

# 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 14, 2001

## NOVATEL INC.

**Commission File No. 0-29004**

1120 - 68<sup>th</sup> 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 September 30, 2000 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 14, 2001, there were 7,682,815 Common Shares outstanding.

This Report Consists of 31 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 September 29, 2001.

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 14, 2001

By: 

Name: Werner Gartner

Title: Executive Vice President and  
Chief Financial Officer

**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 September 29, 2001.	5



**NOVATEL INC.**  
Quarterly Report  
For the Three and Nine Months Ended September 29, 2001

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*The dollar amounts presented in this Quarterly Report are in Canadian currency unless otherwise noted (CDN \$1 = US \$0.6335 on October 30, 2001), 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, 2000 filed as part of Form 20-F with the Securities and Exchange Commission and in Note 11 of Notes to Consolidated Financial Statements contained in this report.*

*Certain statements in this Quarterly Report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or developments in the Company's industry, to differ materially from the anticipated results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, operating results of subsidiaries and joint ventures, 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, the procurement of components to build products, the general economic climate and particularly economic recessions, and the impact of industry consolidations, 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)

	<b>September 29, 2001</b>	<b>December 31, 2000</b>
<b>ASSETS</b>		
(Note 1)		
Current assets:		
Cash and short term investments.....	\$ 3,799	\$ 6,055
Accounts receivable .....	5,398	4,246
Related party receivables and advances (Note 8) .....	585	1,165
Related party notes receivable (Note 8) .....	1,602	1,426
Inventories (Note 3) .....	6,912	6,532
Prepaid expenses and deposits .....	<u>276</u>	<u>401</u>
Total current assets .....	18,572	19,825
Capital assets .....	3,063	3,592
Intangible assets (Note 7) .....	2,684	2,853
Deferred development costs (Note 4) .....	<u>2,528</u>	<u>2,560</u>
Total assets .....	<u>\$ 26,847</u>	<u>\$ 28,830</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
(Note 1)		
Current liabilities:		
Accounts payable and accrued liabilities.....	\$ 3,993	\$ 5,811
Related party payables (Note 8) .....	160	568
Notes payable (Notes 8, 9 and 10).....	1,968	1,426
Deferred revenue.....	531	245
Provision for future warranty costs .....	309	268
Capital lease obligation – current portion.....	<u>304</u>	<u>228</u>
Total current liabilities.....	7,265	8,546
Deferred gain on sale/leaseback of capital assets.....	837	935
Capital lease obligation – long term portion .....	<u>351</u>	<u>307</u>
Total liabilities.....	<u>8,453</u>	<u>9,788</u>
Non-controlling interest.....	<u>73</u>	<u>73</u>
Shareholders' equity:		
Capital stock (Note 5).....	35,600	35,614
Contributed surplus.....	22	—
Deficit.....	<u>(17,301)</u>	<u>(16,645)</u>
Total shareholders' equity.....	<u>18,321</u>	<u>18,969</u>
Total liabilities and shareholders' equity.....	<u>\$ 26,847</u>	<u>\$ 28,830</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. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept. 30, 2000
Revenues .....	\$ 6,905	\$ 6,314	\$20,425	\$19,077
Cost of sales.....	<u>3,533</u>	<u>2,583</u>	<u>10,269</u>	<u>8,231</u>
Gross profit.....	<u>3,372</u>	<u>3,731</u>	<u>10,156</u>	<u>10,846</u>
Operating expenses:				
Research and development.....	1,477	2,122	5,224	6,175
Selling and marketing .....	856	1,350	2,620	3,600
General and administration .....	<u>1,040</u>	<u>844</u>	<u>3,002</u>	<u>2,780</u>
Total operating expenses.....	<u>3,373</u>	<u>4,316</u>	<u>10,846</u>	<u>12,555</u>
Operating loss.....	(1)	(585)	(690)	(1,709)
Interest income.....	24	98	122	241
Other income (expense).....	<u>68</u>	<u>(3)</u>	<u>(75)</u>	<u>(2)</u>
Income (loss) from continuing operations before income taxes.....	91	(490)	(643)	(1,470)
Provision for (recovery of) income taxes.....	<u>12</u>	<u>16</u>	<u>13</u>	<u>(8)</u>
Net income (loss) from continuing operations.....	79	(506)	(656)	(1,462)
Net income from discontinued operations.....	<u>—</u>	<u>15</u>	<u>—</u>	<u>28</u>
Net income (loss) .....	<u>\$ 79</u>	<u>\$ (491)</u>	<u>\$ (656)</u>	<u>\$(1,434)</u>
Net income (loss) per share (basic) (Notes 2 and 11)				
Continuing operations.....	\$ 0.01	\$ (0.07)	\$(0.09)	\$(0.19)
Discontinued operations.....	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>	<u>0.00</u>
Net income (loss) per share .....	<u>\$ 0.01</u>	<u>\$ (0.06)</u>	<u>\$(0.09)</u>	<u>\$(0.19)</u>
Weighted average shares outstanding (basic) (Notes 2 and 5)	<u>7,693</u>	<u>7,676</u>	<u>7,692</u>	<u>7,675</u>
Net income (loss) per share (diluted) (Notes 2 and 11)				
Continuing operations.....	\$ 0.01	\$ (0.07)	\$(0.09)	\$(0.19)
Discontinued operations.....	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>	<u>0.00</u>
Net income (loss) per share.....	<u>0.01</u>	<u>\$(0.06)</u>	<u>\$(0.09)</u>	<u>\$(0.19)</u>
Weighted average shares outstanding (diluted) (Notes 2 and 5)	<u>7,711</u>	<u>7,827</u>	<u>7,721</u>	<u>7,822</u>

See accompanying notes to the consolidated financial statements.

## NOVATEL INC.

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

	<u>Common Shares</u>		<u>Contributed</u>		<u>Total</u>
	<u>Number</u>	<u>Amount</u>	<u>Surplus</u>	<u>Deficit</u>	<u>Shareholders'</u> <u>Equity</u>
Balance December 31, 2000.....	7,678	\$35,614	—	\$(16,645)	\$18,969
Common shares issued.....	16	34	—	—	34
Repurchase of shares.....	(10)	(48)	22	—	(26)
Net loss.....	—	—	—	(656)	(656)
Balance September 29, 2001.....	<u>7,684</u>	<u>\$35,600</u>	<u>\$ 22</u>	<u>\$(17,301)</u>	<u>\$18,321</u>

See accompanying notes to the consolidated financial statements.

NOVATEL INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited, in thousands)

	Three Months Ended		Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept. 30, 2000
Operating activities:				
Net income (loss) from continuing operations .....	\$ 79	\$ (506)	\$ (656)	\$ (1,462)
Net income from discontinued operations .....	—	15	—	28
Charges and credits to operations not involving an outlay of cash:				
Amortization .....	615	655	1,877	2,034
Gain on disposal of capital assets .....	(13)	(2)	(20)	(43)
Amortization of deferred gain on sale/leaseback of capital assets .....	(32)	(38)	(98)	(116)
Non-controlling interest .....	—	8	—	13
Net change in non-cash working capital related to operations (Note 6) .....	<u>(1,006)</u>	<u>700</u>	<u>(2,936)</u>	<u>770</u>
Cash (used in) provided by operating activities.....	<u>(357)</u>	<u>832</u>	<u>(1,833)</u>	<u>1,224</u>
Financing activities:				
Issuance of shares (Note 5) .....	—	6	34	11
Repurchase of shares (Note 5).....	(26)	—	(26)	—
Related party notes receivable.....	(62)	(387)	(176)	(1,029)
Notes payable.....	76	387	293	1,029
Increase (decrease) in capital lease obligation .....	<u>232</u>	<u>(94)</u>	<u>120</u>	<u>(278)</u>
Cash provided by (used in) financing activities.....	<u>220</u>	<u>(88)</u>	<u>245</u>	<u>(267)</u>
 (Decrease) increase in cash before investing activities.....	 <u>(137)</u>	 <u>744</u>	 <u>(1,588)</u>	 <u>957</u>
Investing activities:				
Purchase of capital and intangible assets .....	(121)	(373)	(697)	(977)
Proceeds from disposal of capital assets .....	15	3	36	79
Investment in Mezure, Inc. (Note 10).....	(3)	—	(3)	—
Settlement on divestiture proceeds .....	—	—	—	(423)
Deferred development costs.....	<u>—</u>	<u>(261)</u>	<u>(4)</u>	<u>(642)</u>
Cash used in investing activities.....	<u>(109)</u>	<u>(631)</u>	<u>(668)</u>	<u>(1,963)</u>
 (Decrease) increase in cash and short term investments.....	 (246)	 113	 (2,256)	 (1,006)
Cash and short term investments, beginning of period.....	<u>4,045</u>	<u>7,161</u>	<u>6,055</u>	<u>8,280</u>
Cash and short term investments, end of period .....	<u>\$ 3,799</u>	<u>\$ 7,274</u>	<u>\$ 3,799</u>	<u>\$ 7,274</u>
Cash and short term investments consisted of:				
Cash and cash equivalents.....	\$ 972	\$ 3,524	\$ 972	\$ 3,524
Restricted short term investments.....	<u>2,827</u>	<u>3,750</u>	<u>2,827</u>	<u>3,750</u>
	<u>\$ 3,799</u>	<u>\$ 7,274</u>	<u>\$ 3,799</u>	<u>\$ 7,274</u>
Interest paid related to bank advances and capital lease obligations .....				
	<u>\$ 7</u>	<u>\$ 11</u>	<u>\$ 23</u>	<u>\$ 39</u>
Income taxes paid .....	<u>\$ —</u>	<u>\$ 4</u>	<u>\$ 71</u>	<u>\$ 54</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 29, 2001 and September 30, 2000 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, 2000 filed on Form 20-F with the Securities and Exchange Commission ("SEC").

**Note 2 Adoption of New Accounting Standards**

**Earnings Per Share**

Effective January 1, 2001, the Company adopted the revised provisions of Section 3500 of the Handbook of the Canadian Institute of Chartered Accountants, with respect to earnings per share. The new standard requires that the "treasury stock" method rather than the "imputed earnings" approach be used to determine the dilutive effect of instruments such as warrants and options. Under the treasury stock method, diluted earnings per share are computed as if the instruments were exercised at the beginning of the period (or the time of issuance, if later) and the funds obtained were used to purchase common shares of the Company at the average market price during the period. The new accounting policy has been applied retroactively with restatement of prior period financial statements and had no impact on the reported results of operations for any current or prior period reported herein.

**Note 3 Inventories**

	<u>September 29, 2001</u>	<u>December 31, 2000</u>
Raw materials and components.....	\$ 2,950	\$ 3,837
Work-in-progress.....	427	377
Finished goods.....	<u>3,535</u>	<u>2,318</u>
	<u>\$ 6,912</u>	<u>\$ 6,532</u>

**Note 4 Deferred Development Costs**

In the nine month period ended September 29, 2001, the Company deferred \$4 of development costs related to the development of a certified aviation GPS receiver compared to \$642 in the nine month period ending September 30, 2000. With the GPS receiver reaching the commercialization stage, the Company has commenced amortizing these deferred costs, using a method similar to the unit-of-production method of amortization. The Company amortized \$36 of these deferred costs in the nine month period ended September 29, 2001 (\$nil in the nine month period ended September 30, 2000).

**Note 5 Capital Stock**

The Company has authorized an unlimited number of common shares, of which 7,684 are outstanding as of September 29, 2001 (7,678 as of December 31, 2000).

Net income (loss) per share figures presented in the Company's financial statements are based upon the weighted average number of shares outstanding. Diluted net income (loss) per share figures are computed as

if the instruments were exercised at the beginning of the period (or the time of issuance, if later) and the funds obtained were used to purchase common shares at the average market price during the period (see Note 2).

On September 4, 2001, the Company implemented a share repurchase program, under which the Company could repurchase up to 3% of the outstanding shares over a 12 month period. As of September 29, 2001, the Company had repurchased 10 shares.

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, except for 30 options granted on February 13, 2001, which have a six month vesting period. As of September 29, 2001, the Company had authorized the granting of up to 1,101 options to purchase common shares of the Company under the stock option plans, of which 24 had been exercised.

A summary of the status of the Company's stock option plans as of September 29, 2001, and changes during the nine month period ending on that date is presented below:

<u>Options</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2001 .....	954	US \$6.19
Granted .....	175	1.74
Exercised .....	(16)	1.38
Forfeited .....	<u>(272)</u>	7.09
Outstanding at September 29, 2001 .....	<u>841</u>	5.06
Options exercisable at September 29, 2001 ...	<u>550</u>	US \$6.42

The following table summarizes information about the stock option plans as of September 29, 2001:

<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	461	5.6 years	US \$7.68	434	US \$7.65
\$3.06 to \$ 3.44	74	8.3	3.07	19	3.07
\$1.38 to \$ 2.00	<u>306</u>	7.9	1.58	<u>97</u>	1.57
\$1.38 to \$11.25	<u>841</u>	6.7	US\$5.06	<u>550</u>	US\$6.42

**Note 6 Consolidated Statements of Cash Flows**

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>Sept. 29,</u> <u>2001</u>	<u>Sept. 30,</u> <u>2000</u>	<u>Sept. 29,</u> <u>2001</u>	<u>Sept. 30,</u> <u>2000</u>
(Increase) decrease in accounts receivables and related party receivables.....	\$ (257)	\$ 946	\$ (714)	\$ 2,923
Decrease (increase) in inventories.....	162	(419)	(380)	(1,512)
Decrease (increase) in prepaid expenses and deposits.....	80	62	139	(145)
(Decrease) increase in accounts payable, accrued liabilities and related party advances.....	(1,126)	81	(2,380)	(464)
Increase (decrease) in deferred revenue.....	111	(4)	358	—
Increase (decrease) in provision for future warranty costs....	<u>24</u>	<u>19</u>	<u>41</u>	<u>(4)</u>
Net change in non-cash working capital .....	(1,006)	685	(2,936)	798
Non-cash working capital items related to divestitures .....	<u>—</u>	<u>15</u>	<u>—</u>	<u>(28)</u>
Net change in non-cash working capital related to operations.....	<u>\$ (1,006)</u>	<u>\$ 700</u>	<u>\$ (2,936)</u>	<u>\$ 770</u>

**Note 7 Commitments and Contingencies**

a) As at September 29, 2001, intangible assets included \$664 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 CMC Electronics Inc. ("CMC Electronics") (formerly BAE Systems Canada) in 1998 constitutes a change of control for purposes of the settlement agreement. On June 26, 2001, the Company received notice from Trimble terminating the licenses and rights under the settlement agreement. The Company has sought legal advice and is continuing to evaluate the impact, if any, of Trimble's notice of termination; accordingly, the Company has not provided for any impairment of these intangible assets as at September 29, 2001.

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 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 29,</u>	<u>September 30,</u>
	<u>2001</u>	<u>2000</u>
Product sales to Point, Inc. ....	\$ 721	\$ 790
Services provided to Point, Inc. ....	111	197
Royalty income from Point, Inc. ....	55	124
Inventory purchases from CMC Electronics Inc. and Point, Inc. ....	85	—
Contracted development costs charged by CMC Electronics Inc. ....	67	201
Other expenses .....	49	37
Engineering services charged to CMC Electronics Inc. ....	28	—

Significant related party receivables at September 29, 2001 consist of \$539 from Point, Inc. (\$1,143 at December 31, 2000) and \$43 from CMC Electronics (\$19 at December 31, 2000). Related party payables at September 29, 2001 were comprised of amounts due to CMC Electronics of \$140 (\$555 at December 31, 2000) and \$20 to Point, Inc. (\$13 at December 31, 2000).

The related party notes receivable of \$1,602 (\$1,426 at December 31, 2000) reflects the Company's proportionate joint venture interest in the aggregate borrowings by Point, Inc. from NovAtel and Sokkia Co., Ltd. ("Sokkia") of US\$4,000. The loans were initially repayable on December 31, 2000, are secured by the assets of Point, Inc. and bore interest at the U.S. prime rate during 2000. On January 18, 2001, NovAtel and Sokkia extended the loans to December 31, 2001 and set the interest rate at 6% for 2001.

During the period January 5, 2001 to July 23, 2001, the Company provided US\$270 in loans to Mezure, Inc. (see Note 10). The loans were secured by the assets of Mezure, Inc., and bore interest at the U.S. prime rate. Contemporaneously, the Company recorded a full provision against the potential non-repayment of these loans.

**Note 9 Investment in Point, Inc.**

On July 20, 1999, the Company and Sokkia Co., Ltd. formed a joint venture, 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 proportionate 49% joint venture interest in Point, Inc. for \$311, net of cash acquired.

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

	<u>September 29, 2001</u>	<u>December 31, 2000</u>
Current assets.....	\$ 1,757	\$ 2,679
Non-current assets.....	<u>131</u>	<u>70</u>
Total assets.....	<u>\$ 1,888</u>	<u>\$ 2,749</u>
Current liabilities .....	\$ 2,978	\$ 2,524
Long-term liabilities.....	<u>—</u>	<u>—</u>
Total liabilities .....	<u>\$ 2,978</u>	<u>\$ 2,524</u>
	<u>Nine Months Ended</u>	
	<u>September 29, 2001</u>	<u>September 30, 2000</u>
Revenue .....	\$ 4,303	\$ 4,697
Expenses.....	<u>5,319</u>	<u>6,296</u>
Net loss .....	<u>\$ (1,016)</u>	<u>\$ (1,599)</u>
Cash provided by (used in)		
Operating activities .....	\$ (52)	\$ (1,473)
Investing activities .....	\$ (105)	\$ (28)
Financing activities .....	\$ 177	\$ 1,029

Included in current liabilities is the Company's share of notes payable by Point, Inc. to Sokkia Co., Ltd., in the amount of \$1,602 (\$1,426 at December 31, 2000). The notes are secured by the assets of Point, Inc.

On January 18, 2001, the Company and Sokkia Co., Ltd. extended the due date of the notes payable to December 31, 2001 and set the interest rate at 6% for 2001.

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

On January 26, 2001, the Company acquired a 48.7% joint venture interest in Mezure, Inc. in exchange for US\$400 which the Company had previously advanced and charged to operations in 2000.

On July 23, 2001, the Company acquired an additional 25.3% equity interest in Mezure, Inc. after exercising its option to convert US\$200 in loans, which the Company previously advanced and charged to operations in the first quarter 2001, into additional common shares. With the July 23, 2001 acquisition of additional shares, the Company acquired control of Mezure, Inc., and commenced full consolidation of Mezure, Inc.'s operations from that date forward.

The fair value of net assets acquired in the above transactions is as follows:

Prepays.....	\$ 20
Capital assets.....	191
Goodwill.....	231
Accounts payable, accrued liabilities and loan advances.....	<u>(439)</u>
Total investment.....	<u>\$ 3</u>

The following transactions were included in the Company's consolidated financial results on a proportionate basis for the period January 26, 2001 to July 23, 2001.

	<u>Nine Months Ended</u>	
	<u>September 29, 2001</u>	<u>September 30, 2000</u>
Revenue .....	\$ —	\$ —
Expenses.....	<u>326</u>	<u>—</u>
Net loss .....	<u>\$ (326)</u>	<u>\$ —</u>
Cash provided by (used in)		
Operating activities .....	\$ (327)	\$ —
Investing activities .....	\$ (19)	\$ —
Financing activities .....	\$ 105	\$ —

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

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

#### **a) Revenue Recognition**

In December 1999, the U.S. Securities and Exchange Commission (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. The Company believes that its existing revenue recognition policies are in accordance with the guidance provided in SAB 101.

#### **b) Deferred Development Costs**

In the nine month period ended September 29, 2001, the Company deferred \$4 of development costs (\$642 in the nine month period ended September 30, 2000) in accordance with Canadian GAAP. Under U.S. GAAP, these costs would be expensed as incurred as research and development costs.

In the nine month period ended September 29, 2001, the Company amortized \$36 of deferred development costs (\$nil in the nine month period ending September 30, 2000) in accordance with Canadian GAAP. Under U.S. GAAP, these costs would have been expensed in the periods when the originating expenditures were incurred.

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

The Company has entered into foreign exchange options and forward contracts to manage its exposure to foreign currency fluctuations. In June 1998, the FASB issued SFAS 133, “Accounting for Derivative Instruments and Hedging Activities” subsequently amended by SFAS 137 and SFAS 138. 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 value of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. Had the Company prepared its consolidated financial statements in accordance with U.S. GAAP, it would have applied the pronouncements of SFAS 133, 137 and 138 effective January 1, 2001, on a prospective basis without restatement of prior period financial statements. The adoption of these accounting standards would not have had a material effect on the Company’s financial position and results of operations for the nine month period ended September 29, 2001.

**d) *Investment in Joint Ventures***

The accounts of the Company's 49.0% joint venture interest in Point, Inc. and 48.7% joint venture interest in Mezure, Inc. (prior to the Company acquiring a 74% controlling interest on July 23, 2001) are proportionately consolidated as required under Canadian GAAP. Under U.S. GAAP, proportionate consolidation is not permitted, and the Company's investment in these joint ventures 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.

**e) *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 have recorded an additional income of \$1 within comprehensive income, related to the fair value of foreign exchange contracts and options, in the nine month period ended September 29, 2001 (\$nil in the nine month period ended September 30, 2000).

**f) *New U.S. GAAP Accounting Pronouncements***

In June 2001, the FASB approved for issuance SFAS 141, "Business Combinations", and SFAS 142, "Goodwill and Other Intangible Assets." Major provisions of these statements are as follows: all business combinations initiated after June 30, 2001 must use the purchase method of accounting; the pooling of interests method of accounting is prohibited except for transactions initiated before July 1, 2001; intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability. Goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment annually using a fair value approach, except in certain circumstances, and whenever there is an impairment indicator; other intangible assets will continue to be valued and amortized over their estimated lives; in-process research and development will continue to be written off immediately and all acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting. Effective January 1, 2002, existing goodwill will no longer be subject to amortization. Goodwill arising subsequent to July 1, 2001 will not be subject to amortization. The adoption of SFAS 142 in July 2001 did not have a material impact on the Company's financial statements.

In August 2001, the FASB approved for issuance SFAS 143, "Accounting for Asset Retirement Obligations." This statement is effective for fiscal years beginning after June 15, 2002. This statement requires that the fair value of the liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. Associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company does not expect the adoption of SFAS 143 in January 2003 to have a material impact on the Company's financial statements.

In August 2001, the FASB approved for issuance SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", effective for fiscal years commencing after December 15, 2001. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets, and supercedes existing standard, SFAS 121 and the accounting and reporting provisions of APB Opinion 30. The Company does not expect the adoption of SFAS 144 to have a material impact on the Company's financial statements.

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 29,</u> <u>2001</u>	<u>September 30,</u> <u>2000</u>	<u>September 29,</u> <u>2001</u>	<u>September 30,</u> <u>2000</u>
<b>Net income (loss) from continuing operations – Canadian GAAP</b> .....	\$ 79	\$ (506)	\$ (656)	\$ (1,462)
Adjustments to U.S. GAAP				
Deferred development costs.....	—	(261)	(4)	(642)
Amortization of deferred development costs.....	22	—	36	—
Fair value of financial instruments .....	—	(49)	1	(75)
<b>Net income (loss) from continuing operations – U.S. GAAP</b> .....	<u>\$ 101</u>	<u>\$ (816)</u>	<u>\$ (623)</u>	<u>\$ (2,179)</u>
Net income from discontinued operations .....	<u>\$ —</u>	<u>\$ 15</u>	<u>\$ —</u>	<u>\$ 28</u>
<b>Net income (loss) – U.S. GAAP</b> .....	<u>\$ 101</u>	<u>\$ (801)</u>	<u>\$ (623)</u>	<u>\$ (2,151)</u>

	<u>September 29, 2001</u>	<u>December 31, 2000</u>
<b>Total Assets</b>		
Canadian GAAP.....	\$ 26,847	\$ 28,830
Adjustments to U.S. GAAP		
Deferred development costs.....	(2,528)	(2,560)
Fair value of financial instruments.....	<u>—</u>	<u>(1)</u>
U.S. GAAP .....	<u>\$ 24,319</u>	<u>\$ 26,269</u>
<b>Total Shareholders' Equity</b>		
Canadian GAAP.....	\$ 18,321	\$ 18,969
Adjustments to U.S. GAAP		
Deferred development costs.....	(2,528)	(2,560)
Fair value of financial instruments .....	<u>—</u>	<u>(1)</u>
U.S. GAAP .....	<u>\$ 15,793</u>	<u>\$ 16,408</u>

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

<b>Three Months Ended</b>	<u>Canadian GAAP</u>		<u>U.S. GAAP</u>	
	Net Income (Loss) per Share – Basic		Net Income (Loss) per Share – Basic	
	<u>Sept. 29, 2001</u>	<u>Sept. 30, 2000</u>	<u>Sept. 29, 2001</u>	<u>Sept. 30, 2000</u>
Continuing operations.....	\$ 0.01	\$ (0.07)	\$ 0.01	\$ (0.11)
Discontinued operations ....	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>	<u>0.01</u>
Net income (loss) per share	<u>\$ 0.01</u>	<u>\$ (0.06)</u>	<u>\$ 0.01</u>	<u>\$ (0.10)</u>
	Net Income (Loss) per Share – Diluted		Net Income (Loss) per Share – Diluted	
	<u>Sept. 29, 2001</u>	<u>Sept. 30, 2000</u>	<u>Sept. 29, 2001</u>	<u>Sept. 30, 2000</u>
Continuing operations.....	\$ 0.01	\$ (0.07)	\$ 0.01	\$ (0.11)
Discontinued operations ....	<u>0.00</u>	<u>0.01</u>	<u>0.00</u>	<u>0.01</u>
Net income (loss) per share	<u>\$ 0.01</u>	<u>\$ (0.06)</u>	<u>\$ 0.01</u>	<u>\$ (0.10)</u>

**Nine Months Ended**

	Canadian GAAP		U.S. GAAP	
	Net Income (Loss) per Share – Basic		Net Income (Loss) per Share – Basic	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 30, 2001	Sept. 30, 2000
Continuing operations.....	\$ (0.09)	\$ (0.19)	\$ (0.08)	\$ (0.28)
Discontinued operations ....	0.00	0.00	0.00	0.00
Net income (loss) per share	\$ (0.09)	\$ (0.19)	\$ (0.08)	\$ (0.28)
	Net Income (Loss) per Share – Diluted		Net Income (Loss) per Share – Diluted	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept. 30, 2000
Continuing operations.....	\$ (0.09)	\$ (0.19)	\$ (0.08)	\$ (0.28)
Discontinued operations ....	0.00	0.00	0.00	0.00
Net income (loss) per share	\$ (0.09)	\$ (0.19)	\$ (0.08)	\$ (0.28)

**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. 2001</u>	<u>Sept. 30, 2000</u>	<u>% Change</u>	<u>Sept. 29, 2001</u>	<u>Sept. 30, 2000</u>	<u>% Change</u>
Revenues .....	\$ 6,905	\$ 6,314	9%	\$20,425	\$19,077	7%
Cost of sales.....	<u>3,533</u>	<u>2,583</u>	<u>37%</u>	<u>10,269</u>	<u>8,231</u>	<u>25%</u>
Gross profit.....	<u>3,372</u>	<u>3,731</u>	<u>(10%)</u>	<u>10,156</u>	<u>10,846</u>	<u>(6%)</u>
Operating expenses:						
Research and development .....	1,477	2,122	(30%)	5,224	6,175	(15%)
Selling and marketing .....	856	1,350	(37%)	2,620	3,600	(27%)
General and administration.....	<u>1,040</u>	<u>844</u>	<u>23%</u>	<u>3,002</u>	<u>2,780</u>	<u>8%</u>
Total operating expenses.....	<u>3,373</u>	<u>4,316</u>	<u>(22%)</u>	<u>10,846</u>	<u>12,555</u>	<u>(14%)</u>
Operating loss.....	(1)	(585)	(100%)	(690)	(1,709)	(60%)
Interest income .....	24	98	(76%)	122	241	(49%)
Other income (expense).....	<u>68</u>	<u>(3)</u>	<u>N/A</u>	<u>(75)</u>	<u>(2)</u>	<u>&gt;100%</u>
Income (loss) from continuing operations before income taxes.....	91	(490)	N/A	(643)	(1,470)	(56%)
Provision for (recovery of) income taxes .....	<u>12</u>	<u>16</u>	<u>(25%)</u>	<u>13</u>	<u>(8)</u>	<u>N/A</u>
Net income (loss) from continuing operations.....	79	(506)	N/A	(656)	(1,462)	(55%)
Net income from discontinued operations.....	<u>—</u>	<u>15</u>	<u>(100%)</u>	<u>—</u>	<u>28</u>	<u>(100%)</u>
Net income (loss).....	<u>\$ 79</u>	<u>\$ (491)</u>	<u>N/A</u>	<u>\$ (656)</u>	<u>\$ (1,434)</u>	<u>(54%)</u>
Net income (loss) per share (basic)						
Continuing operations .....	\$ 0.01	\$(0.07)		\$(0.09)	\$(0.19)	
Discontinued operations.....	<u>0.00</u>	<u>0.01</u>		<u>0.00</u>	<u>0.00</u>	
Net income (loss) per share.....	<u>\$ 0.01</u>	<u>\$(0.06)</u>		<u>\$(0.09)</u>	<u>\$(0.19)</u>	
Weighted average shares outstanding (basic) .....	<u>7,693</u>	<u>7,676</u>		<u>7,692</u>	<u>7,675</u>	
Net income (loss) per share (diluted)						
Continuing operations .....	\$ 0.01	\$(0.07)		\$(0.09)	\$(0.19)	
Discontinued operations.....	<u>0.00</u>	<u>0.01</u>		<u>0.00</u>	<u>0.00</u>	
Net income (loss) per share.....	<u>\$ 0.01</u>	<u>\$(0.06)</u>		<u>\$(0.09)</u>	<u>\$(0.19)</u>	
Weighted average shares outstanding (diluted) .....	<u>7,711</u>	<u>7,827</u>		<u>7,721</u>	<u>7,822</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. 29, 2001</u>	<u>Sept. 30, 2000</u>	<u>% Change</u>	<u>Sept. 29, 2001</u>	<u>Sept. 30, 2000</u>	<u>% Change</u>
Revenues .....	\$4,374	\$4,000	9%	\$12,939	\$12,085	7%
Cost of sales.....	<u>2,238</u>	<u>1,636</u>	<u>37%</u>	<u>6,505</u>	<u>5,214</u>	<u>25%</u>
Gross profit.....	<u>2,136</u>	<u>2,364</u>	<u>(10%)</u>	<u>6,434</u>	<u>6,871</u>	<u>(6%)</u>
Operating expenses:						
Research and development .....	936	1,344	(30%)	3,309	3,912	(15%)
Selling and marketing .....	542	855	(37%)	1,660	2,281	(27%)
General and administration.....	<u>659</u>	<u>536</u>	<u>23%</u>	<u>1,902</u>	<u>1,761</u>	<u>8%</u>
Total operating expenses.....	<u>2,137</u>	<u>2,735</u>	<u>(22%)</u>	<u>6,871</u>	<u>7,954</u>	<u>(14%)</u>
Operating loss .....	(1)	(371)	(100%)	(437)	(1,083)	(60%)
Interest income .....	15	62	(76%)	77	153	(49%)
Other income (expense).....	<u>44</u>	<u>(1)</u>	<u>N/A</u>	<u>(47)</u>	<u>(1)</u>	<u>&gt;100%</u>
Income (loss) from continuing operations before income taxes.....	58	(310)	N/A	(407)	(931)	(56%)
Provision for (recovery of) income taxes .....	<u>8</u>	<u>11</u>	<u>(25%)</u>	<u>9</u>	<u>(5)</u>	<u>N/A</u>
Net income (loss) from continuing operations.....	50	(321)	N/A	(416)	(926)	(55%)
Net income from discontinued operations.....	<u>—</u>	<u>10</u>	<u>(100%)</u>	<u>—</u>	<u>18</u>	<u>(100%)</u>
Net income (loss).....	<u>\$ 50</u>	<u>\$ (311)</u>	<u>N/A</u>	<u>\$ (416)</u>	<u>\$ (908)</u>	<u>(54%)</u>
Net income (loss) per share (basic)						
Continuing operations .....	\$ 0.01	\$(0.04)		\$(0.06)	\$(0.12)	
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>		<u>0.00</u>	<u>0.00</u>	
Net income (loss) per share.....	<u>\$ 0.01</u>	<u>\$(0.04)</u>		<u>\$(0.06)</u>	<u>\$(0.12)</u>	
Weighted average shares outstanding (basic) .....	<u>7,693</u>	<u>7,676</u>		<u>7,692</u>	<u>7,675</u>	
Net income (loss) per share (diluted)						
Continuing operations .....	\$ 0.01	\$(0.04)		\$(0.06)	\$(0.12)	
Discontinued operations.....	<u>0.00</u>	<u>0.00</u>		<u>0.00</u>	<u>0.00</u>	
Net income (loss) per share.....	<u>\$ 0.01</u>	<u>\$(0.04)</u>		<u>\$(0.06)</u>	<u>\$(0.12)</u>	
Weighted average shares outstanding (diluted) .....	<u>7,711</u>	<u>7,827</u>		<u>7,721</u>	<u>7,822</u>	

	<u>December 31,</u> <u>2000</u>	<u>September 29,</u> <u>2001</u>	<u>US \$</u> <u>Equivalent</u> <u>September 29,</u> <u>2001(2)</u>
Balance Sheet Data (1): (Canadian \$, thousands)			
Working capital .....	\$ 11,279	\$ 11,307	\$ 7,163
Total assets .....	28,830	26,847	17,008
Long-term liabilities.....	307	351	222
Total shareholders' equity .....	18,969	18,321	11,606

(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 disclosed in Note 11 of the Notes to the Consolidated Financial Statements contained in this report:

(2) Canadian dollar amounts have been translated into U.S. dollars solely for the convenience of the reader at the rate of US \$0.6335 per CDN \$1.00 which was the exchange rate as of October 30, 2001. These translations are not necessarily representative of the amounts that would have been reported if the Company had historically reported its financial statements in U.S. dollars. In addition, the rates utilized are not necessarily indicative of the rates in effect at any other time.

*Revenues.* Revenues include product sales and non-recurring engineering ("NRE") fees. Revenue from product sales consist primarily of sales of original equipment manufacturer ("OEM") boards, software, software upgrades, Wide Area Augmentation System ("WAAS") type receivers and end user products for the geographical information systems ("GIS") and survey markets. The Company categorizes its revenues into the following three market sectors: 1) Geomatics; 2) Aerospace and Defense; and 3) Special Applications.

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.

On January 26, 2001, the Company acquired a 48.7% equity interest in Mezure, Inc. ("Mezure"). Mezure was established in early 2000 and had been working with the Company to develop market applications combining GPS, wireless infrastructure and the Internet. As of September 29, 2001, Mezure had not yet commenced selling product. On July 23, 2001, the Company acquired a further 25.3% interest in Mezure after exercising its option to convert US\$200,000 in loans previously advanced to Mezure and charged to operations during 2001 into additional common shares. Effective with this conversion, the Company now owns a 74% controlling interest in Mezure.

**Q3 2001 compared to Q3 2000**

Total revenues in the third quarter 2001 were \$6.9 million, an increase of 9.4% from \$6.3 million in the third quarter 2000. The following table sets forth revenue by market sector for the third quarters ended September 29, 2001 and September 30, 2000.

	<b>Three Months Ended</b>					
	<b>September 29, 2001</b>		<b>September 30, 2000</b>		<b>Change</b>	
	<b>\$000</b>	<b>%</b>	<b>\$000</b>	<b>%</b>	<b>\$000</b>	<b>%</b>
Geomatics	\$ 1,362	20%	\$ 1,773	28%	\$ (411)	(23%)
Aerospace & Defense	2,528	37%	1,860	30%	668	36%
Special Applications	2,859	41%	2,676	42%	183	7%
Other	<u>156</u>	<u>2%</u>	<u>5</u>	<u>—%</u>	<u>151</u>	<u>&gt;100%</u>
<b>TOTAL</b>	<b><u>\$ 6,905</u></b>	<b><u>100%</u></b>	<b><u>\$ 6,314</u></b>	<b><u>100%</u></b>	<b><u>\$ 591</u></b>	<b><u>9%</u></b>

**Geomatics**

The Geomatics sector is made up of the surveying and GIS markets. Geomatics revenues in general are largely comprised of the Company's sales to Point, net of intercompany eliminations and the Company's proportionate share of sales by Point.

Geomatics sales were \$1.4 million in the third quarter 2001 compared to \$1.8 million in the third quarter 2000, a decrease of 23%. Net revenues contributed from the Point/Sokkia relationship were a majority of the Geomatics revenue in the third quarter 2001 and accounted for most of the decrease in Geomatics revenue in the third quarter of 2001 compared to the third quarter of 2000. Point revenues have been, and will continue to be, negatively affected by longer product development leadtimes. In addition, because of inventory accumulation at Point, the Company shipped negligible volume of product to Point during the third quarter 2001.

Earlier in 2001, Point launched two new products, a high precision survey product (Radian IS) and a GIS product (Axis III). Recently, Point released an additional new product, a low cost, low precision survey product (Stratus). As these new products move through the Sokkia distribution channels, the Company expects the revenues attributable to the Point/Sokkia relationship to increase. However, there can be no assurances that these new products will result in increased revenues.

**Aerospace and Defense**

The Aerospace and Defense sector is made up of aviation, space and defense markets. Aerospace and Defense sales were \$2.5 million for the third quarter 2001 compared to \$1.9 million for the third quarter 2000, an increase of 36%. The Company's Aerospace and Defense revenues are highly dependent on the timing of large programs. Sales in this sector include WAAS type receiver sales and revenue from engineering services related to the U.S. Wide Area Augmentation System ("WAAS"), the Japanese MTSAT Satellite-based Augmentation System ("MSAS"), the Chinese Satellite Navigation Augmentation System ("SNAS") and to the European Geostationary Overlay System ("EGNOS"). In the current quarter, the largest single component of the Aerospace and Defense revenue was the EGNOS program, which accounted for \$1.4 million in revenue compared to \$74,000 in the third quarter 2000. In the third quarter of last year, the Company recorded \$1.2 million in revenue from shipments for the Chinese SNAS program, compared to \$nil revenue from the SNAS program in the third quarter of 2001.

The Company expects to recognize an additional \$450,000 in revenue from the EGNOS program over the balance of this year, as the development activities on the program come to completion. Further deliveries of production receivers, valued at approximately \$800,000, for the EGNOS program are scheduled for 2002.

Through sponsorship from the Canadian Space Agency, in January 2001, the Company received a contract from the European Space Agency to participate in the early definition phase of Galileo, the planned European counterpart to GPS. This work is still ongoing, and other Galileo feasibility, study and development activities are anticipated in the coming months.

Both Raytheon NLS and Thales ATM, key Local Area Augmentation System (“LAAS”) system suppliers, have now contracted with the Company for the next phase of development of a LAAS receiver for their certified reference stations. The Company plans to develop prototype LAAS receivers for Raytheon and Thales for incorporation in demonstration LAAS ground reference stations. Work continues on developing the roadmap for the next generation WAAS receiver.

The certified GPS receiver jointly developed by the Company and CMC Electronics (formerly BAE Systems Canada) for use in both Honeywell airborne and ground applications is now in the certification phase. The Company has earned initial royalties, although the total royalties for 2001 are not expected to be material.

While the Company has participated in previous phases of WAAS, MSAS and SNAS, the Company currently has no commitments for future participation in the WAAS, MSAS, SNAS or LAAS programs (other than certain engineering services contracts). There can be no assurance that the Company will receive commitments for future participation in the WAAS, MSAS, SNAS or LAAS programs.

#### Special Applications

The Special Applications 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 Applications revenues were \$2.9 million in the third quarter 2001 compared to \$2.7 million in the third quarter 2000, an increase of 7%. The revenue increase was attributable to higher revenue from the OEM4 receiver and the GPS-600 antenna family. The Company continues to see higher demand for its OEM family of GPS receivers and antennas.

In April 2001, the Company received a contract funded by the United States government for the design and prototyping of receiver architecture for the new GPS L5 civil frequency which is part of the GPS modernization activity being undertaken by the U.S. government. The level of interest in the GPS-600 antenna continues to grow as more end-users confirm its performance. The Company’s latest generation GPS receiver, the OEM4, is being designed into many customers’ products which are used in applications such as military, unmanned vehicle and motor racing. Additionally, current customers continue to migrate their products from previous generations of GPS receivers to the OEM4.

#### Other Revenue

Other revenue related to the sale of manufacturing components was \$156,000 for the third quarter 2001 compared to \$5,000 in the third quarter 2000, with the increased revenue due to the sale of surplus electronic component inventory.

#### Revenues by Geographic Market

In the third quarter 2001, the Company generated 50% of its total revenues from the sale of its products to countries outside the United States and Canada, compared to 55% in the third quarter 2000. Revenues from international sales were \$3.5 million in the third quarter 2001 compared to \$3.5 million in the third quarter 2000.

*Gross Profit.* Gross profit as a percentage of total revenues was 49% in the third quarter 2001 compared to 59% in the third quarter 2000. Despite the decrease in gross margin percentage relative to a year ago, the percentage was generally in line with the Company’s expectations. The higher gross margin percentage of the third quarter of last year is primarily attributable to the benefit of the high margin shipments of \$1.2 million of WAAS type receivers into the China SNAS program. In addition, in the third quarter of 2001, a

higher proportion of the Company's revenue came from engineering service contracts, which generally earn lower gross margins, as a percent of revenue.

Point earns lower gross margins due to the purchase of third party accessories that provide lower gross margins and the fact that Point is closer to the end user in the distribution chain. If Point's revenue were to form a growing proportion of the Company's total revenues, the Company's overall gross profit would decline as a percentage of revenue.

*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 were \$1.5 million in the third quarter 2001, as compared with \$2.1 million in the third quarter 2000. Research and development expenses as a percentage of total revenues decreased from 34% in the third quarter 2000 to 21% in the third quarter 2001. The reduction in research and development expenses reflects higher customer funded engineering programs and lower expenditures at Point relating to a staff restructuring which occurred in January 2001, partially offset by lower deferred development costs. 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 decreased 37% from \$1.4 million in the third quarter 2000 to \$856,000 in the third quarter 2001 and decreased as a percentage of total revenues from 21% in the third quarter 2000 to 12% in the third quarter 2001. The reduction in selling and marketing expenses is due to lower external commissions, (relating to the China SNAS shipment incurred in the third quarter of 2000), lower Point costs resulting from the January 2001 restructuring and lower costs attributable to Mezure.

*General and administration.* General and administration expenses consist primarily of salaries of administrative personnel, corporate overhead and facilities expenses. General and administration expenses increased 23% from \$844,000 in the third quarter 2000 to \$1.0 million in the third quarter 2001. Higher general and administrative expenses related to Mezure accounted for the majority of the increase.

*Interest income.* The Company earned net interest income of \$24,000 in the third quarter 2001 compared with \$98,000 in the third quarter 2000. The reduced interest income is attributable to lower cash balances available for investment and lower interest rates. The Company's cash deposits that are not required for operations are invested in short term interest bearing instruments.

*Other income (expense).* Other income (expense) consists primarily of foreign exchange income (loss) and miscellaneous items. Other income was \$68,000 in the third quarter 2001 primarily related to foreign exchange income arising from a strengthening of the U.S. dollar versus the Canadian dollar in the third quarter of 2001, compared to other expense of \$3,000 in the third quarter 2000.

*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, was \$12,000 in the third quarter 2001 compared to \$16,000 in the third quarter 2000.

*Discontinued operations.* The Company had no discontinued operations activity in the third quarter of 2001, compared to an income from discontinued operations of \$15,000 in the third quarter 2000.

#### **Nine Months 2001 compared to Nine Months 2000**

Total year to date revenues were \$20.4 million in 2001, an increase of 7.1% from \$19.1 million in the comparable period of 2000. The following table sets forth revenue by market sector for the year to date.

	<b>Nine Months Ended</b>					
	<b>September 29, 2001</b>		<b>September 30, 2000</b>		<b>Change</b>	
	<b>\$000</b>	<b>%</b>	<b>\$000</b>	<b>%</b>	<b>\$000</b>	<b>%</b>
Geomatics	\$ 5,758	28%	\$ 6,350	33%	\$ (592)	(9%)
Aerospace & Defense	4,885	24%	4,075	22%	810	20%
Special Applications	9,416	46%	8,441	44%	975	12%
Other	<u>366</u>	<u>2%</u>	<u>211</u>	<u>1%</u>	<u>155</u>	<u>73%</u>
<b>TOTAL</b>	<b><u>\$20,425</u></b>	<b><u>100%</u></b>	<b><u>\$19,077</u></b>	<b><u>100%</u></b>	<b><u>\$ 1,348</u></b>	<b><u>7%</u></b>

### Geomatics

Geomatics sales were \$5.8 million for the nine months ended September 29, 2001 compared to \$6.4 million for the first nine months ended September 30, 2000, a decrease of 9%. Net revenues contributed from the Point/Sokkia relationship were a majority of the Geomatics revenue and accounted for most of the decrease in Geomatics revenue. Point revenues have been, and will continue to be, negatively affected by longer product development leadtimes. In addition, because of inventory accumulation at Point, the Company's shipment of product to Point declined in 2001, compared to 2000.

### Aerospace and Defense

Aerospace and Defense sales were \$4.9 million for the nine months ended September 29, 2001 compared to \$4.1 million for the nine months ended September 30, 2000, with the increase of 20% primarily due to higher revenue from customer funded engineering programs. In the first nine months of 2001, the largest single component of the Aerospace and Defense revenue was the EGNOS program, which accounted for \$2.4 million in revenue compared to \$351,000 in the first nine months of 2000. In the first nine months of 2000, the Company recorded \$2.4 million in revenue from shipments for the Chinese SNAS program, compared to \$nil revenue from the SNAS program in the first nine months of 2001.

### Special Applications

Special Applications revenues were \$9.4 million for the nine months ended September 29, 2001 compared to \$8.4 million for the nine months ended September 30, 2000, an increase of 12%. The revenue increase was attributable to higher revenue from the OEM4 receiver and the GPS-600 antenna family.

### Other Revenue

Other revenue related to the sale of manufacturing components was \$366,000 in the first three quarters of 2001 compared to \$211,000 in the similar period of 2000, with the increased revenue due to the sale of surplus electronic component inventory.

### Revenues by Geographic Market

For the nine months in 2001, the Company generated 45% of its total revenues from the sale of its products to countries outside the United States and Canada, compared to 51% in the comparable period in 2000. Revenues from international sales were \$9.1 million year to date 2001 compared to \$9.8 million in the comparable period of 2000.

*Gross Profit.* Gross profit as a percentage of total revenues was 50% for the nine months ended September 29, 2001 compared to 57% for the nine months ended September 30, 2000. Despite the decrease in gross margin percentage relative to a year ago, the percentage was generally in line with the Company's expectations. The higher gross margin percentage of last year is primarily attributable to the benefit of the high margin shipments of \$2.4 million of WAAS type receivers into the China SNAS program. In

addition, in 2001, a higher proportion of the Company's revenue came from engineering service contracts, which generally earn lower gross margins, as a percent of revenue.

*Research and development.* Research and development expenses were \$5.2 million for the nine months ended September 29, 2001, as compared with \$6.2 million for the nine months ended September 30, 2000. Research and development expenses as a percentage of total revenues decreased from 32% for the nine months ended September 30, 2000 to 26% for the nine months ended September 29, 2001. The reduction in research and development expenses reflects higher customer funded engineering programs and lower expenditures at Point relating to a staff restructuring which occurred in January 2001, partially offset by lower deferred development costs.

*Selling and marketing.* Selling and marketing expenses decreased 27% from \$3.6 million for the nine months ended September 30, 2000 to \$2.6 million for the nine months ended September 29, 2001 and decreased as a percentage of total revenues from 19% for the nine months ended September 30, 2000 to 13% for the nine months ended September 29, 2001. The reduction in selling and marketing expenses is due to lower external commissions, (relating to the China SNAS shipments incurred in 2000), lower Point costs resulting from the January 2001 restructuring and lower costs attributable to Mezure.

*General and administration.* General and administration expenses increased 8% from \$2.8 million for the nine months ended September 30, 2000 to \$3.0 million for the nine months ended September 29, 2001. Higher general and administrative expenses related to Mezure accounted for the majority of the increase.

*Interest income.* The Company earned net interest income of \$122,000 in the first three quarters of 2001 compared with \$241,000 in the first three quarters 2000. The reduced interest income is attributable to lower cash balances available for investment and lower interest rates.

*Other income (expense).* Other expense was \$75,000 in the first three quarters of 2001 compared to other expense of \$2,000 in the first three quarters 2000.

*Provision for income taxes.* The provision for income taxes was \$13,000 year to date 2001 compared to a recovery of tax of \$8,000 in the comparable period of 2000.

*Discontinued operations.* The Company had no discontinued operations activity in 2001, compared to an income from discontinued operations of \$28,000 in 2000.

#### Salary Reductions

On July 17, 2001, the Company put in place certain cost improvement measures, including a temporary across-the-board reduction in employee salaries of 10 percent.

#### RECENT DEVELOPMENTS

On September 11, 2001, terrorists attacked locations in the United States. The Company has not fully analyzed the impact that these events may have on its business. It is not clear whether the Company will suffer any direct or indirect impact from the attacks. The Company may be adversely impacted if these events cause a downturn in the global economy, disrupt shipping methods, change import and export controls, cause significant fluctuations in foreign currency exchange rates, delay purchasing decisions or have other negative effects which cannot now be anticipated.

#### 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 29, 2001, 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 CMC Electronics (formerly BAE Systems Canada Inc.) in 1998 and BAE

SYSTEMS p.l.c.'s indirect acquisition of the majority of the common shares of CMC Electronics in November 1999 and ONCAP L.P.'s acquisition of the common shares of CMC Electronics in April 2001 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 filed for the fiscal year ended December 31, 2000 as part of Form 20-F with the Securities and Exchange Commission.

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 29, 2001, cash used in operations was \$1.8 million, compared to cash provided by operations of \$1.2 million in the same period of 2000. Cash used in operations in the nine-month period ended September 29, 2001 consisted primarily of a \$656,000 loss from continuing operations and a \$2.9 million increase in working capital, partially offset by \$1.9 million in amortization. The increase in working capital from December 31, 2000 to September 29, 2001 is caused primarily by higher receivables due to increased third party sales and lower payables. The reduction in payables is caused by several factors, including: payments made in the first quarter of 2001 relating to the restructuring of senior management and Point's operations; higher purchases of inventory components, due to last time buys and the transition from one sub-contract manufacturer to another at the end of 2000, and the payment in 2001 of sale commissions provided for at December 31, 2001. Other factors include an increase in inventories primarily related to the termination of a relationship with a subcontract manufacturer in the first quarter of 2001.

In the nine months ended September 29, 2001, cash provided by financing activities was \$245,000, related primarily to a third party loan of US\$100,000 borrowed by Mezure, and an increase in capital lease obligations. On September 28, 2001, the Company entered into a sale/leaseback transaction with HSBC Leasing whereby certain tooling and computer equipment was sold, in exchange for \$300,000 cash, and a three year lease obligation. In the comparable period in 2000, \$267,000 cash was used in financing activities, related primarily to a decrease in capital lease obligations.

In the nine months ended September 29, 2001, cash used in investing activities was \$668,000 primarily related to capital expenditures of \$697,000. In the first nine months of 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 \$423,000 related to the final settlement of proceeds from the divestiture to Harris in 1995.

At September 29, 2001, the Company had cash and short term investments of \$3.8 million. The Company has credit agreements with the HSBC Bank Canada and the Toronto Dominion Bank under which the Company can borrow up to \$1.7 million for day-to-day operating requirements and \$1.1 million to support the margin requirement related to the purchase of up to US\$4.8 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 29, 2001, portions of the lines of credit were utilized to support \$79,000 of letters of credit (\$219,000 at December 31, 2000) and the margin requirements on US\$1.5 million in forward foreign exchange contracts leaving \$1.6 million available for day-to-day operating requirements and the margin capacity necessary to enter into an additional US\$3.3 million in forward foreign exchange contracts.

As of September 29, 2001, the Company and Sokkia have collectively loaned Point US\$4.0 million, the Company's share being US\$1.96 million. The loans are secured by Point's assets and bore interest at the U.S. Prime Rate during 2000 and at a rate of 6% beginning January 1, 2001. In January 2001, the Company and Sokkia extended the due date of the loans to December 31, 2001.

In January 2001, the Company signed a number of agreements under which the Company acquired a 48.7% equity interest in Mezure. The agreements included a US\$400,000 cash investment which the Company had previously advanced and for which the Company had made a full provision. The Company also advanced a further US\$270,000 loan to Mezure from January 5 to July 23, 2001. This was in addition to US\$65,000 previously advanced in October 2000. The Company has recorded a full provision against the potential non-payment of these loans. On July 23, 2001, the Company acquired a further 25.3% interest in Mezure after exercising its option to convert US\$200,000 in loans to Mezure into additional common shares.

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.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Most of the Company's revenues (over 95% for the first nine months of 2001) are earned in currencies other than the Canadian dollar, principally the U.S. dollar. A substantial portion of the Company's expenses, however, have been and will continue to be incurred in Canadian dollars. Accordingly, fluctuations in exchange rates between the U.S. dollar and the Canadian dollar could materially affect the Company's results of operations. In the normal course of business, the Company uses foreign currency options and forward foreign currency contracts to reduce its exposure to fluctuations in the U.S. dollar to Canadian dollar exchange rates. The contracts are normally for terms of up to twelve months and are used as hedges of the Company's net U.S. dollar cash requirements. Gains and losses arising on these financial instruments are offset against the gains and losses arising on the maturity of the underlying transactions. Derivative financial instruments are not used for speculative purposes. There can be no assurance that the Company will be successful in these activities.

At September 29, 2001, the Company had foreign currency options to sell US\$1.5 million between October 31, 2001 and November 30, 2001 at rates between \$0.6441 and \$0.6623. In addition, at September 29, 2001, the Company has entered into forward foreign currency contracts obligating it to buy US\$1.5 million between October 31, 2001 and November 30, 2001 at rates between \$0.6283 and \$0.6483. Had these contracts been settled on September 29, 2001, no additional income or loss would have been recognized.

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

#### LEGAL PROCEEDINGS

There has been no material change since the Form 20-F for the fiscal year ended December 31, 2000 and the Form 6-K for the quarter ended June 30, 2001 filed with the Securities and Exchange Commission.

#### 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, 2000 and the Risk Factors section part of Form 6-K for the quarter ended June 30, 2001 filed with the Securities and Exchange Commission. In addition, the Company is subject to the following risks.

### Trimble Navigation

As at September 29, 2001, intangible assets included \$664,000 related to the Company's 1996 settlement agreement with Trimble Navigation Limited (Trimble). This settlement agreement with Trimble includes a provision that Trimble may, at its sole option, terminate rights granted there under, including licenses, should the Company undergo a direct change in control. The share acquisition by CMC Electronics Inc. ("CMC Electronics") (formerly BAE Systems Canada) in 1998 constitutes a change of control for purposes of the settlement agreement. On June 26, 2001, the Company received notice from Trimble terminating the licenses and rights under the settlement agreement. The Company has sought legal advice and is continuing to evaluate the impact, if any, of Trimble's notice of termination; and accordingly, the Company has not provided for any impairment of these intangible assets as at September 29, 2001.

The Company currently believes that Trimble has waived its right to terminate the settlement agreement for a change of control. However, if the Company is unable to resolve the issue satisfactorily with Trimble, the Company could be required to record a potential provision against the impairment of some or all of the \$664,000 in intangible assets, to pay license fees to Trimble, and/or to litigate a potential infringement action from or against Trimble. These actions could have a material adverse effect on the Company's business, financial condition and results of operations.

### Competition; Industry Consolidation

The GPS industry has been going through a consolidation phase over the past several years. GPS companies have been selecting strategic partners to merge, acquire or form joint businesses in an effort to remain cost competitive and meet customer requirements. The Company's formation of Point, a joint venture with Sokkia, one of the largest survey companies in the world, is an example of the consolidation occurring in the GPS industry. The past year and a half has witnessed the joining of Trimble Navigation Limited with Spectra-Precision, Topcon with Javad Positioning Systems (JPS), now known as Topcon Positioning Systems, and Racal Avionics Ltd. with Thomson-CSF to form Thomson-Racal Avionics Ltd., now known as Thales (previously Thomson-CSF). Recently, Orbital Sciences Corporation announced that it had completed the sale of its Magellan Corporation GPS subsidiary to Thales. This consolidation phase will continue for the foreseeable future resulting in fewer but larger companies. Industry consolidation, by creating stronger and larger potential competitors, could have a material adverse effect on the Company's business, financial condition and results of operations.

### Mezure, Inc.

In January 2001, the Company acquired a 48.7% equity interest in Mezure. The agreement included a US\$400,000 cash investment, which had been charged to operations in 2000, together with R&D and engineering services to facilitate initial product development. On July 23, 2001, the Company acquired a further 25.3% interest in Mezure after exercising its option to convert US\$200,000 in loans to Mezure into additional common shares. Mezure was established in early 2000 and has been working with the Company to develop market applications combining GPS, wireless infrastructure and the Internet. Mezure is subject to similar types of risks as the Company. In addition, if Mezure were unable to obtain adequate financing, it would not be able to continue operations.

### September 11, 2001 Terrorist Events

On September 11, 2001, terrorists attacked locations in the United States. The Company has not fully analyzed the impact that these events may have on its business. It is not clear whether the Company will suffer any direct or indirect impact from the attacks. The Company may be adversely impacted if these events cause a downturn in the global economy, disrupt shipping methods, change import and export controls, cause significant fluctuations in foreign currency exchange rates, delay purchasing decisions or have other negative effects which cannot now be anticipated.