



FORM 6-K

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

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

Date of Report November 12, 1999

NOVATEL INC.

Commission File No. 0-29004

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

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

Form 20-F Form 40-F

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

Yes No

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

A copy of the Registrant's Quarterly Report (including financial statements) for the three and nine months ended October 2, 1999 is furnished herewith and is incorporated by reference into the following Registration Statements:

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

As of November 5, 1999, there were 7,674,040 Common Shares outstanding.

This Report Consists of 28 Sequentially Numbered Pages

Exhibit Index Appears on Page 4

EXHIBITS

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

- (1) the Quarterly Report (including financial statements) of NovAtel Inc. for the three and nine months ended October 2, 1999.

SIGNATURES

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

NOVATEL INC.

Date: November 12, 1999

By: _____

Name: Randy Mabbott

Title: Senior Vice President
Corporate Affairs

EXHIBITS

<u>Exhibit No.</u>	<u>Document</u>	<u>Page No.</u>
1.	the Quarterly Report (including financial statements) of NovAtel Inc. for the three and nine months ended October 2, 1999.	5



NOVATEL INC.

Quarterly Report

For the Three and Nine Months Ended October 2, 1999

INDEX

	<u>Page Number</u>
<u>Consolidated Financial Statements</u>	
• Consolidated Balance Sheets - October 2, 1999 and December 31, 1998	3
• Consolidated Statements of Operations - Three and Nine Months Ended October 2, 1999 and October 3, 1998	4
• Consolidated Statements of Shareholders' Equity	5
• Consolidated Statements of Cash Flows - Nine Months Ended October 2, 1999 and October 3, 1998	6
• Notes to Consolidated Financial Statements	7
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13

The dollar amounts presented in this Quarterly Report are in Canadian currency unless otherwise noted (CDN \$1 = US \$0.6784 on October 14, 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 10 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)

	October 2, 1999	December 31, 1998
ASSETS		
(Note 1)		
Current assets:		
Cash and short term investments.....	\$ 8,547	\$ 4,486
Accounts receivable	6,857	5,357
Inventories (Note 3)	3,299	3,595
Prepaid expenses and deposits	<u>327</u>	<u>315</u>
Total current assets	19,030	13,753
Capital assets (Note 7).....	5,105	11,755
Intangible assets	3,166	3,424
Deferred development costs (Note 4).....	<u>1,368</u>	<u>528</u>
Total assets.....	<u>\$28,669</u>	<u>\$ 29,460</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
(Note 1)		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,861	\$ 5,170
Provision for future warranty costs	194	110
Deferred gain on sale/leaseback of capital assets – current portion (Note 7)	153	42
Capital lease obligation – current portion (Note 7).....	<u>368</u>	<u>350</u>
Total current liabilities.....	6,576	5,672
Deferred gain on sale/leaseback of capital assets – long term portion (Note 7).....	974	80
Capital lease obligation – long term portion (Note 7)	<u>644</u>	<u>922</u>
Total liabilities.....	<u>8,194</u>	<u>6,674</u>
Non-controlling interest	54	—
Shareholders' equity:		
Capital stock (Note 5)	35,602	35,602
Deficit	<u>(15,181)</u>	<u>(12,816)</u>
Total shareholders' equity	<u>20,421</u>	<u>22,786</u>
Total liabilities and shareholders' equity	<u>\$28,669</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>Nine Months Ended</u>	
	<u>Oct. 2,</u> <u>1999</u>	<u>Oct. 3,</u> <u>1998</u>	<u>Oct. 2,</u> <u>1999</u>	<u>Oct. 3,</u> <u>1998</u>
Revenues	\$ 7,510	\$ 6,683	\$ 16,087	\$ 17,192
Cost of sales.....	<u>3,756</u>	<u>2,162</u>	<u>8,098</u>	<u>6,820</u>
Gross profit.....	<u>3,754</u>	<u>4,521</u>	<u>7,989</u>	<u>10,372</u>
Operating expenses:				
Research and development	1,860	2,186	5,425	6,173
Selling and marketing.....	1,014	1,329	2,952	3,317
General and administration	<u>808</u>	<u>932</u>	<u>2,054</u>	<u>2,717</u>
Total operating expenses.....	<u>3,682</u>	<u>4,447</u>	<u>10,431</u>	<u>12,207</u>
Operating income (loss).....	72	74	(2,442)	(1,835)
Interest income	88	44	287	169
Other income (expense).....	<u>(60)</u>	<u>211</u>	<u>(147)</u>	<u>250</u>
Income (loss) from continuing operations before income taxes ..	100	329	(2,302)	(1,416)
Provision for income taxes	<u>21</u>	<u>20</u>	<u>63</u>	<u>59</u>
Net income (loss) from continuing operations	79	309	(2,365)	(1,475)
Net income from discontinued operations (Note 8).....	<u>—</u>	<u>68</u>	<u>—</u>	<u>1,295</u>
Net income (loss).....	<u>\$ 79</u>	<u>\$ 377</u>	<u>\$ (2,365)</u>	<u>\$ (180)</u>
Net income (loss) per share (basic) (Note 10)				
Continuing operations	\$ 0.01	\$ 0.04	\$(0.31)	\$ (0.19)
Discontinued operations	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>	<u>0.17</u>
Net income (loss) per share	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$(0.31)</u>	<u>\$ (0.02)</u>
Weighted average shares outstanding (basic) (Note 5)	<u>7,674</u>	<u>7,674</u>	<u>7,674</u>	<u>7,673</u>
Net income (loss) per share (fully diluted) (Note 10)				
Continuing operations	\$ 0.01	\$ 0.04	\$(0.31)	\$ (0.19)
Discontinued operations	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>	<u>0.17</u>
Net income (loss) per share	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$(0.31)</u>	<u>\$ (0.02)</u>
Weighted average shares outstanding (fully diluted) (Note 5)	<u>8,649</u>	<u>8,518</u>	<u>8,604</u>	<u>8,500</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>
				<u>Equity</u>
Balance December 31, 1998..	7,674	\$35,602	\$(12,816)	\$22,786
Common Shares issued.....	—	—	—	—
Net loss	—	—	<u>(2,365)</u>	<u>(2,365)</u>
Balance October 2, 1999	<u>7,674</u>	<u>\$35,602</u>	<u>\$(15,181)</u>	<u>\$20,421</u>

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Nine Months Ended	
	October 2, 1999	October 3, 1998
Operating activities:		
Net loss from continuing operations	\$ (2,365)	\$ (1,475)
Net income from discontinued operations.....	—	1,295
Charges and credits to operations not involving an outlay of cash:		
Amortization	1,973	1,744
Gain on disposal of capital assets	(169)	(185)
Amortization of deferred gain on sale/leaseback of capital assets.....	(104)	133
Non-controlling interest.....	(8)	—
Gain on divestitures	—	(710)
Net change in non-cash working capital related to operations (Note 6)....	<u>(613)</u>	<u>(5,372)</u>
Cash used in operating activities.....	<u>(1,286)</u>	<u>(4,570)</u>
Financing activities:		
Issuance of shares (Note 5)	—	43
(Decrease) increase in capital lease obligation.....	<u>(260)</u>	<u>1,356</u>
Cash (used in) provided by financing activities.....	<u>(260)</u>	<u>1,399</u>
Decrease in cash before investing activities	<u>(1,546)</u>	<u>(3,171)</u>
Investing activities:		
Purchase of capital and intangible assets	(1,075)	(3,941)
Proceeds from disposal of capital assets	7,833	1,705
Investment in Point, Inc., net of cash acquired (Note 2).....	(311)	—
Proceeds on divestitures.....	—	710
Deferred development costs	<u>(840)</u>	<u>(335)</u>
Cash provided by (used in) investing activities	<u>5,607</u>	<u>(1,861)</u>
Increase (decrease) in cash and short term investments.....	4,061	(5,032)
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>\$ 8,547</u>	<u>\$ 5,700</u>
Cash and short term investments consisted of:		
Cash and cash equivalents.....	\$ 3,547	\$ 2,950
Short term investments (original maturities of greater than 90 days)	<u>5,000</u>	<u>2,750</u>
	<u>\$ 8,547</u>	<u>\$ 5,700</u>
Interest paid related to bank advances and capital lease obligations	<u>\$ 58</u>	<u>\$ 94</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 nine month periods ended October 2, 1999 and October 3, 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 Investment in Point, Inc.

On July 20, 1999, the Company and Sokkia Co., Ltd. formed a jointly owned company, Point, Inc., to distribute GPS based products for surveying, mapping, geographical information systems, construction and construction machine control applications, on a world wide basis. The Company acquired a 49% equity interest in Point for \$311, net of cash acquired. The Company's consolidated financial statements presented herein include the Company's proportionate share of the accounts of Point, Inc.

Note 3 Inventories

	<u>October 2, 1999</u>	<u>December 31, 1998</u>
Raw materials and components	\$ 1,980	\$ 1,065
Work-in-progress.....	15	342
Finished goods.....	<u>1,304</u>	<u>2,188</u>
	<u>\$ 3,299</u>	<u>\$ 3,595</u>

Note 4 Deferred Development Costs

In the nine month period ended October 2, 1999, the Company deferred \$840 of development costs related to the development of a certified aviation GPS receiver. In the comparable nine month period ended October 3, 1998, the Company deferred \$335 of development costs.

Note 5 Capital Stock

	<u>October 2, 1999</u>		<u>December 31, 1998</u>	
	<u>Number</u> <u>Authorized</u>	<u>Number</u> <u>Issued</u>	<u>Number</u> <u>Authorized</u>	<u>Number</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 October 2, 1999:

<u>Option Plan</u>	<u>Year of Grant</u>	<u>Number of Options Outstanding as of October 2, 1999</u>	<u>Weighted Average Exercise Price</u> (US\$)
Employee	1997	532	\$7.58
Employee	1998	205	\$7.77
Employee	1999	172	\$1.38
Directors	1997	40	\$7.50
Directors	1999	<u>21</u>	<u>\$1.38</u>
		<u>970</u>	<u>\$6.38</u>

During the nine month period ended October 2, 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.....	(129)	\$1.375 - \$8.00
Options exercised.....	<u>—</u>	<u>—</u>
Options outstanding as of October 2, 1999.....	<u>970</u>	<u>\$1.375 - \$11.25</u>

Note 6 Consolidated Statements of Cash Flows

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

	<u>Nine Months Ended</u>	
	<u>October 2, 1999</u>	<u>October 3, 1998</u>
Increase in accounts receivable.....	\$(1,500)	\$ (2,511)
Decrease (increase) in inventories	111	(960)
Decrease (increase) in prepaid expenses and deposits	1	(338)
Increase (decrease) in accounts payable and accrued liabilities..	691	(1,685)
Increase in provision for future warranty costs.....	<u>84</u>	<u>34</u>
Net change in non-cash working capital	(613)	(5,460)
Non-cash working capital relating to divestitures.....	<u>—</u>	<u>88</u>
Net change in non-cash working capital relating to operations .	<u>\$ (613)</u>	<u>\$ (5,372)</u>

During the three month period ended October 2, 1999, the Company acquired a 49% equity interest in Point, Inc. (Note 2). The fair value of assets acquired were as follows:

Cash	\$ 427
Inventories	134
Prepaid expenses.....	13
Capital assets.....	<u>164</u>
	738
Less: Cash of Point, Inc.	<u>(427)</u>
Investment, net of cash acquired.....	<u>\$ 311</u>

Note 7 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 8 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		Nine months ended	
	Oct. 2, 1999	Oct. 3, 1998	Oct. 2, 1999	Oct. 3, 1998
Revenues.....	\$ —	\$ —	\$ —	\$ 512
Cost of sales.....	—	—	—	—
Research and development expenses.....	—	—	—	—
Selling and marketing expenses.....	—	(68)	—	(75)
General and administration expenses.....	—	—	—	2
Other (income) expenses.....	—	—	—	—
Income before gain on divestiture.....	—	68	—	585
Gain on divestiture.....	—	—	—	710
Net income from discontinued operations....	<u>\$ —</u>	<u>\$ 68</u>	<u>\$ —</u>	<u>\$ 1,295</u>

Note 9 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 10 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 nine month periods ending October 2, 1999 and October 3, 1998 are as follows:

- (i) In the nine month period ended October 2, 1999, the Company deferred \$840 of development costs (\$335 in the nine month period ending October 3, 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 \$337 in the nine month period ending October 2, 1999 (\$0 in the nine month period ending October 3, 1998).
- (iii) The accounts of the Company's investment in Point, Inc. are proportionately consolidated as required pursuant to 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 the Securities and Exchange Commission, the effects of this difference in accounting principles have not been reflected.

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>October 2, 1999</u>	<u>October 3, 1998</u>	<u>October 2, 1999</u>	<u>October 3, 1998</u>
Net income (loss) from continuing operations – Canadian GAAP	\$ 79	\$ 309	\$ (2,365)	\$ (1,475)
Adjustments to U.S. GAAP				
Deferred development costs (i).....	(213)	(212)	(840)	(335)
Fair value of financial instruments (ii)	(4)	—	337	—
Net loss from continuing operations – U.S. GAAP	<u>\$ (138)</u>	<u>\$ 97</u>	<u>\$ (2,868)</u>	<u>\$ (1,810)</u>
Net income from discontinued operations – Canadian GAAP.....	\$ —	\$ 68	\$ —	\$ 1,295
Adjustments to U.S. GAAP.....	—	—	—	—
Net income from discontinued operations – U.S. GAAP.....	<u>\$ —</u>	<u>\$ 68</u>	<u>\$ —</u>	<u>\$ 1,295</u>
Net income (loss) – U.S. GAAP	<u>\$ (138)</u>	<u>\$ 165</u>	<u>\$ (2,868)</u>	<u>\$ (515)</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>October 2, 1999</u>	<u>October 3, 1998</u>	<u>October 2, 1999</u>	<u>October 3, 1998</u>
Continuing operations	\$ 0.01	\$ 0.04	\$ (0.02)	\$ 0.01
Discontinued operations	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>	<u>0.01</u>
Income (loss) per share	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ (0.02)</u>	<u>\$ 0.02</u>
	Fully Diluted		Diluted	
	<u>October 2, 1999</u>	<u>October 3, 1998</u>	<u>October 2, 1999</u>	<u>October 3, 1998</u>
Continuing operations	\$ 0.01	\$ 0.04	\$ (0.02)	\$ 0.01
Discontinued operations	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>	<u>0.01</u>
Income (loss) per share	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ (0.02)</u>	<u>\$ 0.02</u>
	Income (loss) per Share			
Nine Months Ended	Canadian GAAP		U.S. GAAP	
	Basic		Basic	
	<u>October 2, 1999</u>	<u>October 3, 1998</u>	<u>October 2, 1999</u>	<u>October 3, 1998</u>
	Continuing operations	\$ (0.31)	\$ (0.19)	\$ (0.37)
Discontinued operations	<u>0.00</u>	<u>0.17</u>	<u>0.00</u>	<u>0.17</u>
Income (loss) per share	<u>\$ (0.31)</u>	<u>\$ (0.02)</u>	<u>\$ (0.37)</u>	<u>\$ (0.07)</u>
	Fully Diluted		Diluted	
	<u>October 2, 1999</u>	<u>October 3, 1998</u>	<u>October 2, 1999</u>	<u>October 3, 1998</u>
Continuing operations	\$ (0.31)	\$ (0.19)	\$ (0.37)	\$ (0.24)
Discontinued operations	<u>0.00</u>	<u>0.17</u>	<u>0.00</u>	<u>0.17</u>
Income (loss) per share	<u>\$ (0.31)</u>	<u>\$ (0.02)</u>	<u>\$ (0.37)</u>	<u>\$ (0.07)</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>Oct. 2,</u> <u>1999</u>	<u>Dec. 31,</u> <u>1998</u>
Total Assets		
Canadian GAAP.....	\$28,669	\$29,460
Adjustments to U.S. GAAP		
Deferred development costs.....	(1,368)	(528)
Fair value of financial instruments.....	<u>29</u>	<u>—</u>
U.S. GAAP.....	<u>\$27,330</u>	<u>\$28,932</u>
Total Shareholders' Equity(Deficit)		
Canadian GAAP.....	\$20,421	\$22,786
Adjustments to U.S. GAAP		
Deferred development costs.....	(1,368)	(528)
Fair value of financial instruments	<u>29</u>	<u>(308)</u>
U.S. GAAP.....	<u>\$19,082</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. Subsequently, the FASB issued SFAS 137 which amended SFAS 133 and deferred the effective date to the second quarter 2001. SFAS 133 and 137 establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require companies to recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting under SFAS 133 and 137. The Company is currently evaluating the impact of SFAS 133 and 137 on its financial position and results of operations as disclosed in accordance with U.S. GAAP.

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

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

	<u>Three Months Ended</u>			<u>Nine Months Ended</u>		
	<u>Oct. 2,</u> <u>1999</u>	<u>Oct. 3,</u> <u>1998</u>	<u>%</u> <u>Change</u>	<u>Oct. 2,</u> <u>1999</u>	<u>Oct. 3,</u> <u>1998</u>	<u>%</u> <u>Change</u>
Revenues	\$ 7,510	\$ 6,683	12%	\$16,087	\$17,192	(6%)
Cost of sales	<u>3,756</u>	<u>2,162</u>	<u>74%</u>	<u>8,098</u>	<u>6,820</u>	<u>19%</u>
Gross profit.....	<u>3,754</u>	<u>4,521</u>	<u>(17%)</u>	<u>7,989</u>	<u>10,372</u>	<u>(23%)</u>
Operating expenses:						
Research and development.....	1,860	2,186	(15%)	5,425	6,173	(12%)
Selling and marketing	1,014	1,329	(24%)	2,952	3,317	(11%)
General and administration	<u>808</u>	<u>932</u>	<u>(13%)</u>	<u>2,054</u>	<u>2,717</u>	<u>(24%)</u>
Total operating expenses	<u>3,682</u>	<u>4,447</u>	<u>(17%)</u>	<u>10,431</u>	<u>12,207</u>	<u>(15%)</u>
Operating income (loss)	72	74	(3%)	(2,442)	(1,835)	(33%)
Interest income	88	44	100%	287	169	70%
Other income (expense).....	<u>(60)</u>	<u>211</u>	<u>N/A</u>	<u>(147)</u>	<u>250</u>	<u>N/A</u>
Income (loss) from continuing operations before income taxes.....	100	329	(70%)	(2,302)	(1,416)	(63%)
Provision for income taxes	<u>21</u>	<u>20</u>	<u>5%</u>	<u>63</u>	<u>59</u>	<u>7%</u>
Net income (loss) from continuing operations	79	309	(74%)	(2,365)	(1,475)	(60%)
Net income from discontinued operations.....	<u>—</u>	<u>68</u>	<u>(100%)</u>	<u>—</u>	<u>1,295</u>	<u>(100%)</u>
Net income (loss).....	<u>\$ 79</u>	<u>\$ 377</u>	<u>(79%)</u>	<u>\$ (2,365)</u>	<u>\$ (180)</u>	<u>(>100%)</u>
Net income (loss) per share (basic)						
Continuing operations	\$ 0.01	\$ 0.04		\$ (0.31)	\$ (0.19)	
Discontinued operations.....	<u>0.00</u>	<u>0.01</u>		<u>0.00</u>	<u>0.17</u>	
Net income (loss) per share	<u>\$ 0.01</u>	<u>\$ 0.05</u>		<u>\$ (0.31)</u>	<u>\$ (0.02)</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	\$ 0.01	\$ 0.04		\$ (0.31)	\$ (0.19)	
Discontinued operations.....	<u>0.00</u>	<u>0.01</u>		<u>0.00</u>	<u>0.17</u>	
Net income (loss) per share	<u>\$ 0.01</u>	<u>\$ 0.05</u>		<u>\$ (0.31)</u>	<u>\$ (0.02)</u>	
Weighted average shares outstanding (fully diluted) ...	<u>8,649</u>	<u>8,518</u>		<u>8,604</u>	<u>8,500</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>Nine Months Ended</u>		
	<u>Oct. 2, 1999</u>	<u>Oct. 3, 1998</u>	<u>% Change</u>	<u>Oct. 2, 1999</u>	<u>Oct. 3, 1998</u>	<u>% Change</u>
Revenues	\$ 5,095	\$ 4,534	12%	\$10,913	\$11,663	(6%)
Cost of sales	<u>2,548</u>	<u>1,467</u>	<u>(74%)</u>	<u>5,493</u>	<u>4,627</u>	<u>(19%)</u>
Gross profit.....	<u>2,547</u>	<u>3,067</u>	<u>(17%)</u>	<u>5,420</u>	<u>7,036</u>	<u>(23%)</u>
Operating expenses:						
Research and development.....	1,262	1,483	(15%)	3,680	4,188	(12%)
Selling and marketing	688	902	(24%)	2,003	2,250	(11%)
General and administration	<u>548</u>	<u>632</u>	<u>(13%)</u>	<u>1,394</u>	<u>1,843</u>	<u>(24%)</u>
Total operating expenses	<u>2,498</u>	<u>3,017</u>	<u>(17%)</u>	<u>7,077</u>	<u>8,281</u>	<u>(15%)</u>
Operating income (loss)	49	50	(2%)	(1,657)	(1,245)	(33%)
Interest income	60	30	100%	195	115	70%
Other income (expense).....	<u>(41)</u>	<u>143</u>	<u>N/A</u>	<u>(100)</u>	<u>169</u>	<u>N/A</u>
Income (loss) from continuing operations before income taxes.....	68	223	(70%)	(1,562)	(961)	(63%)
Provision for income taxes	<u>14</u>	<u>13</u>	<u>8%</u>	<u>42</u>	<u>40</u>	<u>5%</u>
Net income (loss) from continuing operations	54	210	(74%)	(1,604)	(1,001)	(60%)
Net income from discontinued operations.....	<u>—</u>	<u>46</u>	<u>(100%)</u>	<u>—</u>	<u>879</u>	<u>(100%)</u>
Net income (loss).....	<u>\$ 54</u>	<u>\$ 256</u>	<u>(79%)</u>	<u>\$(1,604)</u>	<u>\$ (122)</u>	<u>(>100%)</u>
Net income (loss) per share (basic)						
Continuing operations	\$ 0.01	\$ 0.03		\$ (0.21)	\$ (0.13)	
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>		<u>0.00</u>	<u>0.12</u>	
Net income (loss) per share	<u>\$ 0.01</u>	<u>\$ 0.03</u>		<u>\$ (0.21)</u>	<u>\$ (0.01)</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	\$ 0.01	\$ 0.03		\$(0.21)	\$ (0.13)	
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>		<u>0.00</u>	<u>0.12</u>	
Net income (loss) per share	<u>\$ 0.01</u>	<u>\$ 0.03</u>		<u>\$ (0.21)</u>	<u>\$ (0.01)</u>	
Weighted average shares outstanding (fully diluted)	<u>8,649</u>	<u>8,518</u>		<u>8,604</u>	<u>8,500</u>	

	<u>December 31, 1998</u>	<u>October 2, 1999</u>	<u>US \$ Equivalent October 2, 1999(2)</u>
Balance Sheet Data (1): (Canadian \$, thousands)			
Working capital	\$ 8,081	\$ 12,454	\$ 8,449
Total assets	29,460	28,669	19,449
Long-term liabilities	1,002	1,618	1,098
Total shareholders' equity	22,786	20,421	13,854

(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 nine month periods ending October 2, 1999 and October 3, 1998 are as follows:

- (i) In the nine month period ended October 2, 1999, the Company deferred \$840 of development costs (\$335 in the nine month period ending October 3, 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 \$337 in the nine month period ending October 2, 1999 (\$0 in the nine month period ending October 3, 1998).
- (iii) The accounts of the Company's investment in Point, Inc. are proportionately consolidated as required pursuant to 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 the Securities and Exchange Commission, the effects of this difference in accounting principles have not been reflected.

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>October 2, 1999</u>	<u>October 3, 1998</u>	<u>October 2, 1999</u>	<u>October 3, 1998</u>
Net loss from continuing operations – Canadian GAAP	\$ 79	\$ 309	\$ (2,365)	\$ (1,475)
Adjustments to U.S. GAAP				
Deferred development costs (i).....	(213)	(212)	(840)	(335)
Fair value of financial instruments (ii)	<u>(4)</u>	<u>—</u>	<u>337</u>	<u>—</u>
Net loss from continuing operations – U.S. GAAP	<u>\$ (138)</u>	<u>\$ 97</u>	<u>\$ (2,868)</u>	<u>\$ (1,810)</u>
Net income from discontinued operations – Canadian GAAP.....	\$ —	\$ 68	\$ —	\$ 1,295
Adjustments to U.S. GAAP.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income from discontinued operations – U.S. GAAP.....	<u>\$ —</u>	<u>\$ 68</u>	<u>\$ —</u>	<u>\$ 1,295</u>
Net income (loss) – U.S. GAAP	<u>\$ (138)</u>	<u>\$ 165</u>	<u>\$ (2,868)</u>	<u>\$ (515)</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	<u>Income (loss) per Share</u>			
	<u>Canadian GAAP</u>		<u>U.S. GAAP</u>	
	<u>Basic</u>		<u>Basic</u>	
	<u>October 2, 1999</u>	<u>October 3, 1998</u>	<u>October 2, 1999</u>	<u>October 3, 1998</u>
Continuing operations	\$ 0.01	\$ 0.04	\$ (0.02)	\$ 0.01
Discontinued operations	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>	<u>0.01</u>
Income (loss) per share	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ (0.02)</u>	<u>\$ 0.02</u>
	<u>Fully Diluted</u>		<u>Diluted</u>	
	<u>October 2, 1999</u>	<u>October 3, 1998</u>	<u>October 2, 1999</u>	<u>October 3, 1998</u>
Continuing operations	\$ 0.01	\$ 0.04	\$ (0.02)	\$ 0.01
Discontinued operations	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>	<u>0.01</u>
Income (loss) per share	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ (0.02)</u>	<u>\$ 0.02</u>
	<u>Income (loss) per Share</u>			
Nine Months Ended	<u>Canadian GAAP</u>		<u>U.S. GAAP</u>	
	<u>Basic</u>		<u>Basic</u>	
	<u>October 2, 1999</u>	<u>October 3, 1998</u>	<u>October 2, 1999</u>	<u>October 3, 1998</u>
Continuing operations	\$ (0.31)	\$ (0.19)	\$ (0.37)	\$ (0.24)
Discontinued operations	<u>0.00</u>	<u>0.17</u>	<u>0.00</u>	<u>0.17</u>
Income (loss) per share	<u>\$ (0.31)</u>	<u>\$ (0.02)</u>	<u>\$ (0.37)</u>	<u>\$ (0.07)</u>
	<u>Fully Diluted</u>		<u>Diluted</u>	
	<u>October 2, 1999</u>	<u>October 3, 1998</u>	<u>October 2, 1999</u>	<u>October 3, 1998</u>
Continuing operations	\$ (0.31)	\$ (0.19)	\$ (0.37)	\$ (0.24)
Discontinued operations	<u>0.00</u>	<u>0.17</u>	<u>0.00</u>	<u>0.17</u>
Income (loss) per share	<u>\$ (0.31)</u>	<u>\$ (0.02)</u>	<u>\$ (0.37)</u>	<u>\$ (0.07)</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>October 2, 1999</u>	<u>Dec. 31, 1998</u>
Total Assets		
Canadian GAAP.....	\$28,669	\$29,460
Adjustments to U.S. GAAP		
Deferred development costs.....	(1,368)	(528)
Fair value of financial instruments	<u>29</u>	<u>—</u>
U.S. GAAP.....	<u>\$27,330</u>	<u>\$28,932</u>
Total Shareholders' Equity(Deficit)		
Canadian GAAP.....	\$20,421	\$22,786
Adjustments to U.S. GAAP		
Deferred development costs.....	(1,368)	(528)
Fair value of financial instruments	<u>29</u>	<u>(308)</u>
U.S. GAAP.....	<u>\$19,082</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 \$0.6784 per CDN \$1.00 which was the exchange rate as of October 14, 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, non-recurring engineering (“NRE”) fees and consolidated revenues of subsidiaries and affiliates. Product sales revenues consist primarily of sales of original equipment manufacturer (“OEM”) boards, software, software upgrades and Wide Area Augmentation System (“WAAS”) type receivers.

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 (“Point”). The ownership of Point 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 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. The rollout of sales to Point from the Company is 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. The Company’s consolidated financial statements include sales to Point and the Company’s proportionate share of the Point accounts.

The Company has historically reported revenues for survey, aviation and OEM. As a result of the creation of Point and restructuring that has taken place internally within the Company, the Company will going forward report revenues based on the following market sectors: Geomatics, Aerospace and Defense and Special Apps. Sales of components to the Company's subcontract manufacturers will be reported as Other Revenue.

Geomatics

The Geomatics sector is made up of the surveying and GIS markets. Included within these markets will be sales to Point, the Company's share of sales by Point, revenues of the Company's Costa Rican subsidiary ("GOPS") and residual sales to Nikon Corporation ("Nikon Japan") and Nikon Inc. ("Nikon US"). Geomatics sales were \$2.3 million in the third quarter 1999, \$1.5 million for the third quarter 1998 and \$1.3 million for the second quarter 1999. These results primarily reflect the transition from Nikon Japan and Nikon US sales to Point sales. The Nikon US distribution agreement expired September 30, 1999 and the Nikon Japan agreements expire December 31, 1999. Although the Company had minimal sales to Point during the third quarter, the Company shared in sales by Point of product in the third quarter that had been sold previously through Sokkia Technology, Inc. The Company has received orders for delivery of its product to Point during the fourth quarter 1999 and will be consolidating its proportionate share of Point revenues. Point announced new products at the Intergeo trade show in Hannover at the beginning of September and the Institute of Navigation trade show in Nashville in mid September. Point conducted dealer training on the new products during the first week of October. Revenues related to GOPS and the CONAVI project were \$351,000 during the third quarter 1999. This revenue was earned by the Company through a funding arrangement with the Canadian government. The CONAVI project is a capital project study of the roadway that links the City of Puerto Limón and Sixaola City in Costa Rica. A portion of the funding for this project has been provided to the Company by the Canadian International Development Agency (CIDA). The CONAVI related revenue will continue into the fourth quarter but the project will conclude by the end of December 1999. GOPS revenue currently is project based and there are presently no projects other than the CONAVI project. While GOPS is pursuing other opportunities, GOPS currently has no commitments for future projects and there can be no assurance that GOPS will receive commitments for future projects.

Aerospace and Defense

The Aerospace and Defense sector is made up of aviation, space and defense markets. Aerospace and Defense sales were \$2.8 million in the third quarter 1999, \$3.3 million in the third quarter 1998 and \$291,000 in the second quarter 1999. Sales in this market segment for the third quarter 1999 included the delivery of another 13 reference receivers worth \$1.6 million to the MTSAT Satellite-based Augmentation System (MSAS) in Japan. This compares with the delivery of 24 of the same receivers and 2 Navigational Earth Station (NES) receiver subsystems collectively worth \$3.2 million in the third quarter 1998. The third quarter 1999 also included the sale of 1 WAAS receiver to NavCanada who is working in conjunction with the U.S. Federal Aviation Administration ("FAA") to implement the WAAS system.

Second quarter 1999 also included revenue related to the 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 WAAS receivers, with added software qualification and functionality. Subject to a successful Preliminary Design Review, currently scheduled for early 2000, the Company is expecting to receive a full contract to complete software proving and qualification activities and deliver 18 EGNOS receiver systems. There can be no assurance that the Company will receive commitments for future participation in the EGNOS program.

The FAA has signed partnership agreements with each of Raytheon Company (“Raytheon”) and Honeywell Inc. (“Honeywell”) to develop a Local Area Augmentation System (“LAAS”). The LAAS program is intended to complement the WAAS program. Together these will function to supply users of the U.S. National Airspace System (NAS) with seamless satellite based navigation for all phases of flight. The certified GPS receiver that the Company is developing with Canadian Marconi is targeted to be used by Honeywell for the LAAS program. The Company believes that it is well positioned to participate with Raytheon in the LAAS program given its past experience with Raytheon and the WAAS program. Raytheon recently announced that it has successfully completed the “Performance Build”, the third in a series of signal-in-space test milestones, which demonstrates significant progress toward achieving WAAS’ system capabilities. A FAA group has recently recommended retooling the WAAS program schedule to coincide with accelerating the LAAS program by two years. The Company is not aware if the recommendation has been adopted. WAAS Phase I is currently scheduled for completion September 2000. LAAS Phase I is currently scheduled for 2001. While the Company has participated in previous phases of WAAS and MSAS and has relationships with Raytheon and Honeywell, the Company currently has no commitments for future participation in the WAAS, MSAS or LAAS programs and there can be no assurance that the Company will receive commitments for future participation in the WAAS, MSAS or LAAS programs.

Special Apps

The Special Apps sector is made up of marine, agriculture, robotics, construction/grading, scientific, dealers (other than those that can be identified with a particular market segment) and miscellaneous markets. Special Apps sales were \$2.2 million in the third quarter 1999, \$1.7 million in the third quarter 1998 and \$1.5 million in the second quarter 1999. Sales to dealers accounted for \$1.2 million in the third quarter 1999. The balance of sales in the Special Apps sector was divided amongst the other markets within the sector.

Other Revenue. The Company’s technological innovation continues with the launch of its latest generation receiver, the OEM4, in September 1999. This is the smallest GPS dual frequency receiver available on the market today that can track 12 satellites and deliver two centimeter real time accuracy while consuming less than three watts of power. Beta units are currently available and full market release is expected for the first quarter 2000. This product can be used in each of the defined market sectors. The Company anticipates some revenues from this new product in the fourth quarter 1999. There can be no assurances that this product will result in increased revenues in any of the market segments.

Sales of the components to the Company’s subcontract manufacturers were \$190,000 for the third quarter 1999, \$204,000 in the third quarter 1998 and \$242,000 in the second quarter 1999.

In the third quarter of 1999, the Company derived approximately 61% 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 68% in the third quarter 1998 to 50% in the third quarter 1999 but increased from 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, \$1.6 million in third quarter 1999 versus \$3.0 million in third quarter 1998; 2) the addition of Point and GOPS operations, which earn lower gross profits as their revenues were primarily derived from the sale of end user products and government funded projects, respectively, which have lower gross profits; and 3) the establishment of inventory provisions for certain survey products which are being transitioned out of production. 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 \$2.2 million in the third quarter 1998 to \$1.9 million in the third quarter 1999, a 15% reduction, and

decreased as a percentage of revenue from 33% to 25%. The reduction in research and development expenses is primarily attributable to lower staffing costs as a result of a restructuring and staff reduction in November 1998. In the nine month period ended October 2, 1999, the Company deferred development costs of \$840,000 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 24% from \$1.3 million in the third quarter of 1998 to \$1.0 million in the third quarter of 1999 and decreased as a percentage of total revenues from 20% to 14%. The decrease in selling and marketing expenses is primarily the result of lower personnel costs as a result of a restructuring and staff reduction in November 1998 and reduced advertising and product promotions.

General and Administration. General and administration expenses consist primarily of salaries of administrative personnel, corporate overhead and facilities expenses. General and administrative expenses decreased by 13% from \$932,000 in the third quarter 1998 to \$808,000 in the third quarter 1999 and decreased as a percentage of total revenues from 14% to 11%. This decrease is in part attributable to one less executive position.

Interest Income. The Company earned a net interest income of \$88,000 in the third quarter 1999, compared with \$44,000 in the third quarter 1998. The Company's cash deposits not required for operations are invested in short term interest-bearing instruments.

Other Income (Expense). Other income consists primarily of foreign currency exchange income (loss) and miscellaneous items. Other expense was \$60,000 in the third quarter 1999 and was primarily comprised of severance costs of \$225,000 relating to a staff reduction in July 1999 offset by a gain of \$170,000 on the sale of surplus lands. Other income of \$211,000 in the third quarter 1998 consisted primarily of a foreign exchange gain on the conversion of U.S. dollar net assets on the balance sheet.

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

Discontinued Operations. The Company had no discontinued operations activity in the third quarter 1999 compared to a net income of \$68,000 from discontinued operations in the third 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 October 2, 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 nine months ended October 2, 1999, cash used in operations was \$1.3 million, compared to cash used in operations of \$4.6 million in the same period of 1998. In the nine months ended October 2, 1999, cash used in operations consisted primarily of the net loss of \$2.4 million and a \$613,000 increase in working capital, mainly as a result of the proportionate consolidation of Point's accounts, partially offset by \$2.0 million in amortization.

For the first nine months of 1999, cash used in financing activities was \$260,000, 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 \$1.4 million cash provided by financing activities.

In the first nine months of 1999, the Company generated \$5.6 million cash from investing activities mainly from the sale of the Company's headquarters in a sale/leaseback transaction and the sale of the surplus land. Cash used in investing activities in the first nine months 1998 was \$1.9 million. On July 20, 1999 the Company acquired a 49% equity interest in Point in exchange for \$311,000, net of cash acquired.

As of October 2, 1999, the Company had cash and short term investments of \$8.5 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 October 2, 1999, portions of the lines of credit were utilized to support \$674,000 of letters of credit (\$93,000 at December 31, 1998) and the margin requirements on US\$5.5 million in forward foreign exchange contracts leaving \$976,000 available for day-to-day operating requirements and the margin capacity necessary to enter into an additional US\$2.0 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 nine 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 October 2, 1999, the Company had foreign currency options and forward foreign currency contracts to sell US\$5.5 million between October 29, 1999 and June 30, 2000 at rates between \$0.6604 and \$0.6849. 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

The Company was recently informed that the Ericsson Communications Inc. ("Ericsson") matter will proceed to trial on February 28, 2000 for eight weeks. A claim was filed October 16, 1992 in the Ontario Court (General Division) by Ericsson against 475342 Alberta Ltd. (a corporation controlled by the Government of the Province of Alberta) (the "Province") and NovAtel claiming that certain agreements (the "Agreements") entered into between Ericsson and NovAtel in 1984 have been frustrated, repudiated and/or fundamentally breached by NovAtel thereby releasing Ericsson of its obligations to pay monies at

any time due thereunder or in connection therewith from and following May 21, 1992 (the "Assignment Date"). NovAtel assigned the Agreement to the Province effective on the Assignment Date. The Province is currently prosecuting a claim against Ericsson which had been filed prior to the Ericsson claim against NovAtel. Counsel for the Province advises that the Province's claim against Ericsson relates to amounts due under the Agreements in the amount of \$10 million plus interest and costs. In May 1997, Ericsson filed an amendment to their original claim seeking damages against NovAtel and the Province in the amount of \$17.8 million for breach of fiduciary duties and misappropriation of confidential information, and for damages in the amount of \$10.4 million or an amount equal to 8% of the volume of business transacted by NovAtel on the basis of an alleged use of confidential or proprietary information belonging to Ericsson, together with interest and costs. The Province has had and continues to have conduct of this claim pursuant to the indemnity provisions of agreements between NovAtel and the Province. The Province has advised NovAtel that their counsel has advised that the Ericsson claim is without merit. The Province has confirmed that it will indemnify NovAtel with respect to any amount awarded by way of damages, including any award of interest or costs, with respect to this matter.

On August 24, 1999, 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. The former employee is claiming unspecified compensation. The Company has filed a response to the claim stating that the former employee resigned his employment during the course of a working notice period that had been provided to him. A preliminary hearing has been scheduled in January 2000 to determine if the Employment Tribunals has jurisdiction to hear this matter. The Company believes that this claim is without merit and that it has valid defenses to this claim.

On August 26, 1999, the Company received a letter from The Nasdaq Stock Market noting that the Company's common stock has failed to maintain a market value of public float (MVPF) greater than or equal to US\$5,000,000 over the last thirty consecutive trading days. The Company has until November 25, 1999 to comply. The Company is attempting to achieve compliance. There can be no assurance that the Company will be successful in achieving compliance. Alternatively, the Company may consider becoming listed on The Nasdaq Small Cap Market if it satisfies the requirements for continued listing on that market.

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. Harris recently filed a Statement of Defence denying liability and damages. The Company is preparing for Examinations for Discovery.

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 of Form 20-F for the fiscal year ended December 31, 1998 filed with the Securities and Exchange Commission.

OTHER INFORMATION

Year 2000 and GPS Week Number Rollover

The Year 2000 issue is the result of date sensitive computer software programs being written using two digits rather than four digits to define the applicable year. Consequently, unless corrected, computer software programs will be unable to read and accurately process date information on or after the year 2000. The Company has critical reliance on technology systems, telecommunications systems, facilities infrastructure and embedded systems, such as heating and ventilation systems, in conducting its business. The Company also has business relationships with third party providers, such as telecommunication vendors and financial institutions, who are highly reliant on information technology and other systems to conduct their business.

GPS suppliers recently experienced a similar issue arising from GPS week number rollover ("WNRO"). The GPS system contains a field called a week number. At the end of each GPS cycle (each 1,023 weeks) the GPS receiver is required to reset the week number to zero to navigate and correctly display and use time. This reset occurred on August 21, 1999. The Company's GPS products had been tested with respect to WNRO issues and results are posted on the Company's website. During the WNRO, the Company's products performed without any material issues or adverse impact on the Company.

State of Readiness. Beginning in early 1998, the Company began an overall assessment of its Year 2000 readiness. A Year 2000 program plan was prepared and has been implemented. The Company believes that assessment, remediation and contingency planning activities are substantially completed. The only issues that remain outstanding are continued monitoring for software changes and a few tasks remain to be completed, none of which are considered critical items or that have a material impact if not completed. In September 1999, the Year 2000 Program Manager for Marconi North America, a division of General Electric Company, P.L.C. ("GEC"), of which Canadian Marconi and the Company form a part of, requested an independent assessment of the Company's Year 2000 program. This review has been completed and concluded that for each of the major risk areas the risks have been addressed and are not considered significant.

Costs to Address the Year 2000 Issues. The Company has incurred minimal incremental costs addressing Year 2000 issues. The Company has no separate budget for Year 2000 issues. The Company does not believe that it will incur any material costs associated with Year 2000. However, it is uncertain to what extent the Company may be affected by such matters, and therefore, there can be no assurance that these matters will not have a material adverse effect on the Company's business, financial condition and operating results.

Risks Presented by Year 2000 Issues. The Company believes that it has taken adequate measures to address Year 2000 risks, as independently reviewed by GEC. However, it is uncertain to what extent the Company may be affected by such matters, and therefore, there can be no assurance that these matters will not have a material adverse effect on the Company's business, financial condition and operating results.

Contingency Plans. The Company has developed contingency plans as a precautionary measure targeted at ensuring the continuation and continuity of critical business functions to mitigate the effects of Year 2000 disruptions. The Company will continue to identify aspects of its business and that of its third party providers and take necessary corrective action.

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 before the end of 1999.