

A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each of the provinces of Québec and Ontario but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities offered hereby may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities. The securities offered hereby have not been, and will not be, registered under the United States Securities Act of 1933, as amended, and, subject to certain exceptions, may not be offered or sold within the United States of America or to U.S. Persons. See "Plan of Distribution".

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of NHC Communications Inc. at 5450 Côte-de-Liesse Road, Mount Royal, Québec, H4P 1A5 (1-800-361-1965). For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from the Secretary of NHC Communications Inc. at the above-mentioned address and telephone number.

PRELIMINARY SHORT FORM PROSPECTUS

New Issue

July 26, 2001



NHC COMMUNICATIONS INC.

\$18,000,000

Rights to Subscribe for up to 10,000,000 Common Shares

This short form prospectus qualifies the distribution (the "Offering") of non-transferrable rights (the "Rights") to subscribe for up to 10,000,000 common shares (the "Common Shares") in the capital of NHC Communications Inc. (the "Company"). This short form prospectus also qualifies the distribution of 300,000 Common Share purchase warrants (the "Warrants"), each Warrant being exercisable for one Common Share (each, a "Warrant Share") in the capital of the Company at a price equal to 125% of the average of the closing bid prices of the Common Shares on The Toronto Stock Exchange (the "TSE") for the 15 days on which the TSE is open for trading (each, a "Trading Day") prior to the date of the issuance of the Rights and the Warrants (the "Initial Closing"), at any time on or prior to the date which is three years from the date of the Initial Closing. The Rights and the Warrants will be issued to The Roseworth Group Ltd. (the "Subscriber"), a corporation existing under the laws of the British Virgin Islands, pursuant to a subscription agreement (the "Subscription Agreement") to be entered into between the Company and the Subscriber.

The maximum number of Common Shares the Subscriber may be required to purchase upon exercise of the Rights from time to time pursuant to the Subscription Agreement (the "Subscription Commitment") is 10,000,000 Common Shares, subject to adjustment in certain circumstances, for aggregate gross proceeds to the Company not exceeding \$18,000,000. The term (the "Term") of the Subscription Commitment will be 30 months from the third Trading Day following the date (the "Receipt Date") on which a decision document under the Mutual Reliance Review System for Prospectuses and Annual Information Forms is issued for this short form prospectus by the Commission des valeurs mobilières du Québec.

During the Term, the Company may from time to time require that the Subscriber exercise the Rights (a "Draw Down") by providing written notice (a "Draw Down Notice") to the Subscriber and to the TSE and by issuing a press release (the "Press Release") announcing the Draw Down. The Term will be divided into pricing periods (each, a "Pricing Period"). Each Pricing Period will consist of the number of Trading Days during which the Draw Down will occur and will consist of a minimum of two and a maximum of 20 consecutive Trading Days. Each Pricing Period will be divided into a maximum of two settlement periods (each, a "Settlement Period") and each such Settlement Period will consist of a maximum of 11 Trading Days. The exercise of the Rights and the purchase

of the Common Shares will be settled on or prior to the second Trading Day following the end of each Settlement Period (each, a "Settlement Date"). The Company may not deliver a new Draw Down Notice until three Trading Days following the final Settlement Date for the preceding Pricing Period. Only one Draw Down is permitted in each Pricing Period.

The Company will specify in the Draw Down Notice the aggregate amount which it wishes to draw down (the "Draw Down Amount"), the lowest price at which the Company will issue Common Shares (the "Threshold Price") for the applicable Pricing Period, if any, and the length and commencement date of the Pricing Period. The price per Common Share to be paid by the Subscriber (the "Subscription Price") on any particular Trading Day in a Settlement Period shall be equal to the volume-weighted average price ("VWAP") per Common Share on the TSE for that Trading Day in the Pricing Period, discounted by 13% (the "Discount"). The Discount as to any Pricing Period will decrease by 0.50% for every \$22,500,000 of market capitalization (the "Market Cap") of the Company above \$60,000,000 (and provided that such Market Cap, after same is achieved, is maintained for 20 consecutive Trading Days prior to the applicable Pricing Period) to a minimum Discount of 10.5%. The number of Common Shares to be issued on each Settlement Date (the "Settlement Shares") will be equal to the sum of the quotients (for each Trading Day within the Settlement Period) of (x) 1/(the number of Trading Days in the subject Pricing Period) multiplied by the Draw Down Amount and (y) the Subscription Price on each Trading Day within the Settlement Period, subject to certain adjustments. If the VWAP on a given Trading Day is less than the Threshold Price or Adjusted Threshold Price (as hereinafter defined), then the Draw Down Amount for the relevant Pricing Period will be reduced by 1/(the number of Trading Days in the subject Pricing Period). If trading in the Common Shares on the TSE is suspended for more than three hours on any Trading Day in a Pricing Period, the Draw Down for the relevant Pricing Period may be reduced at the Subscriber's option by 1/(the number of Trading Days in the subject Pricing Period).

The minimum Draw Down Amount (the "Minimum Draw Down Amount") in respect of any Draw Down shall be \$50,000, and the maximum Draw Down Amount (the "Maximum Draw Down Amount") shall be calculated based on the following formula: $10\% * (\text{the weighted average price of the Common Shares for the 60 days immediately prior to the date of the Draw Down Notice} * \text{the total trading volume in respect of such Common Shares in such 60 day period})$ multiplied by a fraction equal to the number of Trading Days in the applicable Pricing Period divided by 20. In the event that the Maximum Draw Down Amount is less than the Minimum Draw Down Amount, the Company will be precluded from issuing a Draw Down Notice at such time. Notwithstanding the foregoing, the Company may: (i) request a Draw Down Amount that exceeds the Maximum Draw Down Amount, and/or (ii) increase that portion of the total Draw Down Amount allocated to the remainder of the Trading Days in a Pricing Period by up to 50% by delivering to the Subscriber and the TSE a notice (the "Adjustment Notice") stating the amount by which the Company wishes to increase the remaining portion of the Draw Down Amount (the "Adjusted Draw Down Amount") during such Pricing Period and by issuing a press release announcing the Adjusted Draw Down Amount, provided that the Company stipulates in the Draw Down Notice or the Adjustment Notice, as the case may be, a Threshold Price or Adjusted Threshold Price (as hereinafter defined) no lower than 80% of the average VWAP for the five Trading Days immediately preceding the date the Draw Down Notice or the Adjustment Notice, as the case may be, is delivered. An Adjusted Draw Down Amount shall be applied, *pro rata*, to the remaining Trading Days in the subject Pricing Period.

The Company cannot require the exercise of that number of Rights which would cause the Subscriber to hold more than 9.9% of the Common Shares then outstanding (and, for the purposes of such calculation, the Subscriber shall be deemed to own the Common Shares proposed to be issued and any Warrant Shares which remain subject to issuance). Unless permitted by the TSE, and, if required, approved by a majority of holders of the Common Shares, in no circumstances shall the Company be permitted to issue or to make subject to issuance any (i) Common Shares issued or made issuable as a result of a Draw Down Notice having been delivered, (ii) Warrant Shares, or (iii) Common Shares issued or made issuable pursuant to a private placement ("Private Placement Shares"), if as a result of such issuance or proposed issuance, the aggregate number of Common Shares, Warrant Shares and Private Placement Shares issued or made issuable during any six month period exceeds 25% of the Common Shares outstanding prior to giving effect to all issuances and proposed issuances made during such period.

The Company may, in its sole discretion, elect to set (if not previously set) or change the Threshold Price during a Pricing Period that shall apply to the remainder of the Trading Days in such Pricing Period by delivering to the

Subscriber a notice (the “Threshold Price Adjustment Notice”) and by issuing a press release stating the amended Threshold Price (the “Adjusted Threshold Price”). Notwithstanding anything to the contrary herein, in the event the Company has issued an Adjustment Notice in a Pricing Period, the Company shall be precluded from further reducing a previously set Threshold Price or Adjusted Threshold Price for the remainder of such Pricing Period.

The outstanding Common Shares of the Company are listed on the TSE under the trading symbol “NHC”. On July 25, 2001, the closing price of the Common Shares on the TSE was \$2.45. There is no market through which the Rights or the Warrants may be sold.

No Underwriter has been involved in the preparation of this short form prospectus or performed any review of the contents of this short form prospectus.

It is expected that definitive certificates representing the Rights and the Warrants will be available for delivery at the Initial Closing which is expected to occur on the third Trading Day following the Receipt Date.

The Subscriber has advised the Company and will covenant in the Subscription Agreement that neither the Subscriber nor its affiliates will, during the Term, hold a short position of the Common Shares. For the purposes of determining the net position of the Common Shares held by the Subscriber and its affiliates, on each Trading Day during a Settlement Period, the Subscriber will be deemed to own the Common Shares which the Subscriber is required to purchase for that day pursuant to the Draw Down Notice. The Subscriber has further advised the Company and will covenant in the Subscription Agreement that: (a) all or a significant portion of the Common Shares to be acquired by the Subscriber may be held for a significant period of time; (b) the Common Shares will not be held by the Subscriber in inventory; and (c) the Subscriber will be purchasing as principal not with a view to immediate resale and will assume all market risk associated with share ownership.

Due to the nature of the Company’s business, there are certain risk factors associated with an investment in the securities offered hereunder which potential investors should carefully consider. See “Risk Factors”. The Subscriber should note in particular that the Rights, by their nature, represent an irrevocable agreement to purchase Common Shares at a Subscription Price that will not be determined until the applicable Trading Day in a Pricing Period in respect of which a Draw Down Notice relating thereto is sent to the Subscriber by the Company. See “Description of the Securities Distributed” for a description of the Rights and the terms and conditions thereto. The Subscriber should carefully review the terms and conditions of the Rights.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents, filed with each of the securities regulatory authorities in the Provinces of Québec and Ontario, are specifically incorporated by reference in, and form an integral part of this short form prospectus:

- (a) the Company's Renewal Annual Information Form dated December 15, 2000;
- (b) restated comparative audited consolidated financial statements of the Company for the fiscal year ended August 4, 2000, together with the notes thereto and the Auditor's Report thereon filed with the securities regulatory authorities on March 15, 2001;
- (c) restated Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company as at and for the fiscal year ended August 4, 2000 filed with the securities regulatory authorities on March 15, 2001;
- (d) interim unaudited consolidated financial statements of the Company for the nine-month period ended May 4, 2001;
- (e) Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company as at and for the nine-month period ended May 4, 2001;
- (f) the Company's Management Information Circular dated December 12, 2000, in connection with the Annual and Special Meeting of Shareholders held January 24, 2001, other than the sections entitled "Statement of Corporate Governance Practices", "Report on Executive Compensation" and "Performance Graph";
- (g) the material change report dated October 16, 2000 regarding the Company's agreement in principle to provide approximately 3,000 switching units to Last Mile Media Corporation; and
- (h) the material change report dated March 15, 2001 concerning the Company's offering of 3,335,000 units, each unit consisting of one common share and one half of a common share purchase warrant in the capital of the Company.

Information has been incorporated by reference in this prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Company at 5450 Côte-de-Liesse Road, Mount Royal, Québec, H4P 1A5, Tel: 1(800) 361-1965. For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from the Secretary of the Company at the above-mentioned address and telephone number.

Any documents of the types referred to in the preceding paragraphs (a) through (h), including interim financial statements and material change reports (excluding confidential material change reports, if any) filed by the Company with the securities regulatory authorities in Canada after the date of this short form prospectus and prior to the termination of the distribution of the Offering shall be deemed to be incorporated by reference into this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for purposes of this short form prospectus, to the extent that a statement contained herein, or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed in its unmodified or superseded form to constitute part of the short form prospectus;

rather, only such statement as so modified or superseded shall be considered to constitute part of this short form prospectus.

Unless otherwise indicated, all dollar amounts in this short form prospectus are in Canadian dollars.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This short form prospectus, and the documents incorporated herein by reference, contain forward-looking statements which reflect management's expectations regarding the Company's future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "anticipate", "believe", "expect", "intend" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk, uncertainties and assumptions. A number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and prospective investors should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this short form prospectus, and the documents incorporated herein by reference, are based upon what management believes to be reasonable assumptions, the Company cannot assure prospective purchasers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this short form prospectus, and the Company assumes no obligation to update or revise them to reflect new events or circumstances.

THE COMPANY

The Company designs and manufactures innovative remotely controlled physical layer cross-connect solutions for established and next-generation voice/data networks. The Company's ControlPoint™ Solutions address the physical layer switching, test access, line provisioning and maintenance needs of telecommunications service providers and corporate enterprises.

While the Company focuses primarily on the ControlPoint™ product line, the Company also has a product line of video connectivity products.

The registered and head office of the Company is located at 5450 Côte-de-Liesse Road, Mount Royal, Québec, H4P 1A5. NHC Europe S.A., a wholly-owned subsidiary of the Company incorporated under the laws of France, is located at 18, rue Kleber, 92400 Courbevoie, France. NHC Communications USA, Inc., a wholly-owned subsidiary of the Company incorporated under the laws of Delaware, is located at Battlefield Business Park, 10364 Battleview Parkway, Manassas, Virginia, 20109-2338, U.S.A.

The Company was established under the *Canada Business Corporations Act* by a Certificate of Amalgamation effective August 4, 1993.

RECENT DEVELOPMENTS

On October 5, 2000, the Company announced that it had reached an agreement in principle to provide up to approximately 3,000 remote switching units to Last Mile Media Corporation ("Last Mile"). As of the date of this short form prospectus, the Company has not received nor does it expect to receive any purchase orders from Last Mile.

On January 24, 2001, the Company's shareholders approved: (i) an amendment to the Company's stock option plan increasing the number of Common Shares reserved for issuance thereunder from 2,350,000 to 3,000,000; (ii) the grant to certain directors, officers and employees of the Company of options to acquire an aggregate of 616,500 Common Shares; and (iii) the ratification of a share compensation agreement dated May 10, 2000 under which the Company may issue up to 218,750 Common Shares to each of Sylvain Abitbol and Ralph Benatar upon the Company achieving certain corporate milestones on or before May 10, 2002. Messrs. Abitbol and Benatar are

respectively the President and Chief Executive Officer, and the Chief Operating Officer and Chief Financial Officer of the Company.

On March 5, 2001, the Company announced that due to internal constraints, NewSouth Communications Corp. (“NewSouth”), the competitive local exchange carrier with which it entered into a supply agreement in January 2000, decided to put a hold on its deployment strategy of using the Company’s ControlPoint™ solutions. No further orders under this agreement are expected. The amount that was owed to the Company for the ControlPoint™ units previously shipped to NewSouth under the January 2000 agreement was \$3.9 million, of which \$2.7 million was covered by insurance. On April 30, 2001, the Company announced that it had received insurance proceeds of \$2.7 million from the Export Development Corporation (“EDC”) on account of its claim for the outstanding receivable. Although negotiations are underway between NHC, the EDC and NewSouth for the remaining balance of \$1.2 million, the Company announced on June 4, 2001 that \$1.2 million was written down during the third quarter of fiscal 2001 against deferred revenue.

On March 12, 2001, the Company announced its decision, effective the second quarter of fiscal 2001, to refine its accounting policy on revenue recognition to be consistent with United States generally accepted accounting principles, as clarified by Staff Accounting Bulletin 101 (SAB101), “Revenue Recognition”, which the Company previously announced on March 5, 2001. As a result of this decision, on March 15, 2001, the Company released restated comparative audited consolidated financial statements for the fiscal year ended August 4, 2000 and restated interim unaudited consolidated financial statements for the three months ended November 3, 2000 and for the six months ended February 2, 2001. On June 4, 2001, the Company released interim unaudited consolidated financial statements for the nine months ended May 4, 2001 consistent with this policy.

On March 30, 2001, the Company completed an issuance of 3,335,000 units (the “Units”), each Unit consisting of one Common Share and one half of a Common Share purchase warrant (a “March Warrant”), at a price of \$3.00 per Unit, for aggregate gross proceeds to the Company of \$10,005,000. Each whole March Warrant enables the holder thereof to purchase one Common Share at a price of \$4.00 at any time on or before March 29, 2003. In connection with the Unit offering, the Company granted to the underwriter of the offering a non-assignable after-market support option (the “Option”) to purchase a maximum of 333,500 Units at a price of \$3.00 per Unit at any time on or before March 29, 2003.

The Company is currently in the process of renegotiating the terms of a blanket purchase order (the “Purchase Order”) under which it may be required to purchase approximately \$21 million worth of robotic matrix from Oki Electric Industry Company, Ltd. (“Oki”). The delivery dates related to this Purchase Order were scheduled to occur on or before June 30, 2001. As of the date hereof, the Company had not made any purchases under the Purchase Order. See “Risk Factors”.

USE OF PROCEEDS

The estimated maximum net proceeds to the Company from the sale of the Common Shares upon exercise of the Rights (assuming all of the Rights are exercised), after deducting certain expenses of the Subscriber reimbursed by the Company and the estimated offering expenses, will be approximately \$16,850,000. Not all of the Rights will necessarily be exercised, and as the purchase price for the Common Shares is determined with reference to the trading price of the Company’s Common Shares from time to time, the maximum net proceeds may not be fully realized. For the purposes of illustration, if the VWAP on a given Trading Day is less than the Threshold Price or Adjusted Threshold Price (as hereinafter defined), then the Draw Down Amount for the relevant Pricing Period will be reduced by 1/(the number of Trading Days in the subject Pricing Period). In addition, because the Term is 30 months from the Initial Closing and the exercise of the Rights is limited as to frequency and amount over such Term, the full amount of the maximum net proceeds will not be immediately available to the Company. Furthermore, there are no assurances that the Company will enter into the Subscription Agreement with the Subscriber or that the Subscriber will have sufficient funds to exercise the Rights as will be required under the Subscription Agreement. The Company intends to use the net proceeds of this Offering for working capital and for corporate development purposes.

DESCRIPTION OF SHARE CAPITAL

The authorized capital of the Company currently consists of an unlimited number of Common Shares and an unlimited number of preferred shares (the "Preferred Shares"). As of the date of this short form prospectus, there are issued and outstanding 20,892,543 Common Shares, no Preferred Shares, options to purchase 326,000 Common Shares issuable to Thames Valley Ventures, options to purchase 333,500 Common Shares pursuant to the Option, options to purchase a further 1,525,616 Common Shares under the Company's stock option plan and 437,500 Common Shares issuable to two senior executives upon the achievement of certain corporate milestones. There are also outstanding compensation warrants to purchase an aggregate of 93,000 Common Shares, which warrants expire on March 12, 2002, and March Warrants to purchase an aggregate of 1,834,250 Common Shares, which warrants expire on March 29, 2003. All of the outstanding Common Shares are fully paid and non-assessable. Each Common Share entitles the holder to dividends if, as and when declared by the directors, to one vote at all meetings of holders of Common Shares and to participate rateably in any distribution of the assets of the Company upon liquidation, dissolution or winding up subject to the prior rights of holders of shares ranking in priority to the Common Shares.

CONSOLIDATED CAPITALIZATION

Since August 4, 2000, there have been no material changes in the share and loan capital of the Company on a consolidated basis, other than as follows:

- (a) On March 30, 2001, the Company completed an issuance of 3,335,000 Units, each Unit consisting of one Common Share and one half of a March Warrant, at a price of \$3.00 per Unit, for aggregate gross proceeds to the Company of \$10,005,000. Each whole March Warrant enables the holder thereof to purchase one Common Share at a price of \$4.00 at any time on or before March 29, 2003. In connection with the Unit offering, the Company granted to the underwriter of the offering the Option to purchase a maximum of 333,500 Units at a price of \$3.00 per Unit at any time on or before March 29, 2003. As at July 25, 2001, none of the March Warrants or the Option had been exercised.

PLAN OF DISTRIBUTION

The Rights and the Warrants are to be distributed by the Company to the Subscriber pursuant to the Subscription Agreement, details of which are set out under the heading "Description of the Securities Distributed". **No underwriter has been involved in the distribution, and no underwriter has been involved in the preparation of this short form prospectus or performed any review of the contents of this short form prospectus.**

Neither the offer or sale of the Rights nor the Warrants, nor the sale of any of the Common Shares or the Warrant Shares issuable upon the exercise of the Rights and the Warrants, have been or will be registered under the United States *Securities Act of 1933*, as amended (the "1933 Act") or any securities or "blue sky" laws of any of the several states in the United States. Accordingly, none of the Rights or the Warrants, or the Common Shares or the Warrant Shares issuable upon the exercise thereof (or any right thereto or interest therein), may be offered, sold or otherwise transferred or disposed of within the United States, except pursuant to a registration statement declared effective by the United States Securities and Exchange Commission under the 1933 Act or pursuant to an available exemption from such registration.

There is no market through which the Rights or the Warrants may be sold.

The Company has agreed to pay to the Subscriber an aggregate non-accountable expense allowance of \$150,000, of which \$37,500 has been paid and of which \$75,000 and \$37,500 will be paid on the Initial Closing and on the first Settlement Date, respectively, as reimbursement for the fees and expenses incurred by the Subscriber in connection with the purchase of the Rights and the Warrants. Of such payments, a total of \$75,000 will be reclaimed by the Company through a reduction in the Discount by 5% until the product of 5% multiplied by the aggregate Subscription Price for Settlement Shares issued to the Subscriber equals \$75,000.

DESCRIPTION OF THE SECURITIES DISTRIBUTED

Offering

The following is a summary of the material attributes and characteristics of the Rights, Warrants, the Subscription Agreement and the Subscription Commitment generally. This summary does not purport to be complete, and is subject to and qualified in its entirety by the terms of the Subscription Agreement.

This short form prospectus qualifies the distribution of the Rights to subscribe for: (i) up to 10,000,000 Common Shares, and (ii) 300,000 Warrants, each Warrant being exercisable for one Warrant Share at a price equal to 125% of the average of the closing bid prices of the Common Shares on the TSE for the 15 Trading Days prior to the Initial Closing, at any time on or prior to the date which is three years from the date of the Initial Closing. The Rights and the Warrants will be issued to the Subscriber pursuant to the Subscription Agreement to be entered into between the Company and the Subscriber. Any unexercised Warrants will be automatically cancelled immediately upon the occurrence of an event of default under the Subscription Agreement, which shall include a breach by the Subscriber of any obligation, covenant, representation or warranty on its part to be performed thereunder.

The Subscription Commitment is 10,000,000 Common Shares, subject to adjustment in certain circumstances, for aggregate gross proceeds to the Company not exceeding \$18,000,000. The Term will be 30 months from the third Trading Day following the Receipt Date.

During the Term, the Company may from time to time require that the Subscriber exercise the Rights by providing a Draw Down Notice to the Subscriber and to the TSE and by issuing the Press Release announcing the Draw Down. The Term will be divided into Pricing Periods. Each Pricing Period will consist of the number of Trading Days during which the Draw Down will occur and will consist of a minimum of two and a maximum of 20 consecutive Trading Days. Each Pricing Period will be divided into a maximum of two Settlement Periods as follows: (i) if a Pricing Period consists of less than 12 Trading Days, the Settlement Period will include the same number of Trading Days as the Pricing Period; (ii) if the Pricing Period is equal to or greater than 12 Trading Days and the number of Trading Days is an even number, the Pricing Period will consist of two Settlement Periods, each consisting of equal periods of Trading Days; or (iii) if the Pricing Period is equal to or greater than 12 Trading Days and the number of Trading Days is an odd number, the Pricing Period will consist of two Settlement Periods, the first of which shall consist of one more Trading Day than the second such period. The exercise of the Rights and the purchase of the Common Shares will be settled on or prior to the second Trading Day following the end of each Settlement Period (each, a "Settlement Date"). The Company may not deliver a new Draw Down Notice until three Trading Days following the final Settlement Date for the preceding Pricing Period. Only one Draw Down is permitted in each Pricing Period.

The Company will specify in the Draw Down Notice the Draw Down Amount, the Threshold Price for the applicable Pricing Period, if any, and the length and commencement date of the Pricing Period. The Subscription Price to be paid by the Subscriber on any particular Trading Day in a Settlement Period shall be equal to the VWAP per Common Share on the TSE for that Trading Day in the Pricing Period as reported by Bloomberg Financial LP using the VAP function, and discounted by 13%. The Discount as to any Pricing Period will decrease by 0.50% for every \$22,500,000 of Market Cap of the Company above \$60,000,000 (and provided that such Market Cap, after same is achieved, is maintained for 20 consecutive Trading Days prior to the applicable Pricing Period) to a minimum Discount of 10.5%. The number of Settlement Shares will be equal to the sum of the quotients (for each Trading Day within the Settlement Period) of (x) 1/(the number of Trading Days in the subject Pricing Period) multiplied by the Draw Down Amount, and (y) the Subscription Price on each Trading Day within the Settlement Period, subject to certain adjustments. If the VWAP on a given Trading Day is less than the Threshold Price or Adjusted Threshold Price (as hereinafter defined), then the amount of the Draw Down for the relevant Pricing Period will be reduced by 1/(the number of Trading Days in the subject Pricing Period). If trading in the Common Shares on the TSE is suspended for more than three hours on any Trading Day in a Pricing Period, the Draw Down for the relevant Pricing Period may be reduced at the Subscriber's option by 1/(the number of Trading Days in the subject Pricing Period) multiplied by the number of such Trading Days.

The minimum Draw Down Amount (the "Minimum Draw Down Amount") in respect of any Draw Down shall be \$50,000, and the maximum Draw Down Amount (the "Maximum Draw Down Amount") shall be calculated based on the following formula: $10\% * (\text{the weighted average price of the Common Shares for the 60 days})$

immediately prior to the date of the Draw Down Notice * the total trading volume in respect of such Common Shares in such 60 day period) multiplied by a fraction equal to the number of Trading Days in the applicable Pricing Period divided by 20. In the event that the Maximum Draw Down Amount is less than the Minimum Draw Down Amount, the Company will be precluded from issuing a Draw Down Notice at such time. Notwithstanding the foregoing, the Company may: (i) request a Draw Down Amount that exceeds the Maximum Draw Down Amount, and/or (ii) increase that portion of the total Draw Down Amount allocated to the remainder of the Trading Days in a Pricing Period by up to 50% by delivering to the Subscriber and the TSE a notice (the "Adjustment Notice") stating the amount by which the Company wishes to increase the remaining portion of the Draw Down Amount (the "Adjusted Draw Down Amount") during such Pricing Period and by issuing a press release announcing the Adjusted Draw Down Amount, provided that the Company stipulates in the Draw Down Notice or the Adjustment Notice, as the case may be, a Threshold Price or Adjusted Threshold Price (as hereinafter defined) no lower than 80% of the average VWAP for the five Trading Days immediately preceding the date the Draw Down Notice or the Adjustment Notice, as the case may be, is delivered. An Adjusted Draw Down Amount shall be applied, *pro rata*, to the remaining Trading Days in the subject Pricing Period.

The Company cannot require the exercise of that number of Rights which would cause the Subscriber to hold more than 9.9% of the Common Shares then outstanding (and, for the purposes of such calculation, the Subscriber shall be deemed to own the Common Shares proposed to be issued and any Warrant Shares which remain subject to issuance). Unless permitted by the TSE, and, if required, approved by a majority of holders of Common Shares, in no circumstances shall the Company be permitted to issue or make subject to issuance any (i) Common Shares issued or made issuable as a result of a Draw Down Notice having been delivered, (ii) Warrant Shares, or (iii) Common Shares issued or made issuable pursuant to a private placement ("Private Placement Shares"), if as a result of such issuance or proposed issuance the aggregate number of Common Shares, Warrant Shares and Private Placement Shares issued or made issuable during any six month period exceeds 25% of the Common Shares outstanding prior to giving effect to all issuances and proposed issuances made during such period.

The Company may, in its sole discretion, elect to set (if not previously set) or change the Threshold Price during a Pricing Period that shall apply to the remainder of the Trading Days in such Pricing Period by delivering to the Subscriber a Threshold Price Adjustment Notice and by issuing a press release stating the Adjusted Threshold Price. Notwithstanding anything to the contrary herein, in the event the Company has issued an Adjustment Notice in a Pricing Period, the Company shall be precluded from further reducing a previously set Threshold Price or Adjusted Threshold Price for the remainder of such Pricing Period.

It is expected that definitive certificates representing the Rights and the Warrants will be available for delivery at the Initial Closing which is expected to occur on the third Trading Day following the Receipt Date.

The Subscriber has advised the Company and will covenant in the Subscription Agreement that neither the Subscriber nor its affiliates will, during the Term, hold a short position of the Common Shares. For the purposes of determining the net position of the Common Shares held by the Subscriber and its affiliates, on each Trading Day during a Settlement Period, the Subscriber will be deemed to own the Common Shares which the Subscriber is required to purchase for that day pursuant to the Draw Down Notice. The Subscriber has further advised the Company and will covenant in the Subscription Agreement that: (a) all or a significant portion of the Common Shares to be acquired by the Subscriber may be held for a significant period of time; (b) the Common Shares will not be held by the Subscriber in inventory; and (c) the Subscriber will be purchasing as principal not with a view to immediate resale and will assume all market risk associated with share ownership.

The Company shall, during the Term, be prohibited from raising equity capital through equity line or other offerings substantially similar to the Offering without the consent of the Subscriber.

The Subscriber will be permitted to terminate the Subscription Agreement upon the occurrence of certain events, including (i) a cease trade or similar order having been made by a regulatory authority with respect to the Common Shares, (ii) the Common Shares having been delisted from the TSE, and (iii) the Company having filed for protection from creditors under any applicable law.

In addition to the rights of the Subscriber to terminate the Subscription Agreement, the obligation of the Subscriber to accept a Draw Down request, exercise the Rights to the extent of such Draw Down request and to acquire and pay for the Common Shares issuable pursuant thereto will be subject to the satisfaction of a number of

conditions, including, but not limited to: (i) confirmation by the Company that each of the representations and warranties contained in the Subscription Agreement is true and correct as if made as of the applicable Settlement Date, (ii) trading in the Common Shares not having been suspended by regulatory authorities, and (iii) all applicable regulatory approvals having been obtained.

As soon as practicable after the Draw Down Notice has been provided to the Subscriber and at least one Trading Day prior to the commencement date of the Pricing Period, the Company will issue the Press Release announcing the issuance of such notice, the Pricing Period, the Draw Down Amount, the anticipated Settlement Dates, the pricing formula, and that the Draw Down is being made pursuant to this short form prospectus.

The Subscription Agreement will also contain provisions customary for agreements of its sort, including the following provisions:

- (a) the Company will agree to maintain its status as a reporting issuer in good standing and to use commercially reasonable efforts to ensure that its Common Shares remain listed on the TSE during the Term and for a period of at least six months thereafter; and
- (b) the Company will agree to obtain all necessary approvals and consents in connection with the Offering, including all necessary regulatory approvals.

The Subscription Agreement will provide that in the event that this short form prospectus contains a misrepresentation, as such term is defined under applicable securities laws in the provinces of Québec and Ontario (the “Securities Laws”), the Subscriber shall be deemed to have relied on such misrepresentation if it was a misrepresentation as at the date hereof and shall have a contractual right of action for damages or rescission in respect of the Subscriber’s purchase of Common Shares at each Settlement Date against the Company, every director of the Company as at the date hereof and PricewaterhouseCoopers LLP, on the same terms as the rights of action set forth in Section 130 of the *Securities Act* (Ontario) or the corresponding provisions of other applicable Securities Laws. If the Subscriber elects to exercise a right of rescission against the Company, the Subscriber shall have no right of action for damages against the Company or any of the other persons named above as contemplated in Section 130 of the *Securities Act* (Ontario) or the corresponding provisions of other applicable Securities Laws. In connection with any action for damages or rescission, as applicable, the Company, every director of the Company as at the date hereof and PricewaterhouseCoopers LLP, may avail itself or himself of the statutory defences and such other defences and limitations set forth in the Securities Laws. No action shall be commenced to enforce such contractual rights of action after the limitation dates set forth in the Securities Laws. Prior to the Initial Closing, every director of the Corporation as at the date hereof and PricewaterhouseCoopers LLP will provide the Subscriber with an acknowledgement to this effect.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of the Company are PricewaterhouseCoopers LLP, 1250 Boulevard René-Lévesque West, Suite 3500, Montréal, Québec, H3B 2G4.

The transfer agent and registrar for the Common Shares of the Company is Computershare Trust Company of Canada at its principal offices in the City of Montréal, Québec.

RISK FACTORS

Investing in the securities of the Company offered hereunder involves a high degree of risk. Reference is made to the section captioned “Risk Factors” at pages 22 to 30 of the Company’s Renewal Annual Information Form dated December 15, 2000, which is incorporated herein by reference. In addition, the Subscriber should note in particular the following risk factors:

Nature of Rights

The Rights, by their nature, represent an irrevocable agreement to purchase Common Shares at a Subscription Price that will not be determined until the applicable Trading Day in a Pricing Period in respect of which a Draw

Down Notice relating thereto is sent to the Subscriber by the Company. Consequently, any Subscription Price may be subject to wide fluctuation.

Dependence on a Small Number of Customers

The Company's revenues to date have been recognized from a small number of customers. Purchases by large customers and, therefore, the Company's revenues, may vary significantly from quarter to quarter. The loss of any one of the Company's major customers or a reduction or delay in purchases of the Company's products from any one of these customers would cause revenues to decline and could cause the Company's share price to decline if revenues are below expectations.

Management expects that the majority of revenues will depend on sales of the ControlPoint™ solutions to a small number of customers, specifically larger competitive local exchange carriers and incumbent local exchange carriers. In addition, a small number of customers may account for a large amount of the Company's revenues in any particular quarter, and these customers may change from quarter to quarter.

There are a limited number of local exchange carriers that are potential customers, and this number may not increase in the future. Accordingly, future revenues will depend significantly upon the timing and size of future purchase orders from the Company's largest customers.

In addition, because the Company is dependent on a limited number of customers, management expects the Company will experience volatility relating to the budgeting cycles of the Company's customers and the telecommunications industry in general. Adverse changes in the Company's revenues or operating results as a result of these budgeting cycles or any other reduction in capital expenditures by the Company's large customers could substantially reduce the trading price of the Company's Common Shares.

Key Personnel

The progress and success of the Company to date has been to a significant extent dependent on the skill of its executive officers, the loss of one or more of whom could have a material adverse effect on the Company.

Sales Cycle of ControlPoint™ Products

Because the sales cycle for the Company's ControlPoint™ solutions is long, the Company's revenues in a given quarter may not meet market expectations if the Company experiences delays in customer orders. In addition, the Company may have incurred substantial sales and marketing expenses during a given quarter, without offsetting revenues. As a result, delays resulting from this lengthy sales cycle could reduce revenues and decrease profits, or result in a loss. Specifically, the Company's customers' network planning and purchase decisions normally involve a significant commitment of resources and a lengthy evaluation and product qualification process. The decision to purchase the ControlPoint™ solutions is made as part of this network planning process, and the Company's sales cycle can be as long as one year or more. Throughout the sales cycle, the Company often spends considerable time and resources educating and providing information to prospective customers regarding the use and benefits of its products. After making the decision to purchase the Company's ControlPoint™ solutions, customers may delay or cancel the deployment of such products. Timing of deployment is unpredictable, can vary widely and depends on a number of factors, many of which are beyond the Company's control, including:

- customers' current network deployment procedures;
- customers' level of expertise;
- status and performance of customers' other network equipment;
- degree of software development and integration necessary for the customer to deploy the ControlPoint™ solutions; and
- financial and administrative resources of the customer.

Limited Sources of Supply

The robotic matrix, a key component used in the manufacture of the Company's ControlPoint™ solutions, is currently sourced from Oki, the Company's sole supplier of the robotic matrix for which alternative sources are not currently qualified and may not be available. Financial or other difficulties faced by this supplier or significant changes in market demand for this component could limit the availability of this component. Any interruption or delay in the supply of this component could:

- adversely affect the Company's ability to meet scheduled product deliveries to its customers; and
- cause the loss of sales to existing and future customers.

The purchase of components for products other than those used in the above-mentioned matrix is subject to risks of price increases and potential quality assurance problems.

All of these components are critical to the production of the Company's products, and competition exists with other manufacturers for these key components. The Company might not be able to qualify or identify alternative suppliers in a timely fashion, or at all. Consolidations involving suppliers could further reduce the number of alternatives available and affect the cost of components. An increase in the cost of components could make products less competitive and result in lower margins.

Under the Purchase Order, the Company may be required to buy approximately \$21 million worth of the robotic matrix from Oki. The Company is currently negotiating to amend the delivery dates related to this Purchase Order, which were scheduled to occur on or before June 30, 2001. As of the date hereof, the Company had not made any purchases under the Purchase Order. Pursuant to the Purchase Order, payment for any products received under the Purchase Order must be made within 60 days of each delivery date. There can be no assurance that the Company will have sufficient funds to satisfy its commitments under the Purchase Order or that the Company will be able to successfully renegotiate the terms of the Purchase Order. The failure by the Company to satisfy its commitments under the Purchase Order or to successfully renegotiate the terms thereof would have a material adverse effect on the Company's business and results of operations.

Rapid Technological Change

The markets for high-speed telecommunications products are characterized by rapid technological developments, frequent enhancements to existing products and new product introductions, changes in customer requirements and evolving industry standards. Intense competition among numerous high-speed access technologies has further driven innovation and increasingly complex product requirements. The Company may be unable to improve the performance and features of its products as needed to respond to these developments. The introduction or market acceptance of products incorporating superior technologies or the emergence of alternative technologies or new industry standards could render existing or potential future products less economical, obsolete and unmarketable. For example, if semiconductor, robotic or other technologies become effective alternatives for the Company's product architecture, its products may become obsolete.

Intellectual Property

If the Company fails to adequately protect its proprietary rights, competitors could offer similar products that rely on technologies developed by the Company, thereby potentially harming the Company's competitive position and decreasing revenues. Existing and future patent applications, if any, may not be approved, any issued patents may not protect the Company's intellectual property and any issued patents could be challenged by third parties. Furthermore, other parties may independently develop similar or competing technology or design around any patents that may be issued to the Company. Attempts may be made to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. The Company attempts to protect its intellectual property rights by limiting access to the distribution of its software, documentation and other proprietary information and by relying on a combination of copyright, trademark and trade secret laws. In addition, the Company enters into confidentiality agreements with its employees and certain customers, vendors and strategic partners. These steps may fail to prevent the misappropriation of the Company's intellectual property.

PURCHASER'S STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment to the prospectus. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

CERTIFICATE OF THE COMPANY

Dated: July 26, 2001

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of the Province of Ontario. For the purpose of the Province of Québec, this simplified prospectus, as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

(Signed) SYLVAIN ABITBOL
President and Chief Executive Officer

(Signed) RALPH BENATAR
Chief Financial Officer and Chief Operating Officer

On behalf of the Board of Directors

(Signed) CLAUDE FRENETTE
Director

(Signed) PIERRE DESCHAMPS
Director