



NOVATEL INC.

Quarterly Report

For the Three and Nine Months Ended September 30, 2000

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The dollar amounts presented in this Quarterly Report are in Canadian currency unless otherwise noted (CDN \$1 = US \$0.6581 on October 16, 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 12 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, maintaining technological leadership, timing of revenue recognition in connection with certain contracts, the ability to maintain supply of products from subcontract manufacturers and the supply of components to build products, and the impact of industry consolidations which has made certain competitors larger and stronger, 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>September 30,</u> <u>2000</u>	<u>December 31,</u> <u>1999</u>
ASSETS		
(Note 1)		
Current assets:		
Cash and short term investments.....	\$ 7,274	\$ 8,280
Accounts receivable	4,029	6,110
Related party receivables (Note 9)	498	1,340
Related party note receivable (Note 9)	1,029	—
Inventories (Note 3)	5,196	3,684
Prepaid expenses and deposits	<u>437</u>	<u>292</u>
Total current assets	18,463	19,706
Capital assets	3,740	4,648
Intangible assets	2,862	3,047
Deferred development costs (Note 4)	<u>2,445</u>	<u>1,803</u>
Total assets	<u>\$ 27,510</u>	<u>\$ 29,204</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
(Note 1)		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,854	\$ 4,851
Related party payables (Note 9)	360	278
Note payable (Note 9).....	1,029	—
Provision for future warranty costs	242	246
Capital lease obligation – current portion	<u>279</u>	<u>374</u>
Total current liabilities	5,764	5,749
Deferred gain on sale/leaseback of capital assets.....	973	1,089
Capital lease obligation – long term portion	<u>366</u>	<u>549</u>
Total liabilities.....	<u>7,103</u>	<u>7,387</u>
Non-controlling interest.....	<u>78</u>	<u>65</u>
Shareholders' equity:		
Capital stock (Note 5).....	35,613	35,602
Deficit.....	<u>(15,284)</u>	<u>(13,850)</u>
Total shareholders' equity	<u>20,329</u>	<u>21,752</u>
Total liabilities and shareholders' equity	<u>\$ 27,510</u>	<u>\$ 29,204</u>

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

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

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2000	Oct. 2, 1999	Sept. 30, 2000	Oct. 2, 1999
Revenues.....	\$ 6,314	\$ 7,510	\$19,077	\$16,087
Cost of sales.....	<u>2,583</u>	<u>3,756</u>	<u>8,231</u>	<u>8,098</u>
Gross profit.....	<u>3,731</u>	<u>3,754</u>	<u>10,846</u>	<u>7,989</u>
Operating expenses:				
Research and development.....	2,122	1,860	6,175	5,425
Selling and marketing.....	1,350	1,014	3,600	2,952
General and administration.....	<u>844</u>	<u>808</u>	<u>2,780</u>	<u>2,054</u>
Total operating expenses.....	<u>4,316</u>	<u>3,682</u>	<u>12,555</u>	<u>10,431</u>
Operating income (loss).....	(585)	72	(1,709)	(2,442)
Interest income.....	98	88	241	287
Other income (expense).....	<u>(3)</u>	<u>(60)</u>	<u>(2)</u>	<u>(147)</u>
Income (loss) from continuing operations before income taxes.....	(490)	100	(1,470)	(2,302)
Provision for (recovery of) income taxes.....	<u>16</u>	<u>21</u>	<u>(8)</u>	<u>63</u>
Net income (loss) from continuing operations.....	(506)	79	(1,462)	(2,365)
Net income from discontinued operations.....	<u>15</u>	<u>—</u>	<u>28</u>	<u>—</u>
Net income (loss).....	<u>\$ (491)</u>	<u>\$ 79</u>	<u>\$(1,434)</u>	<u>\$(2,365)</u>
Net income (loss) per share (basic) (Note 12)				
Continuing operations.....	\$ (0.07)	\$ 0.01	\$(0.19)	\$(0.31)
Discontinued operations.....	<u>0.01</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net income (loss) per share.....	<u>\$ (0.06)</u>	<u>\$ 0.01</u>	<u>\$(0.19)</u>	<u>\$(0.31)</u>
Weighted average shares outstanding (basic) (Note 5)	<u>7,676</u>	<u>7,674</u>	<u>7,675</u>	<u>7,674</u>
Net income (loss) per share (fully diluted) (Note 12)				
Continuing operations.....	\$ (0.07)	\$ 0.01	\$(0.19)	\$(0.31)
Discontinued operations.....	<u>0.01</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net income (loss) per share.....	<u>\$(0.06)</u>	<u>\$ 0.01</u>	<u>\$(0.19)</u>	<u>\$(0.31)</u>
Weighted average shares outstanding (fully diluted) (Note 5).	<u>8,691</u>	<u>8,649</u>	<u>8,701</u>	<u>8,604</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, 1999...	7,674	\$35,602	\$(13,850)	\$21,752
Common shares issued.....	4	11	—	11
Net loss	<u>—</u>	<u>—</u>	<u>(1,434)</u>	<u>(1,434)</u>
Balance September 30, 2000..	<u>7,678</u>	<u>\$35,613</u>	<u>\$(15,284)</u>	<u>\$20,329</u>

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Nine Months Ended	
	Sept. 30, 2000	Oct. 2, 1999
Operating activities:		
Net loss from continuing operations	\$ (1,462)	\$ (2,365)
Net income from discontinued operations.....	28	—
Charges and credits to operations not involving an outlay of cash:		
Amortization.....	2,034	1,973
Gain on disposal of capital assets	(43)	(169)
Amortization of deferred gain on sale/leaseback of capital assets	(116)	(104)
Non-controlling interest	13	(8)
Net change in non-cash working capital related to operations (Note 6)....	<u>770</u>	<u>(613)</u>
Cash provided by (used in) operating activities.....	<u>1,224</u>	<u>(1,286)</u>
Financing activities:		
Issuance of shares (Note 5)	11	—
Decrease in capital lease obligation.....	<u>(278)</u>	<u>(260)</u>
Cash used in financing activities	<u>(267)</u>	<u>(260)</u>
Increase (decrease) in cash before investing activities	<u>957</u>	<u>(1,546)</u>
Investing activities:		
Purchase of capital and intangible assets	(977)	(1,075)
Proceeds from disposal of capital assets	79	7,833
Investment in Point, Inc., net of cash acquired (Note 10).....	—	(311)
Settlement on divestiture proceeds	(423)	—
Deferred development costs	<u>(642)</u>	<u>(840)</u>
Cash (used in) provided by investing activities	<u>(1,963)</u>	<u>5,607</u>
(Decrease) increase in cash and short term investments.....	(1,006)	4,061
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>\$ 7,274</u>	<u>\$ 8,547</u>
Cash and short term investments consisted of:		
Cash and cash equivalents.....	\$ 3,524	\$ 3,547
Short term investments (original maturities of greater than 90 days)	<u>3,750</u>	<u>5,000</u>
	<u>\$ 7,274</u>	<u>\$ 8,547</u>
Interest paid related to bank advances and capital lease obligations	<u>\$ 39</u>	<u>\$ 58</u>
Income taxes paid	<u>\$ 54</u>	<u>\$ 76</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 September 30, 2000 and October 2, 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 ("SEC").

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.

c) Revenue Recognition

In December 1999, the SEC issued Staff Accounting Bulletin ("SAB") 101, Revenue Recognition in Financial Statements, which provides guidance related to revenue recognition based on the interpretations and practices of the SEC. In June 2000, the SEC issued SAB 101B which delays implementation until the Company's fourth fiscal quarter of 2000. The Company does not believe that SAB 101 will have a material effect on the Company's financial position or results of operations.

Note 3 Inventories

	<u>September 30, 2000</u>	<u>December 31, 1999</u>
Raw materials and components.....	\$ 3,018	\$ 2,685
Work-in-progress.....	124	68
Finished goods.....	<u>2,054</u>	<u>931</u>
	<u>\$ 5,196</u>	<u>\$ 3,684</u>

Note 4 Deferred Development Costs

In the nine month period ended September 30, 2000, the Company deferred \$642 of development costs related to the development of a certified aviation GPS receiver compared to \$840 in the nine month period ending October 2, 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 7,678 are outstanding as of September 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, 5.8% for the third 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 September 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 8 options had been exercised, and 1,014 options remain outstanding.

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

Options	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2000.....	938	US \$6.37
Granted.....	105	3.07
Exercised.....	(4)	2.02
Forfeited.....	(25)	3.83
Outstanding at September 30, 2000.....	<u>1,014</u>	6.10
Options exercisable at September 30, 2000 ...	<u>649</u>	7.16

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

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding</u>	<u>Weighted-Average Remaining Contractual Life</u>	<u>Weighted-Average Exercise Price</u>	<u>Number Exercisable</u>	<u>Weighted-Average Exercise Price</u>
US \$7.50 to \$11.25	741	6.8	US \$7.62	605	US \$7.58
\$3.06 to \$3.44	97	9.3	3.07	0	3.07
\$1.38	<u>176</u>	8.5	1.38	<u>44</u>	1.38
	<u>1,014</u>	7.3	6.10	<u>649</u>	7.16

In connection with the departure of certain senior management (Note 11), 53 options with a weighted average exercise price of \$4.56 were forfeited on November 3, 2000

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>September 30, 2000</u>	<u>October 2, 1999</u>
Decrease (increase) in accounts receivables and related party receivables.....	\$ 2,923	\$(1,500)
(Increase) decrease in inventories	(1,512)	111
(Increase) decrease in prepaid expenses and deposits.....	(145)	1
(Decrease) increase in accounts payable, accrued liabilities and related party advances.....	(464)	691
(Decrease) increase in provision for future warranty costs	<u>(4)</u>	<u>84</u>
Net change in non-cash working capital	798	(613)
Non-cash working capital items related to divestitures	<u>(28)</u>	<u>—</u>
Net change in non-cash working capital related to operations	<u>\$ 770</u>	<u>\$ (613)</u>

Note 7 Commitments and Contingencies

a) As at September 30, 2000, intangible assets included \$803 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 September 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>Nine Months Ended</u>	
	<u>September 30, 2000</u>	<u>October 2, 1999</u>
Product sales to Point, Inc.	\$ 790	\$ 53
Services provided to Point, Inc.	197	68
Royalty income from Point, Inc.	124	24
Development costs charged by Point, Inc.	—	229
Inventory purchases from BAE Systems Canada Inc.	—	62
Contracted development costs charged by BAE Systems Canada Inc. ...	201	93
Product sales to BAE Systems Canada Inc.	—	47
Other expenses	37	—

Significant related party receivables at September 30, 2000 consist of \$495 from Point, Inc. (\$1,308 at December 31, 1999). Related party payables at September 30, 2000 were comprised of amounts due to BAE Systems Canada Inc. of \$347 (\$151 at December 31, 1999) and \$13 to Point, Inc. (\$127 at December 31, 1999).

The related party note receivable of \$1,029 reflects the Company's proportionate interest in the aggregate borrowings by Point, Inc. of US\$2,650 to September 30, 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. The Company anticipates that these loans will be renewed for a further one year term.

Note 10 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.

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

	<u>September 30, 2000</u>	<u>December 31, 1999</u>
Current assets.....	\$ 2,346	\$ 2,577
Non-current assets.....	<u>57</u>	<u>106</u>
Total assets	<u>\$ 2,403</u>	<u>\$ 2,683</u>
Current liabilities	\$ 2,073	\$ 1,220
Long-term liabilities.....	<u>—</u>	<u>—</u>
Total liabilities	<u>\$ 2,073</u>	<u>\$ 1,220</u>
	<u>Nine Months Ended</u>	
	<u>September 30, 2000</u>	<u>October 2, 1999</u>
Revenue	\$ 4,697	\$ 945
Expenses.....	<u>6,296</u>	<u>954</u>
Net loss	<u>\$ (1,599)</u>	<u>\$ (9)</u>
Cash provided by (used in)		
Operating activities	\$ (1,473)	\$ (203)
Investing activities	\$ (28)	\$ —
Financing activities	\$ 1,029	\$ 738

Included in current liabilities is the Company's share of notes payable by Point, Inc. to Sokkia Co., Ltd., in the amount of \$1,029. 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. The Company anticipates that these notes will be renewed for a further term of one year.

Note 11 Subsequent Event

On November 3, 2000, the Company announced that its President and Chief Executive Officer and its Senior Vice President Corporate Affairs left the Company to pursue other career opportunities. The costs associated with the departure and replacement of these employees are estimated to be \$600, which the Company expects to provide for in the fourth quarter 2000.

Note 12 Differences between Canadian and United States Generally Accepted Accounting Principles

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

a) *Deferred Development Costs*

In the nine month period ended September 30, 2000, the Company deferred \$642 of development costs (\$840 in the nine month period ending October 2, 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 \$75 in the nine month period ending September 30, 2000 and an additional income of \$337 in the nine month period ending October 2, 1999 under U.S. principles.

c) *Investment in Point, Inc.*

The accounts of the Company's investment in Point, Inc. are proportionately consolidated as required under Canadian GAAP (see Note 10). 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 nine month periods ended September 30, 2000 and October 2, 1999.

The effects of the above noted differences ((a) to (d)) 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>Nine Months Ended</u>	
	<u>September 30,</u> <u>2000</u>	<u>October 2,</u> <u>1999</u>	<u>September 30,</u> <u>2000</u>	<u>October 2,</u> <u>1999</u>
Net income (loss) from continuing operations – Canadian GAAP	\$ (506)	\$ 79	\$ (1,462)	\$ (2,365)
Adjustments to U.S. GAAP				
Deferred development costs.....	(261)	(213)	(642)	(840)
Fair value of financial instruments.....	<u>(49)</u>	<u>(4)</u>	<u>(75)</u>	<u>337</u>
Net loss from continuing operations – U.S. GAAP	<u>\$ (816)</u>	<u>\$ (138)</u>	<u>\$ (2,179)</u>	<u>\$ (2,868)</u>
Net income from discontinued operations – Canadian GAAP.....	\$ 15	\$ —	\$ 28	\$ —
Adjustments to U.S. GAAP.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income from discontinued operations – U.S. GAAP.....	<u>\$ 15</u>	<u>\$ —</u>	<u>\$ 28</u>	<u>\$ —</u>
Net loss – U.S. GAAP	<u>\$ (801)</u>	<u>\$ (138)</u>	<u>\$ (2,151)</u>	<u>\$ (2,868)</u>

September 30, 2000 **December 31, 1999**

Total Assets

Canadian GAAP.....	\$ 27,510	\$ 29,204
Adjustments to U.S. GAAP		
Deferred development costs.....	(2,445)	(1,803)
Fair value of financial instruments.....	<u>(54)</u>	<u>21</u>
U.S. GAAP	<u>\$ 25,011</u>	<u>\$ 27,422</u>

Total Shareholders' Equity

Canadian GAAP.....	\$ 20,329	\$ 21,752
Adjustments to U.S. GAAP		
Deferred development costs.....	(2,445)	(1,803)
Fair value of financial instruments	<u>(54)</u>	<u>21</u>
U.S. GAAP	<u>\$ 17,830</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>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>	<u>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>
Continuing operations.....	\$ (0.07)	\$ 0.01	\$ (0.11)	\$ (0.02)
Discontinued operations	<u>0.01</u>	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>
Net income (loss) per share	<u>\$ (0.06)</u>	<u>\$ 0.01</u>	<u>\$ (0.10)</u>	<u>\$ (0.02)</u>
	Net Income (Loss) per Share – Fully Diluted		Net Income (Loss) per Share – Diluted	
	<u>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>	<u>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>
Continuing operations.....	\$ (0.07)	\$ 0.01	\$ (0.11)	\$ (0.02)
Discontinued operations	<u>0.01</u>	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>
Net income (loss) per share	<u>\$ (0.06)</u>	<u>\$ 0.01</u>	<u>\$ (0.10)</u>	<u>\$ (0.02)</u>

Nine Months Ended	Canadian GAAP		U.S. GAAP	
	Net Income (Loss) per Share – Basic		Net Income (Loss) per Share – Basic	
	<u>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>	<u>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>
Continuing operations.....	\$ (0.19)	\$ (0.31)	\$ (0.28)	\$ (0.37)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net income (loss) per share	<u>\$ (0.19)</u>	<u>\$ (0.31)</u>	<u>\$ (0.28)</u>	<u>\$ (0.37)</u>
	Net Income (Loss) per Share – Fully Diluted		Net Income (Loss) per Share – Diluted	
	<u>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>	<u>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>
Continuing operations.....	\$ (0.19)	\$ (0.31)	\$ (0.28)	\$ (0.37)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net income (loss) per share	<u>\$ (0.19)</u>	<u>\$ (0.31)</u>	<u>\$ (0.28)</u>	<u>\$ (0.37)</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>Nine Months Ended</u>		
	<u>Sept. 30,</u> <u>2000</u>	<u>Oct. 2,</u> <u>1999</u>	<u>%</u> <u>Change</u>	<u>Sept. 30,</u> <u>2000</u>	<u>Oct. 2,</u> <u>1999</u>	<u>%</u> <u>Change</u>
Revenues	\$ 6,314	\$ 7,510	(16%)	\$19,077	\$16,087	19%
Cost of sales.....	<u>2,583</u>	<u>3,756</u>	<u>(31%)</u>	<u>8,231</u>	<u>8,098</u>	<u>2%</u>
Gross profit.....	<u>3,731</u>	<u>3,754</u>	<u>(1%)</u>	<u>10,846</u>	<u>7,989</u>	<u>36%</u>
Operating expenses:						
Research and development	2,122	1,860	14%	6,175	5,425	14%
Selling and marketing	1,350	1,014	33%	3,600	2,952	22%
General and administration.....	<u>844</u>	<u>808</u>	<u>4%</u>	<u>2,780</u>	<u>2,054</u>	<u>35%</u>
Total operating expenses.....	<u>4,316</u>	<u>3,682</u>	<u>17%</u>	<u>12,555</u>	<u>10,431</u>	<u>20%</u>
Operating income (loss)	(585)	72	N/A	(1,709)	(2,442)	(30%)
Interest income	98	88	11%	241	287	(16%)
Other income (expense).....	<u>(3)</u>	<u>(60)</u>	<u>(95%)</u>	<u>(2)</u>	<u>(147)</u>	<u>(99%)</u>
Income (loss) from continuing operations before income taxes.....	(490)	100	N/A	(1,470)	(2,302)	(36%)
Provision for (recovery of) income taxes	<u>16</u>	<u>21</u>	<u>(24%)</u>	<u>(8)</u>	<u>63</u>	<u>N/A</u>
Net income (loss) from continuing operations.....	(506)	79	N/A	(1,462)	(2,365)	(38%)
Net income from discontinued operations	<u>15</u>	<u>—</u>	<u>N/A</u>	<u>28</u>	<u>—</u>	<u>N/A</u>
Net income (loss).....	<u>\$ (491)</u>	<u>\$ 79</u>	<u>N/A</u>	<u>\$ (1,434)</u>	<u>\$ (2,365)</u>	<u>(39%)</u>
Net income (loss) per share (basic)						
Continuing operations	\$ (0.07)	\$ 0.01		\$ (0.19)	\$ (0.31)	
Discontinued operations.....	<u>0.01</u>	<u>0.00</u>		<u>0.00</u>	<u>0.00</u>	
Net income (loss) per share.....	<u>\$ (0.06)</u>	<u>\$ 0.01</u>		<u>\$ (0.19)</u>	<u>\$ (0.31)</u>	
Weighted average shares outstanding (basic)	<u>7,676</u>	<u>7,674</u>		<u>7,675</u>	<u>7,674</u>	
Net income (loss) per share (fully diluted)						
Continuing operations	\$ (0.07)	\$ 0.01		\$ (0.19)	\$ (0.31)	
Discontinued operations.....	<u>0.01</u>	<u>0.00</u>		<u>0.00</u>	<u>0.00</u>	
Net income (loss) per share.....	<u>\$ (0.06)</u>	<u>\$ 0.01</u>		<u>\$ (0.19)</u>	<u>\$ (0.31)</u>	
Weighted average shares outstanding (fully diluted) ..	<u>8,691</u>	<u>8,649</u>		<u>8,701</u>	<u>8,604</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>Sept. 30,</u> <u>2000</u>	<u>Oct. 2,</u> <u>1999</u>	<u>%</u> <u>Change</u>	<u>Sept. 30,</u> <u>2000</u>	<u>Oct. 2,</u> <u>1999</u>	<u>%</u> <u>Change</u>
Revenues	\$4,155	\$ 4,942	(16%)	\$12,555	\$10,587	19%
Cost of sales.....	<u>1,700</u>	<u>2,471</u>	<u>(31%)</u>	<u>5,417</u>	<u>5,329</u>	<u>2%</u>
Gross profit.....	<u>2,455</u>	<u>2,471</u>	<u>(1%)</u>	<u>7,138</u>	<u>5,258</u>	<u>36%</u>
Operating expenses:						
Research and development	1,396	1,224	14%	4,064	3,570	14%
Selling and marketing	888	667	33%	2,369	1,943	22%
General and administration.....	<u>556</u>	<u>533</u>	<u>4%</u>	<u>1,830</u>	<u>1,352</u>	<u>35%</u>
Total operating expenses.....	<u>2,840</u>	<u>2,424</u>	<u>17%</u>	<u>8,263</u>	<u>6,865</u>	<u>20%</u>
Operating income (loss)	(385)	47	N/A	(1,125)	(1,607)	(30%)
Interest income	64	58	10%	159	189	(16%)
Other income (expense).....	<u>(1)</u>	<u>(39)</u>	<u>(97%)</u>	<u>(1)</u>	<u>(97)</u>	<u>(99%)</u>
Income (loss) from continuing operations before income taxes.....	(322)	66	N/A	(967)	(1,515)	(36%)
Provision for (recovery of) income taxes	<u>11</u>	<u>14</u>	<u>(21%)</u>	<u>(5)</u>	<u>41</u>	<u>N/A</u>
Net income (loss) from continuing operations.....	(333)	52	N/A	(962)	(1,556)	(38%)
Net income from discontinued operations.....	<u>10</u>	<u>—</u>	<u>N/A</u>	<u>18</u>	<u>—</u>	<u>N/A</u>
Net income (loss).....	<u>\$ (323)</u>	<u>\$ 52</u>	<u>N/A</u>	<u>\$ (944)</u>	<u>\$ (1,556)</u>	<u>(39%)</u>
Net income (loss) per share (basic)						
Continuing operations	\$(0.05)	\$ 0.01		\$ (0.13)	\$ (0.20)	
Discontinued operations.....	<u>0.01</u>	<u>0.00</u>		<u>0.00</u>	<u>0.00</u>	
Net income (loss) per share.....	<u>\$(0.04)</u>	<u>\$ 0.01</u>		<u>\$ (0.13)</u>	<u>\$ (0.20)</u>	
Weighted average shares outstanding (basic)	<u>7,676</u>	<u>7,674</u>		<u>7,675</u>	<u>7,674</u>	
Net income (loss) per share (fully diluted)						
Continuing operations	\$(0.05)	\$ 0.01		\$(0.13)	\$(0.20)	
Discontinued operations.....	<u>0.01</u>	<u>0.00</u>		<u>0.00</u>	<u>0.00</u>	
Net income (loss) per share.....	<u>\$(0.04)</u>	<u>\$ 0.01</u>		<u>\$ (0.13)</u>	<u>\$ (0.20)</u>	
Weighted average shares outstanding (fully diluted) ..	<u>8,691</u>	<u>8,649</u>		<u>8,701</u>	<u>8,604</u>	

	<u>December 31,</u> <u>1999</u>	<u>September 30,</u> <u>2000</u>	<u>US \$</u> <u>Equivalent</u> <u>September 30,</u> <u>2000(2)</u>
Balance Sheet Data (1): (Canadian \$, thousands)			
Working capital	\$ 13,957	\$ 12,699	\$ 8,357
Total assets	29,204	27,510	18,104
Long-term liabilities.....	1,638	1,339	881
Total shareholders' equity	21,752	20,329	13,379

(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 nine month period ended September 30, 2000, the Company deferred \$642 of development costs (\$840 in the nine month period ending October 2, 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 \$75 in the nine month period ending September 30, 2000 and an additional income of \$337 in the nine month period ending October 2, 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 nine month periods ended September 30, 2000 and October 2, 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>Nine Months Ended</u>	
	<u>September 30,</u> <u>2000</u>	<u>October 2,</u> <u>1999</u>	<u>September 30,</u> <u>2000</u>	<u>October 2,</u> <u>1999</u>
Net income (loss) from continuing operations – Canadian GAAP	\$ (506)	\$ 79	\$ (1,462)	\$ (2,365)
Adjustments to U.S. GAAP				
Deferred development costs.....	(261)	(213)	(642)	(840)
Fair value of financial instruments.....	<u>(49)</u>	<u>(4)</u>	<u>(75)</u>	<u>337</u>
Net loss from continuing operations – U.S. GAAP	<u>\$ (816)</u>	<u>\$ (138)</u>	<u>\$ (2,179)</u>	<u>\$ (2,868)</u>
Net income from discontinued operations – Canadian GAAP.....	\$ 15	\$ —	\$ 28	\$ —
Adjustments to U.S. GAAP.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income from discontinued operations – U.S. GAAP.....	<u>\$ 15</u>	<u>\$ —</u>	<u>\$ 28</u>	<u>\$ —</u>
Net loss – U.S. GAAP	<u>\$ (801)</u>	<u>\$ (138)</u>	<u>\$ (2,151)</u>	<u>\$ (2,868)</u>

	<u>September 30, 2000</u>	<u>December 31, 1999</u>
Total Assets		
Canadian GAAP.....	\$ 27,510	\$ 29,204
Adjustments to U.S. GAAP		
Deferred development costs.....	(2,445)	(1,803)
Fair value of financial instruments.....	<u>(54)</u>	<u>21</u>
U.S. GAAP	<u>\$ 25,011</u>	<u>\$ 27,422</u>
Total Shareholders' Equity		
Canadian GAAP.....	\$ 20,329	\$ 21,752
Adjustments to U.S. GAAP		
Deferred development costs.....	(2,445)	(1,803)
Fair value of financial instruments	<u>(54)</u>	<u>21</u>
U.S. GAAP	<u>\$ 17,830</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>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>	<u>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>
Continuing operations.....	\$ (0.07)	\$ 0.01	\$ (0.11)	\$ (0.02)
Discontinued operations	<u>0.01</u>	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>
Net income (loss) per share	<u>\$ (0.06)</u>	<u>\$ 0.01</u>	<u>\$ (0.10)</u>	<u>\$ (0.02)</u>
	Net Income (Loss) per Share – Fully Diluted		Net Income (Loss) per Share – Diluted	
	<u>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>	<u>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>
Continuing operations.....	\$ (0.07)	\$ 0.01	\$ (0.11)	\$ (0.02)
Discontinued operations	<u>0.01</u>	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>
Net income (loss) per share	<u>\$ (0.06)</u>	<u>\$ 0.01</u>	<u>\$ (0.10)</u>	<u>\$ (0.02)</u>
Nine Months Ended	<u>Canadian GAAP</u>		<u>U.S. GAAP</u>	
	Net Income (Loss) per Share – Basic		Net Income (Loss) per Share – Basic	
	<u>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>	<u>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>
Continuing operations.....	\$ (0.19)	\$ (0.31)	\$ (0.28)	\$ (0.37)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net income (loss) per share	<u>\$ (0.19)</u>	<u>\$ (0.31)</u>	<u>\$ (0.28)</u>	<u>\$ (0.37)</u>
	Net Income (Loss) per Share – Fully Diluted		Net Income (Loss) per Share – Diluted	
	<u>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>	<u>Sept. 30, 2000</u>	<u>Oct. 2, 1999</u>
Continuing operations.....	\$ (0.19)	\$ (0.31)	\$ (0.28)	\$ (0.37)
Discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net income (loss) per share	<u>\$ (0.19)</u>	<u>\$ (0.31)</u>	<u>\$ (0.28)</u>	<u>\$ (0.37)</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 \$0.6581 per CDN \$1.00 which was the exchange rate as of October 16, 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. In connection with the Company’s recent announcement that Mr. Reid has left the Company (see “Other Information”) Mr. Reid is no longer President of Point, effective November 3, 2000. Mr. Tak Oda, a director of Point, became President of Point on November 10, 2000.

Total revenues decreased 16% from \$7.5 million in the third quarter 1999 to \$6.3 million in the third quarter 2000. The decline in revenue is primarily attributable to lower revenues in the Aerospace and Defense sector as a result of the timing and impact of large orders and programs. The third quarter 1999 included \$1.6 million from the Japanese MTSAT Satellite-based Augmentation System (“MSAS”) and \$0.7 million from the European Geostationary Overlay System (“EGNOS”) compared to negligible revenue from these programs in the third quarter 2000. The third quarter 2000 included shipments of \$1.2 million of WAAS receivers into the China Satellite Navigation Augmentation System (“SNAS”) program. However, the Aerospace and Defense segment revenue came in \$1.1 million below the third quarter 1999, accounting for most of the decline in total revenue. On a sequential basis, revenue in the third quarter 2000 fell 2% from the second quarter 2000, with increased sales in the Special Apps and Aerospace and Defense sectors offset by lower Geomatics revenues. Total revenues for nine months 2000 were \$19.1 million, compared to \$16.1 million in the similar period in 1999, an increase of 19%. The increase in year to date revenue reflects 34% higher Geomatics revenues and 27% higher Special Apps revenues, with Aerospace and Defense revenues relatively flat with last year.

The sector numbers previously reported in the third quarter 1999 have been revised to reflect a more accurate grouping of customers as reflected in the Company’s 20F filing for the year ended December 31, 1999 and subsequent 6K filings.

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 \$1.8 million in the third quarter 2000 compared to \$1.9 million in the third quarter 1999, a decrease of 9%. Sales to the Geomatics sector decreased 32% from \$2.6 million in the second quarter 2000 to \$1.8 million in the third quarter 2000. Sales at Point were up 46% from the third quarter 1999 but were down 38% from the second quarter 2000. The third quarter 1999 included \$369,000 in revenues from Nikon (Nikon Inc. and Nikon Corporation) and Carl Zeiss Jena GmbH (“Zeiss”). The Company had negligible revenue with Nikon in 2000 and sales to Zeiss have diminished in 2000, in both cases due to the Company’s partnership with Sokkia and in part due to Trimble’s acquisition of Spectra Precision which had previously acquired the survey division of Zeiss.

Geomatics revenues in the third 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, the extent of the penetration of Sokkia's distribution network to date, particularly into Europe and Asia, has not met the Company's expectations. Recently, Sokkia launched new products at the Intergeo Survey Congress in Berlin and at a North American dealer meeting in Kansas City. These new products, developed by Point, have broken new ground in receiver integration, functionality and the use of wireless data communication techniques. The Company is working with Sokkia to increase the distribution of products, develop and release new products, and control costs. However, 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 various opportunities, it 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 \$1.9 million for the third quarter 2000 compared to \$2.9 million for the third quarter 1999, a decrease of 36%. The third quarter 2000 included \$1.2 million related to the second phase delivery of WAAS receivers to China. Revenues in the Aerospace and Defense sector increased 26% from \$1.5 million in the second quarter 2000 to \$1.9 million in the third quarter 2000. The third quarter 2000 revenues are primarily related to the second delivery of WAAS receivers to China. The balance of the China order of WAAS receivers, approximately \$250,000, is scheduled for delivery in the fourth quarter of this year.

The Company recently executed a contract for the EGNOS program in Europe worth approximately \$3.5 million, of which approximately \$2.0 million is expected to be 2001 revenue. The Company is teamed with Thomson 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. 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 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 third 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, LAAS or China WAAS programs (with the exception of final phase deliveries in the fourth quarter 2000) and there can be no assurance that the Company will receive commitments for future participation in the WAAS, MSAS, LAAS or China WAAS 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 \$2.7 million in the third quarter 2000 compared to \$2.5 million in the third quarter 1999, an increase of 9%. 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 increased 13% from \$2.4 million in the second quarter 2000 to \$2.7 million in the third quarter 2000. The higher revenues in the Special Apps sector were primarily due to higher sales of product to certain customers. There can be no assurance that the Company will continue to receive a higher level of sales to these customers.

All Sectors

In September 2000, the Company announced new Pulse Aperture Correlation (PAC) technology which virtually eliminates multipath. In addition, the Company announced its new Multipath Assessment Tool (MAT) software package for site and multipath characterization. The level of interest in the GPS-600 antenna continues to grow and the OEM4 receiver is being designed into many customer products. However, there can be no assurances that any of these products will result in significant revenues in any of the market sectors.

Through sponsorship from the Canadian Space Agency, the Company has made a proposal to the European Space Agency to participate in the early definition phase of Galileo, the planned European counterpart to GPS. The Company is also exploring participation in the design and prototyping of receiver architecture for the new GPS civil frequency which is part of the GPS modernization activity being undertaken by the U.S. government. The Company currently has no commitments for any of these programs and there can be no assurance that the Company will receive commitments to participate in these programs.

In the third quarter 2000, the Company derived approximately 55% of its total revenues from the sale of its products to countries outside the United States and Canada, compared to 61% in the third quarter 1999. Revenues from international sales decreased from \$4.6 million in the third quarter 1999 to \$3.5 million in the third quarter 2000.

Gross Profit. Gross profit as a percentage of total revenues improved from 50% in the third quarter 1999 to 59% in the third quarter 2000, but down slightly from 61% in the second quarter 2000. The improved gross profit percentage relative to a year ago is attributable to improved product mix and higher margins on newer products. Gross margin in the third quarter 1999 had been negatively impacted by provisions required to liquidate inventory made obsolete as a result of the transition from Nikon to Sokkia.

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 14% from \$1.9 million in the third quarter 1999 to \$2.1 million in the third quarter 2000 and increased as a percentage of total revenues from 25% in the third quarter 1999 to 34% in the second quarter 2000. The increase in research and development expenses for the third 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 compared to 8% in the prior year, due to the funding of Point's engineering work by the Company and Sokkia up to December 31, 1999; 2) certain new product development costs representing approximately 9% of the Company's consolidated research and development expenses; and 3) lower recovery of costs through customer funded engineering services. In the nine month period ended September 30, 2000, the Company deferred development costs of \$642,000 related to the development of a certified aviation GPS receiver, compared to \$840,000 in the first nine 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 33% from \$1.0 million in the third quarter 1999 to \$1.4 million in the third quarter 2000 and increased as a percentage of total revenues from 14% in the third quarter 1999 to 21% in the third 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; 2) costs associated with certain new business development representing approximately 15% of the Company's consolidated sales and marketing expenses.

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 4% from \$808,000 in the third quarter 1999 to \$844,000 in the third quarter 2000 and increased as a percentage of total revenues from 11% in the third quarter 1999 to 13% in the third 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 26% of the Company's consolidated general and administrative expenses in the third quarter 2000.

Interest income. The Company earned net interest income of \$98,000 in the third quarter 2000 compared with \$88,000 in the third quarter 1999. The Company's cash deposits not required for operations are invested in short term interest bearing instruments.

Other income (expense). Other income (expense) consists primarily of foreign currency income (loss) and miscellaneous items. Other expense was \$3,000 in the third quarter 2000 compared with other expense of \$60,000 in the third 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 third quarter 1999 to \$16,000 in the third quarter 2000.

Discontinued operations. The Company had no discontinued operations activity in the third quarter 1999 compared to a net income of \$15,000 from discontinued operations in the third quarter 2000.

RECENT DEVELOPMENTS

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.

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 September 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 nine months ended September 30, 2000, cash provided by operations was \$1.2 million, compared to cash used in operations of \$1.3 million in the same period of 1999. Cash provided by operations in the nine month period ended September 30, 2000 consisted primarily of a \$1.5 million loss from continuing operations offset by \$2.0 million in amortization and lower working capital due to decreased accounts receivable offset by increases in inventories.

In the nine months ended September 30, 2000, cash used in financing activities was \$267,000, related primarily to a decrease in capital lease obligations. In the comparable period in 1999, \$260,000 cash was used in financing activities, also related to a decrease in capital lease obligations.

In the nine months ended September 30, 2000, cash used in investing activities was \$2.0 million, primarily related to capital expenditures of \$977,000, deferred development expenditures of \$642,000 related to the development of a certified aviation GPS receiver and payment of \$423,000 to Harris Canada Inc. related to the settlement of the purchase price of the Company's former wireless access product group divested in 1995. In the first nine months of 1999, cash provided by investing activities was \$5.6 million, primarily as a result of the sale/leaseback of the Company's headquarters in Calgary.

At September 30, 2000, the Company had cash and short-term investments of \$7.3 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 September 30, 2000, portions of the lines of credit were utilized to support \$502,000 of letters of credit (\$665,000 at December 31, 1999) and the margin requirements on US\$2.0 million in forward exchange contracts leaving \$1,148,000 available for day-to-day operating requirements and the margin capacity necessary to enter into an additional US\$5.5 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 Initial 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. Subsequently, the Company and Sokkia have collectively advanced Point an additional US\$1.45 million, in three installments, each loan on the same terms and conditions as the Initial Loan. The Company and Sokkia anticipate a further advance to Point in the fourth quarter of US\$850,000. The Company anticipates that these loans will be renewed for a further term of one year.

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

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

EFFECTS OF FOREIGN CURRENCY EXCHANGE RATES

Most of the Company's revenues (over 97% for the first nine 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 September 30, 2000, the Company had foreign currency options and forward foreign currency contracts to sell US\$2.0 million between October 2, 2000 and March 31, 2001 at rates between \$0.6770 and \$0.6873. In addition, at September 30, 2000, the Company has entered into a forward currency contract obligating it to buy US\$0.5 million on March 31, 2001 at the rate of \$0.6775. 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. A hearing to determine if there is a prima facie case for an appeal has been scheduled for January 25, 2001. Notwithstanding the Employment Tribunal's decision, the Company believes that this claim is without merit and that it has valid defenses to this claim.

OTHER RISK FACTORS

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

Interference with the Reception of GPS Signals

GPS technology is dependent on the use of the radio frequency spectrum. The assignment of spectrum is controlled by the International Telecommunications Union ("ITU"). The Federal Communications Commission ("FCC") and Industry Canada are responsible for the assignment of spectrum for non-government use in the United States and Canada, respectively, in accordance with ITU regulations. Any ITU, FCC or Industry Canada reallocation of radio frequency spectrum, including frequency band segmentation or sharing of spectrum, could cause interference with the reception of GPS signals and may materially and adversely affect the utility and reliability of the Company's products, which would, in turn, have a material adverse effect on the Company's operating results. In addition, emissions from mobile satellite service and other equipment operating in adjacent frequency bands or inband may materially and adversely affect the utility and reliability of the Company's products, which could result in a material adverse effect on the Company's operating results.

On May 11, 2000, the FCC issued a Notice of Proposed Rulemaking that proposes rules for the operation of Ultra-Wideband ("UWB") radio devices on an unlicensed basis in the frequency bands allocated to GPS. If the FCC issues final rules authorizing such operation, UWB devices might cause interference with the reception of GPS signals. Such interference could reduce demand for GPS products in the future. Any resulting change in market demand for GPS products could have a material adverse effect on the Company's financial results.

The Company May Become Subject to Significant Product Liability Costs

The Company could become subject to significant product liability costs, particularly with respect to errors or defects in, or misuse of, the Company's products, arising from events such as property damage, personal injury and others. The Company maintains insurance against accident-related risks involving its products. However, there can be no assurance that such insurance would be sufficient to cover the cost of damages to others or that such insurance will continue to be available at commercially reasonable rates. If the Company is unable to maintain sufficient insurance to cover product liability costs, the Company's business could be harmed.

Volatility of Stock Price

The Company's common stock has experienced and can be expected to experience substantial price volatility in response to actual or anticipated quarterly variation in results of operations, announcement of technological innovations or new products by it or its competitors, developments related to patents or other intellectual property rights, developments in the Company's relationship with customers, suppliers, major shareholder or strategic partners and others events or factors. Additionally, certain macro-economic factors such as changes in interest rates could have an impact on the trading price of the Company's stock.

Revenue Recognition

In December 1999, the SEC issued Staff Accounting Bulletin ("SAB") 101, Revenue Recognition in Financial Statements, which provides guidance related to revenue recognition based on the interpretations and practices of the SEC. In June 2000, the SEC issued SAB 101B which delays implementation until the Company's fourth fiscal quarter of 2000. The Company does not believe that SAB 101 will have a material effect on the Company's financial position or results of operations.

Larger and Stronger Competition

In July 2000, Trimble Navigation Limited ("Trimble") announced that it had completed the acquisition of the Spectra Precision business formerly owned by Thermo Electron Corporation. Spectra Precision provides solutions for construction, surveying and agriculture. In September 2000, Trimble announced that it had entered into a definitive agreement to acquire Tripod Data Systems, a developer of data collection software for the land survey, construction and GIS markets. In July 2000, Topcon Corporation, a major player in the surveying industry, acquired GPS manufacturer Javad Positioning Systems. These transactions reflect a continuing trend toward consolidation in the GPS industry. Accordingly, these competitors, in becoming larger and stronger, may become more effective competitors to the Company.

OTHER INFORMATION

SMTC Manufacturing Contract

The Company has recently been formally notified that SMTC Manufacturing Corporation of Canada ("SMTC") intends to terminate the Manufacturing Agreement with the Company effective November 30, 2000. The Company has responded that the Manufacturing Agreement cannot terminate prior to March 18, 2001 as the Manufacturing Agreement provides that either party may terminate the agreement on 180 days written notice. The Company believes that it will be able to effect an orderly transition from SMTC to a new manufacturer. The Company continues to have a portion of its manufacturing provided by Raven Industries Ltd.

Officers

The Company recently announced that its President and Chief Executive Officer and a Director of the Board of Directors, Douglas R. Reid and its Senior Vice President, Corporate Affairs, Randy R. Mabbott have left the Company to pursue other career opportunities. Mr. Mabbott was also General Counsel and Corporate Secretary. Werner Gartner, Executive Vice President and Chief Financial Officer will assume the duties of President and Chief Executive Officer on an interim basis. Pursuant to their Employment Agreements, previously reported in the Proxy Statement, Messrs. Reid and Mabbott will receive lump sum severance payments, the aggregate amount being \$365,000, as well as a 12 month acceleration of unvested options. Total costs associated with the departure of Messrs. Reid and Mabbott are estimated to be \$600,000 including lump sum severance payments and search/relocation fees for a new President.