surveying and GIS markets. Included within these markets are the Company’s sales to Point, net of intercompany eliminations, the Company’s proportionate share of sales by Point, revenues of the Company’s Costa Rican subsidiary (“GOPS”) and other related sales. Geomatics sales were \$2.6 million in the second quarter 2000 compared to \$1.0 million in the second quarter 1999, an increase of 174%. Sales to the Geomatics sector increased 34% from \$2.0 million in the first quarter 2000 to \$2.6 million in the second quarter 2000. Geomatics revenues in the second quarter 2000 were predominantly related to the Point operations. While the Company believes that the relationship with Sokkia will strengthen with further penetration of their distribution network and the introduction of new products, there can be no assurance that Point’s operations may not have a material adverse effect on the Company’s business, financial condition and results of operations. GOPS revenue is project based and there are presently no other projects being undertaken by GOPS. The costs associated with maintaining GOPS are nominal. While GOPS is pursuing opportunities, GOPS currently has no commitments for future projects and there can be no assurance that GOPS will receive commitments for future projects.

Aerospace and Defense

The Aerospace and Defense sector is made up of aviation, space and defense markets. Aerospace and Defense sales were \$1.5 million for the second quarter 2000 compared to \$403,000 for the second quarter 1999, an increase of 265%. Revenues in the Aerospace and Defense sector increased 98% from \$743,000 in the first quarter 2000 to \$1.5 million in the second quarter 2000. The second quarter 2000 revenues are primarily related to the recently announced first delivery of WAAS receivers to China. The balance of the order to China is scheduled for delivery in the third and fourth quarters of this year. The Company is continuing to negotiate a full contract for the European Geostationary Overlay System (“EGNOS”). The Company is teamed with Racal Avionics Ltd. (“Racal”) to supply one section of the EGNOS Remote Integrity Monitoring System (“RIMS-C”). The Racal/NovAtel RIMS-C system will provide integrity and correction data within the EGNOS ground network. There can be no assurance that the Company will receive commitments for future participation in the EGNOS program. The Company is also pursuing opportunities in Galileo, the European equivalent of GPS. Sales in this sector have also included WAAS receiver sales related to the U.S. Wide Area Augmentation System (“WAAS”), the Japanese MTSAT Satellite-based Augmentation

System (“MSAS”), and NavCanada which is working in conjunction with the U.S. Federal Aviation Administration (“FAA”) to implement the WAAS program in Canada. There were no sales of WAAS receivers to the WAAS and MSAS programs in the second quarter 2000. The certified GPS receiver that the Company is developing with BAE Systems Canada Inc. is targeted to be used by Honeywell in airborne markets and for the Local Area Augmentation System (“LAAS”) program, which is intended to complement the WAAS program. The Company currently has no commitments for future participation in the WAAS, MSAS or LAAS programs and there can be no assurance that the Company will receive commitments for future participation in the WAAS, MSAS or LAAS programs.

Special Apps

The Special Apps sector is made up of marine, agriculture, robotics, construction/grading, scientific, dealers (other than those that can be identified with a particular market sector) and miscellaneous markets. Special Apps revenues were \$2.4 million in the second quarter 2000 compared to \$1.8 million in the second quarter 1999, an increase of 34%. The higher revenue in the Special Apps segment is attributable to a number of factors including increased demand from dealers and stronger shipments to customers involved in agricultural and scientific applications. Revenues in the Special Apps sector declined 31% from \$3.4 million in the first quarter 2000 to \$2.4 million in the second quarter 2000. The lower revenues in the Special Apps sector were expected and were primarily due to seasonality, particularly in agriculture markets.

All Sectors

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

In the second quarter 2000, the Company derived approximately 51% of its total revenues from the sale of its products to countries outside the United States and Canada, compared to 42% in the second quarter 1999. Revenues from international sales increased from \$1.4 million in the second quarter 1999 to \$3.3 million in the second quarter 2000.

Gross Profit. Gross profit as a percentage of total revenues improved from 47% in the second quarter 1999 and 51% in the first quarter 2000 to 61% in the second quarter 2000. The improved gross profit percentage relative to a year ago is attributable to: 1) higher margin WAAS receiver sales to China; 2) the exclusion of sales of low margin manufacturing components to the Company’s subcontract manufacturers; and 3) lower provisions for inventory obsolescence and warranty obligations; partially offset by the inclusion of lower gross margin sales at Point.

Research and development. Research and development expenses consist primarily of engineering personnel expenses, contracted research and development expenses, amortization of purchased technology, equipment costs and facility and computer support costs. Research and development expenses increased 26% from \$1.7 million in the second quarter 1999 to \$2.1 million in the second quarter 2000 and decreased as a percentage of total revenues from 51% in the second quarter 1999 to 33% in the second quarter 2000. The increase in research and development expenses for the second quarter 2000 is primarily attributable to: 1) the consolidated proportionate share of Point’s research and development expenses, approximately 23% of the Company’s consolidated research and development expenses; and 2) the reduction in the amount of deferred development costs. In the six month period ended June 30, 2000, the Company deferred development costs of \$381,000 related to the development of a certified aviation GPS receiver, compared

to \$627,000 in the first six months of 1999. The Company believes that significant investments in research and development are required to maintain its technological leadership and compete in its business.

Selling and marketing. Selling and marketing expenses consist primarily of compensation of sales and marketing personnel as well as expenses for advertising and promotion, trade shows, facilities and other expenses related to the sale of the Company's products. Selling and marketing expenses increased 30% from \$965,000 in the second quarter 1999 to \$1.3 million in the second quarter 2000 and decreased as a percentage of total revenues from 29% in the second quarter 1999 to 19% in the second quarter 2000. The increase in selling and marketing expenses is primarily the result of: 1) commissions payable to the Company's dealer for the China WAAS order; and 2) the consolidated proportionate share of Point's selling and marketing expenses included in the Company's consolidated selling and marketing expenses. Point accounted for approximately 13% of the Company's consolidated selling and marketing expenses in the second quarter 2000.

General and administration. General and administration expenses consist primarily of salaries of administrative personnel, corporate overhead and facilities expenses. General and administration expenses increased by 64% from \$630,000 in the second quarter 1999 to \$1.0 million in the second quarter 2000 and decreased as a percentage of total revenues from 19% in the second quarter 1999 to 16% in the second quarter 2000. The increase in general and administration expenses is due in part to the consolidated proportionate share of Point's general and administration expenses being included in the Company's general and administration expenses. Point accounted for approximately 31% of the Company's consolidated general and administrative expenses in the second quarter 2000.

Interest income. The Company earned net interest income of \$67,000 in the second quarter 2000 compared with \$105,000 in the second quarter 1999. The reduced net interest income is attributable to a lower cash balance and the inclusion of interest expense in the Point operations. The Company's cash deposits not required for operations are invested in short term interest bearing instruments.

Other income (expense). Other income (expense) consists primarily of foreign currency income (loss) and miscellaneous items. Other expense was \$41,000 in the second quarter 2000 compared with other expense of \$27,000 in the second quarter 1999.

Provision for income taxes. The provision for income taxes, which consists of Canadian federal large corporations tax and the consolidated proportionate share of income taxes related to Point, decreased from \$21,000 in the second quarter 1999 to a recovery of \$6,000 in the second quarter 2000. The recovery in the second quarter 2000 relates primarily to a refund of capital tax.

Discontinued operations. The Company had no discontinued operations activity in the second quarters in 1999 or 2000.

RECENT DEVELOPMENTS

TAXES

The Company has not recorded a provision for income taxes in Canada, other than for large corporations tax, due to previously incurred losses, credits and costs. As of June 30, 2000, losses, investment tax credits, depreciation and research and development costs are available to reduce future taxable income in Canada. The Company has determined that the acquisition of a majority of the Common Shares of the Company by Canadian Marconi in 1998 and BAE SYSTEMS' indirect acquisition of the majority of the common shares of BAE Systems Canada Inc. in November 1999 constitute acquisition of control of the Company for Canadian income tax purposes. Accordingly, the availability of certain of the Company's Canadian income tax losses, research and development costs, depreciation deductible for tax purposes and investment tax credits may be subject to limitation. The ultimate availability and amount of these losses, credits and costs may be dependent upon future Canada Customs and Revenue Agency audits. See Note 14 of Notes to Consolidated Financial Statements as at December 31, 1999.

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

LIQUIDITY AND CAPITAL RESOURCES

In the six months ended June 30, 2000, cash provided by operations was \$392,000, compared to cash used in operations of \$16,000 in the same period of 1999. Cash used in operations in the six-month period ended June 30, 2000 consisted primarily of a \$956,000 loss from continuing operations offset by \$1.4 million in amortization.

In the six months ended June 30, 2000, cash used in financing activities was \$179,000, related primarily to a decrease in capital lease obligations. In the comparable period in 1999, \$172,000 cash was used in financing activities, also related to a decrease in capital lease obligations.

In the six months ended June 30, 2000, cash used in investing activities was \$1.3 million, primarily related to capital expenditures of \$604,000, deferred development expenditures of \$381,000 related to the development of a certified aviation GPS receiver and \$423,000 related to the final settlement of proceeds from the divestiture to Harris in 1995. In the first six months of 1999, cash provided by investing activities was \$5.4 million, primarily as a result of the sale/leaseback of the Company's headquarters in Calgary.

At June 30, 2000, the Company had cash and short-term investments of \$7.2 million. The Company has a credit agreement with the HSBC Bank Canada whereby the Company can borrow up to \$1.0 million for day-to-day operating requirements and \$2.2 million to support the margin requirement related to the purchase of foreign exchange contracts. The Company has a second credit arrangement with the Toronto Dominion Bank under which the Company can borrow up to \$650,000 for day-to-day operations. The credit line also supports the margin requirement related to the purchase of up to US\$2.5 million of foreign exchange contracts. The lines of credit are payable on demand and are secured by certain of the Company's assets. At June 30, 2000, portions of the lines of credit were utilized to support \$351,000 of letters of credit (\$665,000 at December 31, 1999) and the margin requirements on US\$2.5 million in forward exchange contracts leaving \$1,299,000 available for day-to-day operating requirements and the margin capacity necessary to enter into an additional US\$5.0 million in forward exchange contracts.

On March 15, 2000, Sokkia and the Company collectively loaned Point US\$1.2 million, the Company's share being US\$588,000 (the "Initial Loan"). The Initial Loan is repayable December 31, 2000, is secured by the assets of Point and bears interest at the U.S. Prime Rate in effect from time to time. On April 14, 2000, the Company's Board of Directors approved loaning Point up to US\$1.96 million (inclusive of the US\$588,000 loan), provided Sokkia contributes its pro rata share of any financing, that Point continues to repay the outstanding accounts receivable balance as agreed and that the loans be on commercial terms. On June 22, 2000, Sokkia and the Company collectively advanced Point an additional US\$500,000 loan on the same terms and conditions as the Initial Loan.

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

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

EFFECTS OF FOREIGN CURRENCY EXCHANGE RATES

Most of the Company's revenues (over 95% for the first six months of 2000) are earned in currencies other than the Canadian dollar, principally the U.S. dollar. A substantial portion of the Company's expenses, however, has been and will continue to be incurred in Canadian dollars. Accordingly, fluctuations in exchange rates between the U.S. dollar and the Canadian dollar could materially affect the Company's results of operations. In the normal course of business the Company uses foreign currency

options and forward foreign currency contracts to reduce its exposure to fluctuations in the U.S. dollar. At June 30, 2000, the Company had foreign currency options and forward foreign currency contracts to sell US\$2.5 million between July 25, 2000 and October 31, 2000 at rates between \$0.6765 and \$0.6890. Derivative financial instruments are not used for speculative purposes. There can be no assurance that the Company will be successful in such hedging activities.

LEGAL PROCEEDINGS

On August 24, 1999, Simon Newby, a former employee based in the United Kingdom, filed an application with the Employment Tribunals in Manchester, England, complaining that he had been wrongfully and unfairly dismissed, not provided with a sufficient period of notice, his dismissal was a breach of his contract or alternatively that he was constructively dismissed from his employment. Mr. Newby claimed unspecified compensation. The Company has filed a response to the claim stating that Mr. Newby resigned his employment during the course of a working notice period that had been provided to him. A hearing of the matter was held April 5, 2000. The Company was ruled to have wrongfully and unfairly dismissed Mr. Newby. A compensation hearing was set for June 14, 2000. The Employment Tribunals found that the total claim against the Company was £29,350. An appeal of the Employment Tribunal's decision was filed in June 2000. Notwithstanding the Employment Tribunal's decision, the Company believes that this claim is without merit and that it has valid defenses to this claim.

In 1990, 2548-5848 Quebec Inc. (Le Car Stereo) had claimed damages against the Company for breach of a distributor contract (for cellular telephones) in the amount of \$1.58 million. The trial was held in 1996 resulting in a dismissal of the claim. Subsequently Le Car Stereo appealed the trial decision. In June 2000, the appeal was dismissed. The Company believes that this matter is now concluded.

OTHER RISK FACTORS

NovAtel operates in a rapidly changing environment that involves a number of risks, some of which are beyond the Company's control. A discussion of some of these risks and the possible impact of these factors on future results from operations can be found in the Risk Factors section part of Form 20-F for the fiscal year ended December 31, 1999 filed with the Securities and Exchange Commission.

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 14, 2000.

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	6,389,585	11,395
Pierre Y. Ducros	6,398,285	2,695
Richard D. Orman	6,389,435	11,545
Horst Pudwill	6,397,485	3,495
Douglas R. Reid	6,398,285	2,695
Joel A. Schleicher	6,398,285	2,695
Gregory A. Yeldon	6,389,585	11,395

Also at the shareholders meeting, Arthur Andersen LLP was ratified as the auditors of the Company (6,394,380 For and 6,600 Withheld).

SMTC Manufacturing Contract

The Company has recently been informally notified that SMTC Manufacturing Corporation of Canada ("SMTC") intends to terminate the Manufacturing Agreement with the Company. The Manufacturing Agreement provides that either party may terminate the agreement on 180 days written notice. The Company has not yet received this formal notice. The Company continues to have a portion of its manufacturing provided by Raven Industries Ltd. The Company believes that it will be able to effect an orderly transition from SMTC to a new manufacturer.