

*This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. 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, sold or delivered, directly or indirectly, in the United States of America, its territories or possessions. See "Plan of Distribution".*

New Issue

May 31, 2000



## **GDI GLOBAL DATA INC.**

**5,324,000 Common Shares**  
**Issuable Upon Exercise of 5,324,000 Special Warrants**  
**and**  
**3,559,998 Common Shares**  
**Issuable Upon Exercise of \$545,333 Aggregate Principal**  
**Amount of 15% Convertible Subordinated Debentures Due March 1, 2001**

We are hereby qualifying for distribution 5,324,000 of our common shares ("Common Shares"), which are issuable without additional consideration upon the exercise or deemed exercise of 950,000 Class A special warrants ("Class A Special Warrants"), 3,090,240 Class B special warrants ("Class B Special Warrants") and 1,283,760 Class C special warrants ("Class C Special Warrants") previously issued by us on January 26, 2000 and February 24, 2000. The Class A Special Warrants, Class B Special Warrants and Class C Special Warrants (collectively, the "Special Warrants") were sold at a price of \$1.00 per Special Warrant pursuant to an agency agreement between our Company and Octagon Capital Corporation (the "Agent") dated January 26, 2000 (the "Agency Agreement"). Each Class A Special Warrant entitles the holder thereof to acquire one Common Share, at no additional cost, at any time prior to 5:00 p.m. (Toronto time) on the earlier of: (i) the date that is four business days after the date on which we obtain a receipt for a final prospectus qualifying the issuance of the Common Shares issuable on the exercise or deemed exercise of the Class A Special Warrants from the Ontario Securities Commission (the "Class A Qualification Date"); or (ii) March 1, 2001 (the "Expiry Date"). Each Class B Special Warrant and each Class C Special Warrant entitles the holder thereof to acquire one Common Share, at no additional cost, at any time prior to 5:00 p.m. (Toronto time) on the earlier of: (i) the date that is four business days after the date (the "Class B/C Qualification Date") on which we obtain a receipt for a final prospectus qualifying the issuance of the Common Shares issuable on the exercise or deemed exercise of the Class B Special Warrants and the Class C Special Warrants from the last of the securities regulatory authorities in the Provinces of British Columbia, Alberta and Ontario (the "Class B/C Qualifying Jurisdictions"); or (ii) the Expiry Date.

Any Special Warrants not exercised prior to 5:00 p.m. (Toronto time) on the Expiry Date will be deemed to have been exercised, as at such time, without any further action on the part of the holder. See "Plan of Distribution".

If the Class A Qualification Date or the Class B/C Qualification Date has not occurred prior to 5:00 p.m. (Toronto time) on May 31, 2000 (the "Qualification Deadline"), holders of Class A Special Warrants or Class B

Special Warrants and Class C Special Warrants, respectively, will be entitled to receive, upon exercise or deemed exercise of each Class A Special Warrant, Class B Special Warrant or Class C Special Warrant, as the case may be, 1.1 Common Shares in lieu of the one Common Share otherwise receivable without payment of additional consideration (the "Penalty"). See "Plan of Distribution - Special Warrants".

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**Price \$1.00 per Special Warrant**

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	<b>Price to the Public<sup>(1)</sup></b>	<b>Agent's Fee<sup>(2)(4)</sup></b>	<b>Net Proceeds to the Company<sup>(3)</sup></b>
Per Special Warrant	\$1.00	\$0.08	\$0.92
Total Offering	\$5,000,000	\$76,000	\$4,924,000

**Notes:**

- <sup>(1)</sup> We established the sale price of the Special Warrants by negotiation with the Agent.
- <sup>(2)</sup> The Agent's commission of \$400,000 was 8% of the gross proceeds from the distribution of the Special Warrants. We paid the Agent's aggregate commission in respect of the sale of the Class A Special Warrants of \$76,000 in cash and we satisfied the Agent's aggregate commission of \$324,000 in respect of the sale of the Class B Special Warrants and Class C Special Warrants by the issuance of 228,919 Class B Special Warrants and 95,081 Class C Special Warrants. No commission or fee is payable to the Agent in connection with the distribution of the Common Shares upon the exercise or deemed exercise of the Special Warrants or upon the conversion of the Convertible Debentures (as defined herein). Under no circumstances will we issue an additional one-tenth of a Common Share to the Agent with regard to the Special Warrants issued to the Agent in satisfaction of its commission in the event the Penalty is applicable. See "Plan of Distribution".
- <sup>(3)</sup> Before deducting the expenses associated with the distribution of the Special Warrants and this prospectus, which are estimated at \$300,000 and include legal and audit expenses.
- <sup>(4)</sup> We have granted to the Agent broker warrants to acquire compensation options (the "Compensation Options"). The Compensation Options entitle the holder thereof to purchase an aggregate number of Common Shares equal to 10% of the total number of Special Warrants sold (being 500,000 Common Shares) at a price of \$1.00 per share on or before the date which is twelve months from the Class B/C Qualification Date. This prospectus qualifies the distribution of one-half of the Compensation Options issuable upon exercise of such broker warrants and the Common Shares issuable upon exercise of the Compensation Options. See "Plan of Distribution".

We issued and distributed our 15% convertible subordinated debentures (the "Convertible Debentures") on August 31, 1999 in an aggregate principal amount of \$545,333. Interest on the Convertible Debentures at an annual rate of 15% per \$1,000 principal amount of Convertible Debentures is payable quarterly in cash or in kind. An aggregate principal amount of \$500,000 of the Convertible Debentures are convertible at the option of the holders thereof into Common Shares on or prior to March 1, 2001 at a conversion price of \$0.15 per Common Share, being a rate of 6,667 Common Shares per \$1,000 principal amount of Convertible Debentures, and an aggregate of \$45,333 aggregate principal amount of the Convertible Debentures are convertible at the option of the holders into Common Shares on or prior to March 1, 2001 at a conversion price of \$0.20 per Common Share, being a rate of 5,000 Common Shares per \$1,000 principal amount of Convertible Debentures, subject to adjustment in certain circumstances. This prospectus qualifies the distribution of 3,559,998 Common Shares issuable upon conversion of \$545,333 aggregate principal amount of Convertible Debentures.

**An investment in the Common Shares involves a high degree of risk, should be considered highly speculative and is best suited for investors who can afford the loss of their entire investment in our Common Shares. The issue price of \$1.00 per Common Share issuable upon exercise or deemed exercise of the Special Warrants exceeds the net tangible book value per Common Share as at March 31, 2000, after giving effect to the issue of 5,324,000 Common Shares to be issued upon exercise or deemed exercise of the Special Warrants but without giving effect to the conversion of the Convertible Debentures, by \$0.84 or 84%. The issue prices of \$0.15 and \$0.20 per Common Share, respectively, issuable upon the conversion of the Convertible Debentures, exceeds the net tangible book value per Common Share as at March 31, 2000, before giving effect to the 5,324,000 Common Shares to be issued upon exercise or deemed exercise of the Special Warrants, by \$0.13 or 87%. See "Risk Factors", "Dilution" and "Financial Statements".**

Our Common Shares are listed for trading on The Toronto Stock Exchange (the "TSE") under the trading symbol "GI". On January 25, 2000, the last trading day prior to the date on which the price per Special Warrant was determined and the issuance of the Class A Special Warrants, the closing price of our Common Shares on the TSE (as reported by such exchange) was \$1.50. On February 23, 2000, the last trading day prior to the issuance of the Class B Special Warrants and Class C Special Warrants, the closing price of our Common Shares on the TSE (as reported by such exchange) was \$2.40. On May 30, 2000, the closing price of our Common Shares on the TSE was \$0.91. See "Price Range and Trading Volume of the Common Shares".

Definitive certificates for Common Shares issuable upon the exercise or deemed exercise of the Special Warrants and our Common Shares issuable upon exercise of the Convertible Debentures will be available for delivery upon the exercise or deemed exercise of the Special Warrants and the conversion of the Convertible Debentures, respectively.

In this prospectus, the "Company", "GDI", "we", "us" and "our" refer to GDI Global Data Inc., a corporation amalgamated under the laws of the province of Ontario, and/or its subsidiaries.

Certain legal matters relating to the securities to be distributed pursuant to this prospectus will be passed upon by McCarthy Tétrault, Toronto on behalf of the Company and by Weir & Foulds, Toronto on behalf of the Agent only with regard to the Special Warrants and related securities, and not the Convertible Debentures and related securities.

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## SUMMARY

*The following is a summary only and is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this prospectus. In addition to this summary, investors are urged to read carefully the entire prospectus, especially the discussion of the risks of investing in our Common Shares under "Risk Factors", before deciding whether to invest in our Common Shares. All dollar references in this prospectus are in Canadian dollars unless otherwise specifically indicated. This prospectus includes our product names and trademarks and those of other organizations. For the definitions of certain technical terms used in this prospectus, see "Glossary".*

### The Offerings

**Special Warrants:** We issued a total of 5,324,000 Special Warrants on January 26, 2000 and February 24, 2000 pursuant to prospectus exemptions under applicable securities legislation at a price of \$1.00 per Special Warrant, for aggregate gross proceeds of \$5,000,000. Since the dates of distribution, no Special Warrants have been exercised. See "Plan of Distribution - Special Warrants".

**Convertible Debentures:** We issued and distributed Convertible Debentures in an aggregate principal amount of \$545,333 on August 31, 1999. Interest on the Convertible Debentures at an annual rate of 15% per \$1,000 principal amount of Convertible Debentures is payable quarterly in cash or in kind.

**Exercise Details:** *Special Warrants.* Each Class A Special Warrant entitles the holder thereof to acquire one Common Share, at no additional cost, at any time prior to 5:00 p.m. (Toronto time) on the earlier of: (i) the Class A Qualification Date; or (ii) the Expiry Date. Each Class B Special Warrant and each Class C Special Warrant entitles the holder thereof to acquire one Common Share, at no additional cost, at any time prior to 5:00 p.m. (Toronto time) on the earlier of: (i) the Class B/C Qualification Date; or (ii) the Expiry Date. Any Special Warrants not exercised prior to 5:00 p.m. (Toronto time) on the Expiry Date will be deemed to have been exercised, as at such time, without any further action on the part of the holder. If the Class A Qualification Date or the Class B/C Qualification Date has not occurred prior to the Qualification Deadline, holders of Class A Special Warrants or Class B Special Warrants and Class C Special Warrants, respectively, will be entitled to receive upon exercise or deemed exercise of each Class A Special Warrant, Class B Special Warrant or Class C Special Warrant, as the case may be, 1.1 Common Shares in lieu of the one Common Share otherwise receivable without payment of additional consideration. See "Plan of Distribution - Special Warrants".

*Convertible Debentures.* An aggregate principal amount of \$500,000 of the Convertible Debentures are convertible at the option of the holders into Common Shares by March 1, 2001 at a conversion price of \$0.15 per Common Share, being a rate of 6,667 Common Shares per \$1,000 principal amount of Convertible Debentures, and an aggregate principal amount of \$45,333 of the Convertible Debentures are convertible at the option of the holders into Common Shares by March 1, 2001 at a conversion price of \$0.20 per Common Share, being a rate of 5,000 Common Shares per \$1,000 principal amount of Convertible Debenture, subject to adjustment in certain circumstances. See "Plan of Distribution - Convertible Debentures".

### Use of Proceeds

The estimated net proceeds from the sale of Special Warrants after deducting the expenses of this offering, estimated to be \$300,000, which includes legal and audit expenses, and after deducting the Agent's fee paid in cash of \$76,000 in respect of the Special Warrants, will be \$4,624,000. We intend to use the net proceeds from the sale of the Special Warrants as follows:

To fund the cash portion of the purchase price payable in connection with the acquisition of StarComm Products, Inc.	\$ 514,734
Product development	\$ 2,000,000
Repayment of secured notes	\$ 457,082
Working capital requirements	<u>\$ 1,652,184</u>
Net proceeds	<u>\$ 4,624,000</u>

We used \$514,734 of the net proceeds from the sale of the Special Warrants to fund the cash portion of the purchase price payable in connection with the acquisition of StarComm Products, Inc. on March 15, 2000 and \$457,082 to repay our indebtedness under secured notes owing to Montcap Financial Corporation.

## GDI Global Data Inc.

We provide remote communications solutions using wireless and wireline technology for commercial and industrial markets. We operate our business as units allowing for greater market focus and customer awareness. Our business units are noted below:

**Global Data Wireless.** Based in Signal Hill, CA with regional offices in Toronto, ON, Raleigh, NC and Albuquerque, NM, Global Data Wireless designs, develops, markets and supports products and services for automated meter reading and remote telemetry applications for the electric power industry.

**StarComm Products.** Based in Signal Hill, CA, StarComm Products is a leading developer of industrial rated wireline and wireless modems, Digital Subscriber Line, or DSL, devices and custom communications modules for industrial automation, transportation, security and card access and telecommunications markets. StarComm Products' development efforts are focused on deploying circuit switched and packet data services in a wide variety of commercial and industrial applications. StarComm Products' DSL and wireless products enable customers to transition their existing networks to a new generation of communications technology offering higher performance and reliability at reduced costs.

**Granite Communications.** Based in Amherst, NH, Granite Communications is a leading developer of application-specific wireless computing products for commercial markets. Specifically, Granite Communications provides custom wireless solutions for industry-leading Original Equipment Manufacturers and Systems Integrators.

### Selected Financial Information

The following selected financial information provided below has been derived from, and should be read in conjunction with, our consolidated financial statements contained elsewhere in this prospectus.

	Year ended June 30,				
	Nine month period ended March 31, 2000  (Unaudited)	Nine month period ended March 31, 1999  (Unaudited)	1999	1998	1997
<b>Income Statement Data</b>					
Revenue	\$ 4,989,223	\$ 5,308,632	\$ 7,175,432	\$ 10,076,308	\$ 9,467,928
Expenses	5,845,255	9,246,076	11,952,822	12,454,380	11,604,795
Net loss	<u>\$ (856,032)</u>	<u>\$ (3,937,444)</u>	<u>\$ (4,777,390)</u>	<u>\$ (2,378,072)</u>	<u>\$ 2,136,867</u>
Net loss per common share	<u>\$ (0.05)</u>	<u>\$ (0.28)</u>	<u>\$ (0.34)</u>	<u>\$ (0.17)</u>	<u>\$ (0.15)</u>
Weighted average number of common shares outstanding	<u>15,882,910</u>	<u>14,239,998</u>	<u>14,239,998</u>	<u>14,239,998</u>	<u>14,239,998</u>

	As at June 30,			
	As at March 31, 2000 (Unaudited)	1999	1998	1997
<b>Balance Sheet Data</b>				
Cash and short-term investments	\$ 1,703,130	\$ 165,817	\$ 711,830	\$ 230,035
Working capital/(deficiency)	4,644,490	(147,237)	2,364,574	(1,079,028)
Total assets	8,410,461	2,144,630	7,498,203	12,003,842
Shareholders' Equity	6,221,860	96,621	4,874,011	7,252,083

### Risk Factors

The acquisition of our Common Shares offered hereunder entails certain risks and any investment in our Common Shares should be considered as being highly speculative. See "Risk Factors" for a description of certain of the risks that should be considered in assessing an investment in our Common Shares.

## GLOSSARY

<b>AMPS</b>	Advanced Mobile Phone System. An analog cellular telephone standard that was developed in the U.S. AMPS is the world's most widely deployed cellular standard.
<b>AMR</b>	Automated meter reading.
<b>Alphanumeric</b>	A message or other type of readout containing both letters (alphabet) and numbers (numerics).
<b>Analog Cellular</b>	Circuit-switched voice telephone communications via cellular radio channels.
<b>ARDIS</b>	A wireless two-way data network jointly owned and operated by Motorola and IBM.
<b>Bandwidth</b>	A relative range of frequencies that can carry a signal without distortion on a transmission medium.
<b>Baud Rate</b>	The rate at which the modem is changing the state of a line of data. Baud and bits per second are often used interchangeably to indicate the speed of data sent via modem.
<b>Bit</b>	The smallest information unit used in data communications.
<b>Bit Stream</b>	A continuous series of bits transmitted over a communications link.
<b>Broadband</b>	A communications channel having a bandwidth greater than 64 kilobits per second and can provide higher speed data communications than a standard telephone circuit (also called wide band).
<b>Bursty</b>	A characteristic of data communications networks. It refers to the fact that the bandwidth needed for data communications tends to vary greatly from one moment to the next as data is sent in bursts.
<b>CDMA</b>	Code Division Multiple Access. A spread spectrum modulation technology that is used with the IS-95 cellular telephone standard developed by QUALCOMM.
<b>Cells</b>	A group of radio transmitters and receivers designed to provide wireless coverage to a given area. The basic geographic unit of a cellular system. Also, the basis for the generic industry term "cellular".
<b>Cellular</b>	A system of mobile radio-telephone transmission in which multiple base stations are used, each covering a "cell", and in which mobile devices are handed off from one cell to another as they move.
<b>CDPD</b>	Cellular Digital Packet Data. A digital cellular technology utilizing idle time between voice calls on the network to transmit packets of data.
<b>CPE</b>	Customer Premises Equipment. The apparatus at the subscriber's location that permits the subscriber to use a telephone or other communications services.
<b>Channel</b>	A path along which a communications signal is transmitted.
<b>Decibel (dB)</b>	A unit for measuring the relative strength of signal power.
<b>Download</b>	The process of transferring a file from a remote computer (called the host) to the user's computer.

<b>DSP</b>	Digital Signal Processor. A special type of processor chip capable of analog to digital and digital to analog conversions.
<b>ESN</b>	Electronic Serial Number. A code specific to a given cellular phone that is stored in ROM (Read-Only Memory) so that it cannot be changed. Along with the phone number of the phone, the ESN is used to verify that a specific unit is authorized to use the cellular system it has accessed.
<b>FCC</b>	Federal Communications Commission. The FCC is the federal agency in the United States of America charged with allocating frequencies and establishing rules and regulations for use of radio spectrum.
<b>GHZ</b>	Gigahertz. A measure of frequency representing one billion cycles per second.
<b>GPRS</b>	General Packet Radio Services. A packet-switched data service based on the GSM standard.
<b>GPS</b>	Global Positioning Satellite. A system of satellites that transmit accurate timing information from which a receiver anywhere on the Earth's surface can calculate latitude, longitude and elevation.
<b>GSM</b>	Global System for Mobile. Developed originally in Europe and using time division multiplexing technology, GSM is the most widely deployed digital cellular system internationally.
<b>IEEE 802.11</b>	Proposed LAN standard intended to provide for interoperability of wireless LAN products.
<b>IrDA</b>	Infrared Data Association. Established in 1992 to set and support hardware and software standards enabling IR-featured products to work together.
<b>Infrared</b>	Invisible light waves that form a deliberate or conscious connection between two compatible devices.
<b>ISDN</b>	Integrated Services Digital Network. A telephone service that brings a digital local loop to the telephone subscriber's premises and integrates all forms of information including voice, computer data and facsimile onto a single communications network.
<b>Interface</b>	A common boundary between two or more systems, integrated circuits, or pieces of equipment that ensures a proper connection between them.
<b>Internet</b>	A publicly accessible network of databases, switches, communications equipment and terminals that allows the free exchange of data between computers and other digital devices.
<b>Intranet</b>	A private version of the Internet, usually set up by a company for use by only its employees and trusted customers.
<b>IS-41-SS7</b>	Signaling protocol used by AMPS, D-AMPS and CDMA networks.
<b>IS-136</b>	U.S. TDMA Standard.
<b>IS-95</b>	U.S. CDMA Standard.
<b>Kbps</b>	Kilobits per second. The rate at which data is transferred in thousands of bits (ones and zeroes) per second.

<b>Mbps</b>	Megabits per second. The rate at which data is transferred in millions of bits (ones and zeroes) per second.
<b>MHz</b>	Megahertz. A measure of frequency. One megahertz represents one million cycles per second.
<b>Mobitex</b>	An international standard for two-way wireless packet switched data communications.
<b>Modem</b>	A modem modulates outgoing digital signals from a computer or other digital device to analog signals for a conventional copper twisted-pair telephone line and demodulates the incoming analog signal and converts it to a digital signal for the computer or digital device.
<b>OEM</b>	Original Equipment Manufacturer. Equipment (e.g., a modem) is sold by its manufacturer to an OEM for integration into the OEM's equipment (e.g., a telemetry device) for resale to the end user.
<b>PCS</b>	Personal Communications Services. A digital communications system that uses TDMA, CDMA or GSM technology and operates in the 1.9GHz frequency band.
<b>RBOC</b>	Regional Bell Operating Company. Local telephone operating companies that were split off from AT&T during divestiture.
<b>RFID</b>	Radio Frequency Identification.
<b>Spread Spectrum</b>	A form of wireless communications in which the frequency of the transmitted signal is deliberately varied, resulting in greater bandwidth.
<b>Telemetry</b>	Transmission and collection of data obtained by sensing conditions in a real-time environment.
<b>TDMA</b>	Time Division Multiple Access. A technology for digital cellular service that increases a system's capacity by multiplexing, or time-slicing a radio signal.

## **RISK FACTORS**

Investors should carefully consider the risks and uncertainties described below before making an investment decision. These risks and uncertainties are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the following risks actually occur, our business, financial condition and operating results could be materially harmed. In such case, the trading price of our Common Shares would likely decline and an investor could lose all or part of their investment.

### **Risks Associated with Our Business**

#### **We will require additional capital to finance our operations**

As at March 31, 2000, we had cash and short-term investments of \$1,703,130. We believe available funds, including the net proceeds from the sale of the Special Warrants and interest income thereon, should be sufficient to finance our operations and product development efforts until the fourth quarter of calendar 2000.

In order to meet our capital requirements beyond the fourth quarter of calendar 2000, we intend to pursue additional capital raising opportunities. These activities will likely result in the issuance of additional equity securities. We have been given the approval of our shareholders to issue up to 21,324,425 Common Shares or other securities convertible or exchangeable into that number of Common Shares other than by way of prospectus at any time, and from time to time, prior to April 27, 2001. There can be no assurance that additional funding will be available, or if available, on acceptable terms. If adequate funds are not available, we may have to reduce substantially or eliminate expenditures for product development and marketing initiatives, or obtain funds through arrangements with corporate partners that require us to relinquish rights to certain of our technologies or products. There can be no assurance that we will be able to raise additional capital if our capital resources are exhausted. Our ability to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as our business performance. There can be no assurance that we will be successful in our efforts to arrange additional financing if needed or that any such additional financing will be available on terms satisfactory to us.

#### **We have historically incurred losses and anticipate incurring losses for the foreseeable future**

We have experienced substantial net losses in each fiscal period since our Company was formed. As at March 31, 2000, we had an accumulated deficit of approximately \$25,138,466. The risk factors described in this prospectus, among other factors, make predicting our future operating results difficult. We expect to incur additional losses for the next few quarters, and may never achieve profitability. If we do, we may not be able to sustain it. Because we may be unable to sustain our revenue growth, investors should not consider our historical revenue indicative of our future revenue levels or operating results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

#### **Our quarterly operating results are subject to fluctuations and if we fail to meet the expectations of securities analysts or investors in any quarter, the price of our Common Shares may decline significantly**

Our quarterly operating results have historically fluctuated and may fluctuate significantly in the future. Accordingly, our operating results in a particular period are difficult to predict and may not meet the expectations of securities analysts or investors. If this were to occur, the price of our Common Shares may decline significantly. Factors that may cause our operating results to fluctuate include:

- the level of demand for our products and services as well as the timing of new product releases;
- our dependence in any quarter on the timing of a few large sales, as described below;
- our ability to maintain and grow a significant customer base;

- the fixed nature of a significant proportion of our operating expenses, particularly personnel and product development initiatives;
- costs related to the opening or expansion of our facilities;
- unanticipated product discontinuation, exchange or deferrals by our original equipment manufacturer, or OEM, customers;
- changes in our pricing policies or those of our competitors;
- currency exchange rate fluctuations, as described below, and other general economic factors;
- our effectiveness at integrating acquisitions with our existing operations; and
- timing of acquisitions and related costs.

Accordingly, we believe that quarter-to-quarter comparisons of our results of operations are not necessarily meaningful. Investors should not rely on the results of one quarter as an indication of our performance.

### **Our revenues are difficult to predict**

Our sales vary in frequency, and certain of our customers may or may not purchase our products and services in the future. In addition, our customers may defer the purchase of, or cease using our products and services at any time, and certain licence agreements may be terminated by our customers at any time. Estimating future revenues is difficult because we generally ship our products within 4 to 8 weeks of receiving an order and, as such, we do not typically experience a significant backlog. Our expense levels are based, in part, on our expectations of future revenues and are largely fixed in the short term. We may not be able to adjust spending in a timely manner to compensate for any unexpected shortfall in revenues.

### **We may be unable to protect intellectual property rights, which would materially adversely affect our business**

We rely on one or more of the following to protect our proprietary rights: patents, trademarks, trade secrets, confidentiality procedures and contractual provisions. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy and may succeed in copying aspects of our product designs and products, or obtain and use information we regard as proprietary. Preventing the unauthorized use of our proprietary technology may be problematic because it may be difficult to discover such use. Stopping unauthorized use of our proprietary technology may be difficult, time-consuming and costly. While we believe that at least some of our products are covered by one or more of our patents, a court may not agree if the matter is litigated. There can be no assurance that we will be successful in protecting our proprietary rights and, if we are not, our business, financial condition and operating results could be materially adversely affected.

### **If we cannot successfully control our product defects and product liability, our business, financial condition and operating results would be materially adversely affected**

Our products are highly complex, and from time to time, may contain design defects that are difficult to detect and correct. Errors, failures or bugs may be found in our products after we commence commercial shipment. Even if these errors are discovered, we may not be able to correct such errors in a timely manner or at all. The occurrence of errors and failures in our products could result in adverse publicity and the loss of, or delay in achieving, market acceptance of our products, and correcting such errors and failure in our products could require us to make significant capital expenditures. The sale and support of our products entails the risk of product liability or warranty claims based on damage to such equipment. In addition, the failure of our products to perform to customer expectations could give

rise to warranty claims. The consequences of such errors, failures and claims could have a material adverse effect on our business, financial condition and operating results.

**The lengthy sales and implementation cycles of our products and services could adversely affect our business**

The sale and implementation of our products and services typically involve a lengthy education process and technical evaluation by our customers. This process is also subject to the risk of delays associated with their internal budgeting and other procedures for approving capital expenditures, deploying new technologies within their networks and testing and accepting new technologies that affect key operations. As a result, the sales and implementation cycles associated with many of our products and services are generally lengthy, and we may not succeed in closing transactions on a timely basis, or at all. If orders expected for a specific customer for a particular period are not realized, our business, financial condition and operating results could be materially adversely affected.

**We anticipate incurring increased operating expenses, which would materially adversely affect our business, financial condition and operating results if we do not correspondingly increase our revenue**

We expect to increase our operating expenses significantly as we:

- expand our sales and marketing efforts; and
- fund greater levels of product development.

If we do not significantly increase our revenue to meet these increased operating expenses, our business, financial condition and operating results would be materially adversely affected.

**Acquisitions could harm our financial condition and results of operations**

We acquired StarComm Products, Inc. in March 2000. We may acquire additional businesses, technologies, product lines or services in the future. Acquisitions involve a number of risks, including:

- the difficulty of assimilating the operations and personnel of the acquired business;
- the potential disruption of our business;
- our inability to integrate, train, retain and motivate key personnel of the acquired business;
- the diversion of our management from its day-to-day operations;
- our inability to incorporate acquired technologies successfully into our products and services;
- the additional expense associated with completing an acquisition and amortizing any acquired intangible assets;
- the potential impairment of relationships with our employees, customers and strategic partners; and
- the inability to maintain uniform standards, controls, procedures and policies.

In addition, we may not be able to maintain the levels of operating efficiency that any acquired companies had achieved or might have achieved separately. Successful integration of each of their operations would depend upon our ability to manage those operations and to eliminate redundant and excess costs. As a result of difficulties associated with combining operations, we may not be able to achieve the cost savings and other benefits that we would hope to achieve with these acquisitions.

Given that our management will have to devote time and attention to integrate the technology, operations and personnel of the businesses we acquire, we may not be able to serve our current customers properly or attract new customers. Also, our management faces the difficult and potentially time consuming challenge of implementing uniform standards, controls, procedures and policies throughout our North American offices. Any difficulties in this process could disrupt our ongoing business, distract our management, result in the loss of key personnel or customers, increase our expenses and otherwise materially adversely affect our business, financial condition and operating results.

In the event of any future acquisitions, we could issue equity shares, which would dilute our existing shareholders' equity interests, incur debt or assume liabilities. We cannot assure investors that we would be able to obtain any additional financing on satisfactory terms, or at all, and this failure would have a negative affect on our business, financial condition and operating results. Additional indebtedness would make us more vulnerable to economic downturns and may limit our ability to withstand competitive pressures. The terms of any additional indebtedness may include restrictive financial and operating covenants, which would limit our ability to compete and expand.

### **We depend on key personnel for our future success and we have no protection if they leave us**

Our success is largely dependent on the performance of our key employees. Loss of the services of any of these key employees could have a material adverse affect on our business, financial condition and operating results. We do not maintain key person life insurance policies on any of our employees.

### **If we are unable to manage growth, our business would be disrupted**

We intend to continue to grow in the foreseeable future and to pursue existing and potential market opportunities, including acquisitions. Such growth will place significant demands on our management and operational resources, particularly with respect to:

- recruiting and retaining skilled technical, marketing and management personnel in an environment where there is intense competition for skilled personnel;
- managing a larger, more complex international organization;
- expanding our sales and marketing efforts;
- providing adequate training and supervision to maintain our high quality standards;
- expanding our treasury and accounting functions to meet the demands of a growing company;
- strengthening our financial and management controls in a manner appropriate for a larger enterprise; and
- preserving our culture, values and entrepreneurial environment.

In order to manage growth effectively, we must concurrently develop more sophisticated operational systems, procedures and controls. If we fail to develop these systems, procedures and controls on a timely basis, our business, financial condition and operating results could be materially adversely affected.

**We do not insure against all potential losses and our business could be seriously harmed and our reputation damaged by unexpected liabilities**

Although we generally attempt to limit our contractual liability for damages arising from negligent acts, errors, mistakes or omissions in rendering our goods and services, we cannot assure investors that we will be able to do so in all cases or that any limitations of liability set forth in our agreements will be enforceable in all instances or will otherwise protect us from liability for damages. In addition, our failure to meet customer expectations or to deliver error free goods and services may result in adverse publicity for us and damage our reputation.

We maintain general liability insurance coverage, including coverage for errors and/or omissions. However, we cannot assure investors that:

- our insurance coverage will be available in sufficient amounts to cover one or more significant claims that are successfully asserted against us;
- our insurance coverage will continue to be available to us in the future on reasonable terms, including reasonable premiums, deductible and any co-insurance requirements; or
- our insurer will not disclaim coverage of any future claim.

Our business, financial condition and operating results could be materially adversely affected if any of these developments were to occur.

**Currency fluctuations could seriously harm our business, financial condition and operating results**

The substantial portion of our revenues and our expenses are denominated in U.S. dollars. However, we report our financial results in Canadian dollars, and have some material commitments and liabilities payable in Canadian dollars, such as principal and interest owing under the Convertible Debentures. The exchange rate between U.S. and Canadian dollars has been fluctuating for several years, and although the relative weakness of the Canadian dollar to the U.S. dollar has been generally favourable to us, no assurance can be given that this trend will continue. Any devaluation of the U.S. dollar relative to the Canadian dollar could have a material adverse effect on our business, financial condition and operating results.

**Our share price is, and likely will continue to be, volatile**

We expect that the market price of our Common Shares will fluctuate substantially as a result of variations in our quarterly operating results. These fluctuations may be exaggerated if the trading volume of our Common Shares is low. In addition, due to the technology-intensive and emerging nature of our business, the market price of our Common Shares may change dramatically in response to a variety of factors, including:

- announcements of technological or competitive developments;
- acquisitions or entry into strategic alliances by us or our competitors;
- the gain or loss of a significant customer or strategic relationship;
- changes in estimates of our financial performance or changes in recommendations by securities analysts regarding us, our industry or our customers' industries; and
- general market or economic conditions.

These risks may be heightened because our industry is evolving, characterized by rapid technological change and susceptible to the introduction of new competing technologies.

In addition, equity securities of many technology companies have experienced significant price and volume fluctuations. These price and volume fluctuations often have been unrelated to the operating performance of the affected companies. Volatility in the market price of our Common Shares could result in securities class action litigation. This type of litigation, regardless of the outcome, could result in substantial costs to us and a diversion of our management's attention and resources.

**Dependence on the utility industry and uncertainty resulting from mergers and acquisitions and regulatory reform in the North American utility industry could materially adversely affect us**

We derive a significant amount of our revenues from the sale of our products and services to the North American electric utility industry. We have experienced variability of operating results, on both an annual and a quarterly basis, due primarily to utility purchasing patterns and delays of purchasing decisions as a result of mergers and acquisitions in the North American utility industry and changes or potential changes in the North American regulatory framework within which that electric utility industry operates.

The utility industry is generally characterized by long budgeting, purchasing and regulatory process cycles that can take up to several years to complete. Our utility customers typically issue requests for quotes and proposals, establish evaluation committees, review different technical options with vendors, analyze performance and cost/benefit justifications and perform a regulatory review, in addition to applying the normal budget approval process within a utility. Purchases of our products and services are, to a substantial extent, deferrable in the event that utilities reduce capital expenditures as a result of mergers and acquisitions, pending or unfavourable regulatory decisions, poor revenues due to weather conditions, rising interest rates or general economic downturns, among other factors.

The North American electric utility industry is currently the focus of regulatory reform initiatives in virtually every state and province, which initiatives have resulted in significant uncertainty for industry participants and raised concerns regarding assets that would not be considered for recovery through ratepayer charges. Consequently, many utilities have delayed purchasing decisions that involve significant capital commitments. While we expect some states and provinces will act on these regulatory reform initiatives in the near term, and some states have, there can be no assurance that the current regulatory uncertainty will be resolved in the near future or that the advent of new regulatory frameworks will not have a material adverse effect on our business, financial condition and operating results. Moreover, in part as a result of the competitive pressures in the utility industry arising from the regulatory reform process, many utility companies are pursuing merger and acquisition strategies. We have experienced considerable delays in purchase decisions by utilities that have become parties to merger or acquisition transactions. Typically, such purchase decisions are put on hold indefinitely when merger negotiations begin. The pattern of merger and acquisition activity among utilities may continue for the foreseeable future. If such merger and acquisition activity continues at its current rate or intensifies, our revenues may continue to be materially adversely affected.

**Our dependence on large contracts could materially adversely affect us**

We are, from time to time, dependent on large, multiyear contracts that are subject to cancellation or rescheduling by customers. Cancellation or postponement of one or more of these contracts would have a material adverse effect on our business, financial condition and operating results.

**Our dependence on new product development could materially adversely affect us**

We have made, and expect to continue to make, substantial investment in product development. Our future success will depend, in part, on our ability to continue to design and manufacture new competitive products and to enhance our existing products. Our product development will require continued investment in order to maintain our market position. There can be no assurance that unforeseen problems will not occur with respect to the development,

performance or market acceptance of our technologies or products. Development schedules for technology products are subject to uncertainty, and there can be no assurance that we will meet our product development schedules. We have previously experienced significant delays and cost overruns in the development of new products, and there can be no assurance that delays or cost overruns will not be experienced in the future. Delays in new product development can result from a number of causes, including changes in product definition during the development stage, changes in customer requirements, initial failures of products or unexpected behaviour of products under certain conditions, failure of third-party-supplied components to meet specifications or lack of availability of such components, unplanned interruptions caused by problems with existing products that can result in reassignment of product development resources, and other factors. Delays in the availability of new products, or the inability to successfully develop products that meet customer needs, could result in the loss of revenue or increased service and warranty costs, any of which would have a material adverse effect on our business, financial condition and results of operations.

#### **Uncertainty of the market's acceptance of new technology could materially adversely affect us**

The AMR market is evolving, and it is difficult to predict the future growth rate and size of this market with any assurance. Further market acceptance of our new AMR products and systems, such as the CS-832, will depend in part on our ability to demonstrate cost effectiveness, and strategic and other benefits, of our products and systems, the utilities' ability to justify such expenditures and the direction and pace of federal, state and provincial regulatory reform actions. In the event that the utility industry does not adopt our technology or does not adopt it as quickly as we expect, our future results may be materially adversely affected. International market demand for AMR systems varies by country based on such factors as the regulatory and business environment, labour costs and other economic conditions.

#### **Our dependence on key vendors and internal manufacturing capabilities could materially adversely affect us**

Certain of our products, subassemblies and components are procured from a single source, and others are procured only from limited sources. Our reliance on such components or on sole or limited-source vendors or subcontractors involves certain risks, including the possibility of shortages and reduced control over delivery schedules, manufacturing capability, quality and costs. In addition, we may be affected by worldwide shortages of certain components, such as memory chips. A significant price increase in certain of such components or subassemblies could have a material adverse effect on our results of operations. Although we believe alternative suppliers of these products, subassemblies and components are available, in the event of supply problems from our sole or limited-source vendors or subcontractors, our inability to develop alternative sources of supply quickly or cost-effectively could materially impair our ability to manufacture our products and, therefore, could have a material adverse effect on our business, financial condition and results of operations. In the event of a significant interruption in production at our manufacturing facilities, considerable time and effort could be required to establish an alternative production line. Depending on which production lines were affected, such a break in production would have a material adverse effect on our business, financial condition and results of operations.

### **Industry Specific Risks**

#### **Product development and technological change could materially affect us**

The wireless data industry is an emerging industry that is characterized by rapid technological change and frequent new product introductions. Accordingly, we believe that our future success depends upon our ability to enhance our current products and services and develop and introduce new products and services offering enhanced performance and functionality at competitive prices. In addition, technological innovation in the marketplace, such as in the area of AMR, may reduce the comparative benefits of our products and services and could materially adversely affect our business, financial condition and operating results. Our inability, for technological or other reasons, to enhance, develop and introduce products in a timely manner in response to changing market conditions, industrial standards, customer requirements or competitive offerings could result in our products becoming obsolete, or could otherwise have a material adverse effect on our business, financial condition and operating results. Our ability to

compete successfully will depend in large measure on our ability to maintain a technically competent engineering and development staff and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of our products and services with evolving industry standards and protocols.

**We face intense competition that could materially adversely affect us**

Our businesses operate in dynamic and evolving industries that are highly competitive. We anticipate that the quality, functionality and breadth of our competitors' product offerings will improve. Many of our competitors have greater name recognition, larger customer bases and significantly greater financial, technical, marketing, public relations, sales, distribution and other resources than us, and there can be no assurance that we will be able to compete effectively with such companies.

**Risks Related to this Offering and Our Corporate Charter**

**Our management will have broad discretion in using the net proceeds from the sale of the Special Warrants and may spend a substantial portion in ways with which investors do not agree**

We intend to use a portion of the net proceeds, as determined by management in its sole discretion, for the development and enhancement of our products and services, working capital and general corporate purposes. Investors in this offering will rely upon the judgement of our management with respect to the use of the net proceeds. Our management may spend the net proceeds of this offering in ways with which investors do not agree and in ways that may not yield a favourable return. Our management's failure to spend the net proceeds effectively could have a material adverse effect on our business, financial condition and operating results.

**Future sales of shares could materially adversely affect the price of our Common Shares**

If our shareholders sell substantial amounts of our Common Shares in public markets following this offering, the market price of our Common Shares could fall.

**The anti-takeover effect of certain of our charter provisions could delay or prevent an acquisition of us even if an acquisition would be beneficial to our shareholders**

Our authorized capital consists of an unlimited number of Common Shares, an unlimited number of convertible shares and an unlimited number of preference shares issuable in one or more series. Our Board of Directors has the authority to issue preference shares and determine the price, designation, rights, preferences, privileges, restrictions and conditions, including voting and dividend rights, of these shares without any further vote or action by shareholders. The rights of the holders of Common Shares will be subject to, and may be adversely affected by, the rights of holders of any preference shares that may be issued in the future. The issuance of preference shares, while providing desirable flexibility in connection with possible acquisitions of our Company and other corporate purposes, or the issuance of additional Common Shares, could make it more difficult for a third party to acquire a majority of our outstanding voting shares, the effect of which may be to deprive our shareholders of a control premium that might otherwise be realized in connection with an acquisition of our Company. See "Description of Share Capital".

**We do not intend to pay any cash dividends on our Common Shares in the foreseeable future and therefore our shareholders will not be able to receive a return on their shares until they sell them**

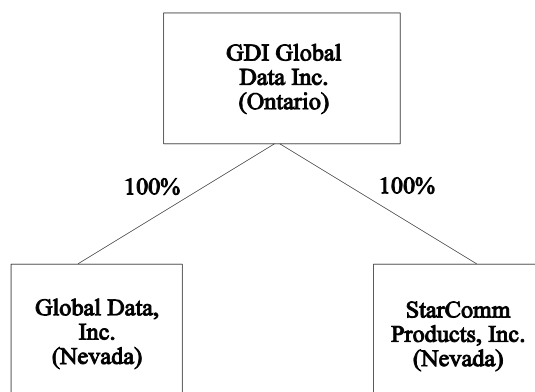
We have never paid or declared any cash dividends on our Common Shares and we intend to retain any future earnings to finance the development and expansion of our business. We do not anticipate paying any cash dividends on our Common Shares in the foreseeable future. Until we pay dividends, which we may never do, our shareholders will not be able to receive a return on their shares unless they sell them.

## Investors will suffer immediate and substantial dilution

The issue price per Special Warrant and Convertible Debenture will significantly exceed our net tangible book value per share. Accordingly, investors acquiring Common Shares in this offering will suffer immediate and substantial dilution of their investment. See "Dilution".

## GDI GLOBAL DATA INC.

GDI Global Data Inc. is a corporation amalgamated under the laws of the Province of Ontario. On December 8, 1998, we changed the name of the Company from Telular Canada Inc. to GDI Global Data Inc. Our registered office is located at 170 Attwell Drive, Suite 620, Toronto, ON, M9W 5Z5. We carry on our business activities principally through our two wholly-owned subsidiaries. Global Data, Inc., carrying on business as Granite Communications, is a corporation governed by the laws of Nevada, and is located at 13 Columbia Drive, Suite 6, Amherst, NH, 03031, U.S.A. StarComm Products, Inc., carrying on business as StarComm Products and Global Data Wireless, is a corporation governed by the laws of Nevada, and is located at 2250 Obispo Ave., Suite 105, Signal Hill, CA, 90806, U.S.A.



## BUSINESS

### Overview

Our Company provides remote communications solutions for commercial and industrial markets. We design, develop, manufacture, market and support a broad array of wireless, wireline and mobile communications products and services for application in markets characterized by extreme temperature and/or humidity, rugged usage and severe electrostatic discharge.

Our products and services allow end-users to securely access, collect and transmit data over traditional networks, such as the public switched telephone network and emerging networks such as wireless digital and internet protocol based networks. Our products are modular in design and can be customized to meet market demands quickly and cost effectively. We offer our customers a full range of wireline, wireless and mobile computing devices to meet their remote communications needs. Our modem products consist of low and high speed data, security and cellular modems for industrial applications and are installed in workplace environments, primarily for purposes of integrating data, voice and other types of information into corporate networks. Our wireless data products and services involve the transmission of data using radio frequencies over wide area networks for remote communications requirements where

traditional solutions involving the public switched telephone network are not cost effective. Our mobile computing devices are microprocessor-based, lightweight and battery-operated and capture information by radio frequency identification tags or are manually entered by finger or stylus via a touch screen display. Once captured, the information collected can then be transmitted instantly to a host computer across a wireless local or wide area network.

Our primary vertical markets include energy, transportation, security and telecommunications. The vertical markets we participate in share a common requirement for remote communications solutions suitable for deployment in markets characterized by extreme temperature and/or humidity, rugged usage and severe electrostatic discharge.

### **Acquisition of StarComm Products, Inc.**

Our business strategy is predicated on our ability to provide our customers with leading edge products and services on a timely basis. In early 2000, we undertook a review of our operations and determined that this strategy required us to secure an ability to increase our production infrastructure for our existing and future wireless products and to accelerate our product design capabilities.

This strategy culminated in our acquisition of the outstanding shares of StarComm Products, Inc. (“StarComm Products”) on March 15, 2000, a private company located in Signal Hill, California. StarComm Products is a leading developer of industrial-rated wireline and wireless modems.

The purchase price paid by us for the shares of StarComm was satisfied by the payment of U.S. \$343,156 in cash and the issuance of 3,084,918 of our Common Shares. Of the total purchase price of approximately \$2.2 million, we have allocated approximately \$1.9 million to goodwill. The balance of the purchase price has been allocated to identifiable net assets, which consisted primarily of inventory and which we did not consider material to the transaction. See Note 20 to the audited consolidated financial statements included elsewhere in this prospectus. For a description of the business of StarComm Products, see “Business – StarComm Products”.

In connection with this acquisition, we acquired a highly-skilled engineering team (all of whom remain employed by StarComm Products) and production infrastructure. Concurrent with this acquisition, we relocated our wireless product development and our wireless production facilities to StarComm Products' premises in California. This initiative has enabled us to significantly accelerate our wireless product development and production capabilities. In addition, most of StarComm Products' sales and marketing activities with respect to the energy industry, our largest vertical market, have been assumed by our Global Data Wireless unit, which has enabled us to expand the sales channels available to StarComm Products' suite of products.

We intend to use \$2 million of the net proceeds from the sale of the Special Warrants to fund product development. We currently anticipate that the majority of these funds will be allocated to our StarComm Products unit. See “Use of Proceeds”.

### **Our Business Units**

We conduct our business through three units, which are organized according to the markets which we serve and the market-recognition attached to each business name. A summary of these units is set out below.

### **Global Data Wireless**

#### ***Industry Overview***

We participate in the North American electric power industry, an industry undergoing fundamental structural changes. Current restructuring in the electric power utility industry is focused on opening the electric power generation and distribution industry to full competition and ultimately providing retail customers with access to multiple suppliers. Similar to regulatory changes that have already occurred in the North American transportation and telecommunications

industries, customer demands and regulatory mandates by federal, state and provincial governments are paving the way for utilities to make the transition from regulated monopolies into competitive enterprises.

In the United States, federal legislation, such as the National Energy Policy Act of 1992 ("EP Act"), eased restrictions on independent power producers in an effort to increase competition in the wholesale electric power generation market. The EP Act also empowers the Federal Energy Regulatory Commission ("FERC"), to mandate incumbent utilities to transport and deliver energy on behalf of competitive suppliers of bulk power to wholesale customers. In recent years, legislation has been enacted to accelerate competition and bring lower prices and more choices to energy consumers. For example, public utilities are required to offer non-discriminatory pricing to all users of their transmission lines and disclose information about their operations in a transparent and non-discriminatory manner.

Under the EP Act, individual states have the sole authority to mandate the degree and timetable for the provision of competitive energy services to retail consumers. To date, most states have undertaken some form of regulatory reform, a summary of which can be found on the Internet at <http://www.eei.org>. We believe that the reform, or unbundling of metering and customer billing, provides us with a significant market opportunity. In May 1997, the State of California enacted legislation allowing electricity customers in California to select their meter reading and billing provider in addition to their electricity supplier. Since that time, the majority of states and many provinces have enacted similar legislation. We expect this trend to continue.

We believe that the advancement of regulatory reform initiatives will continue to motivate utilities and industry participants to increase operating efficiencies, enhance service quality and offer services not traditionally offered by utilities. As such, industry participants will require a variety of AMR alternatives to address diverse characteristics across service territories, which, in turn, will increase demand for AMR products and services. In light of the changing regulatory environment and resulting competition for customers, we believe that many established utilities will be motivated to retain and increase their respective market share, while new power market participants will seek to capture market share in the post-deregulation retail market. Our products and services help established utilities and new power market participants respond effectively to regulatory changes and enhance their performance in the competitive markets by providing an inexpensive, flexible and upgradeable means to reduce costs and deliver value-added services.

### ***Business Strategy***

Our business strategy is to design and deploy innovative wireless products and services for the North American electric power industry. We are well positioned as a niche supplier of wireless data communications products and are aggressively implementing our strategy of providing an expanding suite of wireless products and services to North American utilities. We believe that, as the North American electric industry continues to deregulate, there will be increased focus initially on serving the needs of commercial and industrial ("C&I") customers where the economic incentive to switch energy service suppliers is the greatest. We believe that the C&I market will provide us with the greatest growth opportunities over the next few years as utilities, energy service providers and other market players increasingly focus their attention on this critical customer group.

### ***Market***

We focus on the C&I segment of the electric power market as it presents us with the most commercially exploitable opportunities. Currently, 0.1% of C&I customers in North America account for 20% of all power usage. We believe that the C&I segment of the market is the most lucrative and provides meaningful benefits to large power consumers and the utilities that supply energy to them.

According to Yankee Group, a market research firm, telemetry, the transmission and collection of data obtained by sensing conditions in a real-time environment, will grow significantly over the next five years and make a noticeable impact on the deregulating electric power industry in addition to other industries. Yankee Group has also noted that telemetry systems will become required elements of customer information systems in all energy companies, and that the

value of telemetry, though virtually unrecognized today, is increasing as it becomes technologically feasible and cost-effective and that consequently, its possibilities are vast. Telemetry applications that were once seen only as speculative or experimental because of technological and financial constraints are now relatively simple applications that will ride on existing telecommunications networks at a small incremental cost. At the same time, these applications are becoming increasingly more valuable as energy companies, preparing for deregulation, begin to recognize the value of customer information in improving business performance.

## ***Products and Services***

### *Products*

Our products use wireless technology to transmit meter data over cellular networks. Due to the geographic features and varying population densities of a utility's service territory, no one meter reading solution is ideally suited to all parts of the utility's service territory. Our products provide an immediate solution for high cost-to-read meters or geographically dispersed meters requiring advanced metering functionality. These advantages create an immediate financial return to our customers and facilitate a migration path to a more comprehensive AMR solution in the future.

Our CS-832 product line provides utilities with the capability of completely automating meter reading in desired segments of a utility's service area, thereby eliminating the need to send meter readers to or near customer premises. Our CS-832 product line provides a communications solution to support various utility-related applications, including daily or more frequent meter reads, time-of-use pricing, on-request meter reads for final reads or customer inquiries, tamper monitoring and reporting, high-level outage detection and power restoration reporting, load profiling and virtual connect/disconnect capabilities. These applications are essential for a utility to provide value-added services to their customer. Our CS-832 product line delivers reliable, real-time and cost-effective AMR and wireless telemetry solutions. The CS-832 interfaces with meter devices wherever telephone lines are unavailable, impractical, or cost-prohibitive and allows electric revenue meters to transmit power usage information to the utility, without the need for on-site monitoring. The CS-832 supports multiple standard data communications interfaces, operates seamlessly with any AMR-equipped commercial or industrial meter and is supported by all dial-up, circuit-switched AMR software hosts in use today, ensuring product compatibility.

We believe that the CS-832 represents a strong value proposition to the electric power industry, offering a modular design with several configurable options, including battery, internal antenna and modem and a multi-meter option board allowing several meters to be read at once. The advantages, value and flexibility of the CS-832 include:

- (i) *Reliability.* Our products are protected from damage often caused by lightning and transient power spikes;
- (ii) *Predetermined Cost.* Utilities are not faced with unforeseen costs commonly associated with the installation and on-going maintenance of traditional telephone lines;
- (iii) *Cost Savings.* Transmitting data over a wireless network is often less expensive than transmitting data over traditional telephone lines due to the ability to transmit data over wireless networks in off-peak hours;
- (iv) *Rapid Installation.* Our CS-832 product is typically installed in less than one hour by a service technician as compared to the installation of telephone lines, which often require several hours and multiple staff; and
- (v) *Portability.* In the event that a utility loses a customer, the utility can easily reinstall our product at an alternate location so long as cellular coverage exists.

## *Services*

Developments in computers, batteries, operating systems and application software have changed the paradigm of the wireless industry. Instead of focusing on people-to-people communications, we believe the future will see a groundswell of products and applications requiring electronic devices to communicate with each other. With deregulation of the North American electric power industry, real-time monitoring of power consumption utilities becomes a competitive advantage for the service provider. As the industry becomes increasingly sophisticated, more and more information will be sought from remote devices. As the amount of data increases, so does the cost. To address this market opportunity, we entered into a commercial agreement with GTE Wireless, based in Atlanta, GA in September 1999 to access GTE Wireless' WIN<sup>4</sup> wireless data service. GTE Wireless is a wireless voice and data telecommunications provider and is a subsidiary of GTE Corp. Our commercial agreement with GTE Wireless provides the electrical power industry with our branded solution, called AMRnet.

WIN<sup>4</sup> is the first North American wireless service that provides a robust wireless network solution with built-in fraud prevention tools. WIN<sup>4</sup> is a strategic solution developed by GTE Wireless to provide the seamless connectivity of a national data service utilizing embedded wireless and wireline networks to route and deliver information. As a result of our commercial agreement with GTE Wireless, we enjoy agreements with carriers throughout North America to ensure call coverage facilitating the use of analog, all three digital standards, (CDMA, GSM and TDMA) or any combination of these protocols.

AMRnet meets our customers' requirements for ubiquitous coverage in North America, two-way messaging, competitive pricing and a single point of contact for national service. AMRnet provides a very competitive solution without the worry of message size. Future applications are readily adaptable to the AMRnet platform with minimal cost. Accordingly, we believe that AMRnet represents a strategic solution for current and future advanced remote meter reading capabilities. As at February 29, 2000, we commenced beta testing of the AMRnet system.

## *Sales and Marketing*

We launched our CS-832 product line in the fall of 1998. Since that time, we have sold product to over 125 utilities, of which over 30% have now placed follow on orders. Since November 1999, we have made announcements concerning three of our larger sales orders including Wisconsin Public Service Corporation in November 1999 for 450 units, FirstEnergy Corp. in December 1999 for 150 units and most recently Carolina Power and Light Corporation in January 2000 for 300 units.

We utilize a direct sales and technical support team to serve our major accounts, with sales and technical support offices located in Albuquerque, NM, Raleigh, NC, Signal Hill, CA and Toronto, ON.

Our marketing efforts focus on product awareness through direct sale, trade shows and direct mail. We participate at several major industry conferences including the Distribution Automation/Demand Side Management (Distributech) Conference, the National Meter Reading Conference held in June and the Automatic Meter Reading Association Conference held in September. We also enjoy a strong regional presence by attending several local meter schools, offered by the leading meter manufacturers.

## *Customers*

Our customer base includes many of the leading North American electric power utilities as well as many of the new market entrants, including Meter Service Providers (MSPs) and Energy Service Providers (ESPs). With the pace of deregulation accelerating, we believe that many utilities will turn the operational control of certain of their transmission facilities over to MSPs, ESPs and aggregators. These utilities are expected to provide both electricity and natural gas to commercial, industrial and residential customers and may, in some jurisdictions, perform meter reading and customer billing. In addition to ESPs, a number of new entities will likely emerge to provide metering and data services. Such companies also may buy and sell electricity and may have to deal with the frequent specification of prices

and costs for the transference of power. As such, our future customer base will likely be comprised of traditional utility companies, MSPs, ESPs and new market entrants.

### ***Technical Support and Customer Service***

We believe that our technical support and customer service programs have been a key factor in our successful growth. We offer on-site repair, extensive user documentation and a toll-free technical support hotline for our customers. Our technical analysts answer support calls directly and generally provide same-day response to questions that cannot be resolved in the initial phone call. Our products include a one-year limited warranty that permits customers to return product for repair or replacement if the product does not perform as warranted. To date, we have not encountered material warranty claims or liabilities.

### ***Competition***

We face competition from a variety of companies in the AMR market. The emerging market for AMR solutions for the utility industry led communications, electronics and utility companies to begin developing various systems. These competitors can be expected to offer a variety of technologies and communications approaches, as well as meter reading, installation and other services to utilities and other industry participants. We compete on the basis of product features, price, quality, reliability, brand name recognition, developed sales channels, product documentation, product warranties and technical support and service.

We believe that the primary competitor for wireless AMR solutions are the Regional Bell Operating Companies, or RBOCs. The RBOCs compete with us by installing traditional wireline telephone lines at utility customer sites. We compete with the RBOCs based on price, service, functionality, and the ease of installation of our product. We also compete indirectly with a number of wireless AMR vendors such as Converge Technologies Inc. and Telenetics Corporation.

### ***Product Development***

Our product development efforts are focused on further expanding and upgrading our AMR product offerings, including hardware and wireless data services. We expect to invest funds on new product development initiatives for the foreseeable future as we continue to expand and enhance our AMR product offerings. In particular, we expect to focus the majority of our efforts on continued improvement and expansion of our existing product offerings including cost reduction programs, developing data management applications and systems integration and implementing web-based communications services.

### ***Intellectual Property***

In July 1998, our fixed wireless patents were licenced on an exclusive basis to Nortel Networks Corporation for a ten-year period. Notwithstanding the competitive protections provided by these patents, we believe that the competence and creative ability of our personnel, the frequency of our product enhancements, the effectiveness of our marketing strategy and the timelines and quality of our customer service and support are more important to our competitive position than this limited patent protection, especially in light of the rapidly changing nature of the industry.

### ***Production***

Our production operations consist primarily of final assembly, programming, burn-in, functional testing, quality control and shipping. We use third-party contract manufacturers for certain component and circuit board assembly and testing and have developed strategic relationships with several qualified and reliable local assembly houses. Certain components used in our products are, and may in the future become, available only from single or limited sources, such

as the OEM radio modules we purchase from Motorola Canada Limited. In certain circumstances, despite the availability of multiple sources, we may select a single source in order to maintain quality control and develop a strategic relationship with the supplier.

Concurrent with the acquisition of StarComm Products our production was relocated to the StarComm Products' facility in Signal Hill, CA to benefit from StarComm Products' close proximity to our customer base and superior supply chain.

### ***Government Regulations***

Our products are designed to transmit radio signals as part of their normal operation and are therefore subject to the applicable regulatory jurisdiction and approval of the Federal Communications Commission ("FCC") in the United States and Industry Canada, in Canada. Such approvals are typically valid for the life of the product unless and until the circuitry of the product is altered in a manner that may necessitate additional regulatory consideration. We believe that our business is operated in compliance with applicable government, environmental, waste management and health and safety regulations.

### **StarComm Products**

#### ***Industry Overview***

StarComm Products participates in the multi-billion dollar data communications industry. This industry can be segmented between the consumer market, consisting of individuals who purchase modem products primarily to access the Internet, and the commercial market, consisting of businesses who purchase modem and data communication products for installation in a workplace environment, primarily for purposes of integrating data, voice and other types of information into corporate networks. We participate exclusively in the commercial sector of the data communications market.

We believe the future direction of our industry is driven primarily by two trends: (i) an increasing demand for information delivered through the Internet and corporate intranets; and (ii) a shift of emphasis from parallel networks - separate data, voice and video infrastructures running side by side - to converged networks integrating all communications onto a single data infrastructure.

We also believe that data communications businesses must focus on incorporating intelligence into the network to be successful. For convergence to be successfully implemented, equipment throughout the network must be capable of performing in an intelligent fashion, routing network traffic based on both pre-established priorities and the particular needs of the individual network user. This intelligence must be concentrated at the edge and access points of the network. For example, a network carrying voice, video and data traffic must be able to distinguish between a telephone handset and a desktop computer and deliver the appropriate form of information.

#### ***Products***

We are a leading developer of industrial rated modems, DSL devices and custom communications modules. Our innovative communications products are used for secure access, data collection and transmission in harsh environments characterized by extreme temperature and/or humidity, rugged usage and severe electrostatic discharge.

*Standard Products.* Our standard product line includes a full line of commercial and industrial quality modems ranging from low speed to the latest 56kbps technology. A brief summary of our standard product line is as follows:

- (i) *High Speed Modems.* We offer a full line of high-speed modems designed around two of the most popular international standards for point-to-point full duplex modems.

- (ii) *Security Modems.* As a leader in the field of remote access, we are aware of the rapid increase in damage and down time due to unwanted network intruders. Our family of security modems offers corporate users economical solutions to even the most complex security issues. In applications where access control is critical, our security modems provide password and caller ID protection and audit trail capabilities with precision timekeeping.
- (iii) *Multi-Port Security Modems.* Our multi-port security modems allow corporate users to reduce phone line cost and increase security by replacing as many as eight standard modems with our multi-port security modem. Our multi-port security modems offer multiple RS-232 ports for selective communications with numerous devices.
- (iv) *Industrial Cellular Modems.* In North America, analog cellular technology has evolved into a ubiquitous network of providers covering even the most remote of locations. Our industrial cellular modems operate on any North American AMPS cellular network. Radio options are available for operation at either 600 milliwatts or 3 watts. In addition to normal modem functions, our industrial cellular modems offer special quick connect sequences that may be enabled for transaction-oriented applications. These quick connect sequences dramatically decrease connect time, thereby reducing transaction time and the associated phone charges.
- (v) *Low Power Standby Modems.* In solar or battery powered installations where power consumption is critical, our low power standby modems offer a low current standby state that is active when there is no phone call taking place.

*Custom Projects.* As a result of extensive research and design efforts, we have become very effective in the design of microcontroller and DSP-based communications products. Many organizations have found that they can greatly reduce development cost and time to market by outsourcing development projects to us.

*Private Label.* We develop products for Original Equipment Manufacturers ("OEM's") that incorporate a special application modem into other hardware equipment, such as automatic tellers, credit card verification machines and point-of-sale equipment. We also offer private label programs in situations where time to market or development cost make it more economical to re-market one of our products. All of our standard products are available under an economical private label program and can be rapidly customized to meet specific requirements. In many cases, OEM requirements can be realized through simple layout or firmware changes to an existing design.

### ***Business Strategy***

Our business strategy is to develop innovative data communications solutions allowing end users of our products to operate their business more effectively. To achieve this goal, we deploy circuit switched and packet data services in a wide variety of commercial and industrial applications. Our DSL products will enable customers to transition their existing networks to a new generation of communications technology offering higher performance and reliability at reduced costs. In the near future, DSL technologies will offer commercial and industrial users the same cost-effective solutions currently being deployed for residential, small business and branch office subscribers.

### ***Markets***

Within the commercial sector of the data communications industry, we focus on four discreet markets, each of which present to us compelling market opportunities.

*Industrial Automation Market.* The Industrial Automation Market includes organizations utilizing data communications in an automated process application, the largest of which is the electric power industry. The electric power industry in the United States is a U.S.\$ 200 billion per year industry built primarily on electromagnetic technology that has remained largely unchanged in the last few decades. Responding to deregulation and other major industry

changes, electric power utility companies have become leading advocates in promoting the implementation of automation and technological advancement as a means of achieving cost savings. From meter reading to substation monitoring and control, utilities are using communications technology to increase service levels and improve customer service, while reducing labour costs. We provide modem products for use in the utility market including single and multi-port security modems for substation automation, low-speed quick-connect modems for AMR, no ring data collection devices for unobtrusive read-on-demand AMR and modems for supervisory control and data applications.

*Transportation.* In the United States, President Clinton signed into law the Transportation Act for the 21st Century (also known as the Transportation Equity Act of 1998 or H.R. 2400) in June 1998, authorizing up to U.S.\$203 billion of expenditures for refurbishment and new construction of federal and state highways, roads and bridges. Driven by ever increasing regulatory pressure and fuelled by record levels of federal and state funding, Intelligent Transportation Systems ("ITSs"), are being implemented at a rapid pace. In the not-too-distant future, massive networks will synchronize intelligent intersections in every major city. Intelligent intersections now utilize video, audio and a range of traditional sensors to deliver traffic flow information to automated control centers. These control centers process information from the intersection and send commands back to specialized control systems that can modify traffic flow characteristics. We provide a variety of modem products for use in traffic monitoring and control applications. In response to these market trends, we are developing a variety of new products for use in traffic monitoring and control including cellular single-port security modems for intersection automation and monitoring applications, cellular multi-port security modems for intersection automation and video modem technology for intersection automation.

*Security and Card Access.* Remote access modems save significant cost and reduce network downtime by eliminating the need to dispatch personnel to remote sites to reconfigure alarm and control systems, phone switches, diagnostic ports, supervisory channels and remote access servers. However, typical modem implementation breeches the overall security of such systems. Companies spend vast amounts of time, money and energy protecting their networks with firewalls and network security systems and then significantly compromise this security when they install modems for remote access purposes. Our security modems offer immediate access to widely distributed remote devices and provide access, security, efficiency and accountability by incorporating the most advanced security features available. While the intelligence resides in the modems themselves, optional device management software automates audit trail data collection and simplifies the management of large distributed networks.

*Telco and Central Office Infrastructure.* Regional Bell Operating Companies ("RBOCs"), and Competitive Local Exchange Carriers ("CLECs"), are faced with increased competition requiring them to redefine their delivery mechanisms and product offerings. In doing so, they often find the need for customer premises equipment ("CPE"), or central office ("CO") equipment that will provide a cost or level of service advantage. We offer RBOCs and CLECs a number of solutions to serve this market, including rack and stand alone modems for CO installation and both single and multi-port security modems for remote management and co-located environments.

### ***Sales and Marketing***

We sell our products used by our customers in the energy industry primarily through the Global Data Wireless sales and technical support team. In addition, we also sell our products through a network of distributors and direct sales efforts to private label and OEM opportunities where direct technical interaction and planning is required.

Our marketing efforts focus on product awareness through trade shows, published papers and direct mail. We participate at several major industry conferences including the Distribution Automation/Demand Side Management (Distributech) Conference, the Computer Security Institute Conference and the American Meter Reading Association Convention.

## ***Customers***

Our customers include leading electric power companies, a growing base of city and state transportation systems and industry-leading security and card access companies. Additionally, several OEMs and system integrators use our specialty modem products on a sole source basis.

## ***Technical Support and Customer Service***

We believe that localized, high quality technical support and customer service programs have been a key factor in our growth and success. Our regional distribution network provides such localized support through our trained technicians. We offer extensive user documentation and a technical support hotline to our customers. Our products include a five-year limited warranty that permits customers to return product for repair or replacement if the product does not perform as warranted.

## ***Competition***

The data communications industry is intensely competitive and is characterized by rapid technological advances and changes in industry standards, resulting in constant pricing pressures. The changes in industry standards result in frequent introductions of new products with added features and capabilities and continuous improvements in the relative functionality and price of modems and other data communications products. Our failure to keep pace with technological advances would materially adversely affect our competitive position and results of operations. The commercial segment of the data communications industry in which we compete includes Motorola Corp., 3Com Corporation and Black Box Corporation. Our products compete primarily on the basis of product features, price, quality, reliability, brand name recognition, developed sales channel, product documentation, product warranties and technical support and service.

## ***Product Development***

Our product development efforts are focused on deploying circuit switched and packet data services in a wide variety of commercial and industrial applications. Our DSL products will enable customers to transition their existing networks to a new generation of communications technology offering higher performance and reliability at reduced costs. DSL solutions, ranging from ISDN to xDSL, allow the installed base of twisted-pair wiring in the telecom local loop to be used for high-volume data transmission. Its many variants allow us to offer greater bandwidth to customers and, therefore, compete more broadly. In the near future, DSL technologies will offer commercial and industrial users the same cost-effective solutions now being deployed for residential, small business and branch office subscribers. A brief summary of our current product development efforts is as follows:

*ISDN Products.* We are developing a family of modems for ISDN communications. ISDN is an increasingly available telephone service allowing existing phone lines to be used to transmit data digitally. ISDN service permits much higher data transmission rates than conventional analog telephone service. Basic ISDN service typically provides two channels at 64,000 bits per second ("bps") and one channel at 16,000 bps. The higher rates of data transmission achievable with ISDN can be particularly attractive for data-intensive applications such as the transmission of video telephony. In the case of telemetry and industrial automation, we believe that the migration to DSL technologies will begin with ISDN. Our investment in ISDN technology will allow our customers to transition their existing analog network topologies into modern, cost-effective, digital architectures that will facilitate future growth.

*No Ring Modems.* In certain markets, such as residential AMR, unit pricing must decrease dramatically to make residential deployment economical. AMR is just one example where our patent pending "Silent Ring" technology allows data collection operations to piggyback on existing phone lines in a totally unobtrusive manner.

*Compressed Video Communications.* We have developed a significant expertise in compressed video communications. In many of our target markets, video communications is becoming nearly as important as data

communications. Our product development efforts are focused on introducing video communications solutions including video modems, video ISDN technology and the ability to transmit video over IP technology.

*Cellular Modems.* Due to harsh environmental conditions, high performance expectations and custom interface requirements, we are developing a variety of new products for use in traffic monitoring and control including cellular single and multi-port security modems for intersection automation and monitoring applications and video modem technology for intersection automation.

## **Granite Communications**

### ***Industry Background***

We participate in the mobile wireless data collection industry involving the transmission of data using radio frequencies ("RF") between wireless networks and mobile computing devices. Mobile computing devices facilitate the transmission and reception of data across wireless networks and allow for business to business data communications.

The growing complexity of manufacturing, warehousing and distribution operations, combined with competitive pressures created by global competition, have made logistics management a focal point of many corporations' strategies. Companies are now seeking new computer-based solutions for creating economic advantages and value-added services for customers through processes that emphasize productivity, mobility and flexibility. Wireless data communication systems support these requirements by providing a communications network that operates in real-time, allowing the mobile worker to remotely collect and transmit transaction data, access and update databases and receive host computer instructions that continually direct their work activities. By providing mobile computing devices for real-time communication, wireless data communication systems have created major opportunities for reducing distribution costs, improving operational efficiencies, meeting customer expectations for just-in-time order fulfilment and achieving higher asset utilization, accompanied by lower capital investment.

### ***Business Strategy***

Our business strategy is to develop and support a multi-platform family of wireless communications products that can be quickly developed and customized to meet our customers' individual market requirements. We have taken several steps in recent months to support our business strategy including:

- (i) *Developing a Multi-Platform Architecture Supporting Various Operating Systems.* We work with our customers to develop application-specific wireless computing devices for business applications. Unlike many of our competitors we are not limited to developing solutions for any one specific operating system and are taking steps to develop solutions based on the leading operating systems, including DOS, Windows 98, Windows 95, Windows CE, Windows NT, Windows 2000, Palm OS and Linux;
- (ii) *Developing a Family of Enclosures Supporting Various End-User Requirements.* Historically, we focused our product development efforts on ergonomic touch screen hand-held computers. Since 1991, we have delivered in excess of 18,000 hand-held units for application in several markets including transportation, point-of-sale as well as various logistics markets. Over the past several years, our hand-held computers have been successfully used in a number of applications that would often require another type of enclosure such as a fixed terminal or tablet. In order to offer our business partners the ability to select from a number of form factors, we are introducing a fixed terminal and tablet enclosure to address specific market opportunities;
- (iii) *Offering Solutions Incorporating Leading Wireless Architectures.* Our projects have utilized existing wireless architectures and have allowed us to define new wireless architectures, as needed. Our engineers have worked with most cellular and packet data protocols, including AMPS, TDMA,

CDMA, GSM, Mobitex, Ardis and CDPD for wide area networking applications and 802.11 RF compliant radios for local network area applications. We are committed to staying at the leading edge of wireless architectures so that we can develop wireless solutions with all leading wireless architectures. In March 2000, we joined the Bluetooth Special Interest Group. Bluetooth wireless technology is a de facto standard, as well as a specification, for small-form factor, low-cost, short-range radio links between mobile PCs, mobile phones and other portable devices. The Bluetooth Special Interest Group is an industry group consisting of leaders in the telecommunications and computing industries that are driving the development of this technology and bringing it to market. Bluetooth will enable users to connect a wide range of computing and telecommunications devices easily and simply, without the need to carry or connect cables; and

- (iv) *Developing Wireless Internet Appliances.* The Internet has historically been available through a personal computer connected by wireline. Early handheld devices provided only limited communication capabilities. More recently, the combination of wireless communications and handheld computing appliances has created the ability for mobile wireless access to desktop computer information, corporate databases and the Internet. We believe that our product development efforts will enable business users to integrate and manage wireless enterprise solutions, wireless Internet applications and services in providing mobile access to corporate information.

### ***Market***

The Internet is becoming an indispensable global network for transferring information and providing services. According to International Data Corporation ("IDC") unit shipments of Internet appliances will surpass unit shipments of consumer desktop PCs by 2001. As the Internet provides a common technology platform for communication, we believe that the demand for wireless Internet appliances will grow as well.

Worldwide sales of Automatic Information Data Capture ("AIDC") equipment exceeded U.S.\$7 billion in 1998 and are expected to reach U.S.\$13.2 billion by 2003. Market growth is driven by the global need for technologies and solutions that improve quality, productivity and cost-efficiency in business. Through logistics automation, supply chain management and enterprise resource planning solutions, companies of all sizes are turning to AIDC systems to reduce unnecessary operating expenses. We will continue to penetrate this market by designing and manufacturing custom-designed, application-specific, wireless data solutions for our customers and thus contribute directly to their efforts of cost reduction.

### ***Products And Services***

Our mobile computing devices are microprocessor-based, lightweight and battery-operated. Information may be captured by Radio Frequency Identification ("RFID") tags or may be manually entered by finger or stylus via a touch screen display. The information collected by the mobile computing device can then be transmitted instantly to a host computer across a wireless local area or wide area network or, in some instances, via modem.

#### ***Hand-held Products***

*Videopad.* Our Videopad product line of hand-held, touch-screen data collection computers was introduced in 1992 and was designed to integrate barcode scanners spread-spectrum RF transmitters and provide two-way wireless, on-site data communications between mobile workers and corporate information systems. There is an installed base of some 15,000 Videopad units worldwide with a significant market presence in the hospitality, transportation and postal services industries. The Videopad product line will be replaced over the next several months with our NOVAS<sup>TM</sup> product line, providing our customers with a more robust product line while still enjoying the same ergonomic form factor found in the Videopad unit.

*Featherweight™*. Our Featherweight™ product is a ten-ounce, pocket-sized bar code scanner and data collection platform. Utilizing a patented keyboard design, Featherweight™ sets a new standard for integration of full alphanumeric data entry with only thirteen keys. Barcode scanning is optimized for either hand by a centrally located "Enter/Scan" key. In November 1997, we entered into a technology transfer agreement with Intermec Technologies Inc. wherein the Featherweight™ intellectual property was sold in exchange for a royalty for five years at an average of U.S. \$25 per unit.

*NOVAS™*. Our NOVAS™ product line is a powerful data collection tool ideal for mobile service industry applications. NOVAS™ greatly improves the ease of mobile data collection by employing user-friendly touch screen technology, signature capture and industry standard DOS in a proven, rugged and ergonomic design. NOVAS™ utilizes the DOS 6.22 operating system and supports PenRight! for Windows, an object-oriented software development kit allowing programmers to rapidly develop and customize application software.

#### *Fixed Terminal Products*

*WFT-100*. WFT-100 was designed in response to customer needs for a robust wireless data communications product supporting local and wide area networking communications protocols, Global Positioning Satellite ("GPS") and two-way short messaging services ("SMS"). Featuring a user-friendly touch-screen interface, WFT-100 has been developed to support various analog and digital input and output boards to facilitate use in various vertical markets. Initial product delivery of WFT-100 units is expected to be completed by August 2000.

#### *Peripheral Products*

We also integrate a variety of peripheral products into or with our regular product line, including laser bar code readers, modular printers, chargers, cradles, modems and communication interfaces, some of which are purchased from outside vendors.

#### *Sales and Marketing*

We utilize a direct sales and technical support team to serve leading integrators, such as IBM, with sales and technical support offices located in Amherst, NH and a sales office in Orlando, FL. In addition, we provide OEM services to industry leaders such as Micro Systems Inc., a worldwide leader in point-of-sale and hospitality equipment.

Our marketing efforts focus on product awareness through print advertising, trade shows and direct mail. We participate at several major industry conferences including ScanTech, held this year in Rosemont, IL.

#### *Technical Support and Customer Service*

We believe that our technical support and customer service programs have been key factors in distinguishing us from many other vendors of similar products. We offer extensive user documentation and a technical support hotline to our customers. Our technical analysts answer technical support calls directly and provide same-day or next-day response to questions that cannot be resolved in an initial phone call.

All of our products include a one-year limited warranty that permits customers to return any product for repair or replacement if the product does not perform as warranted. We have not encountered any material warranty claims or liabilities. All maintenance and repair services for our North American customers are provided from our facilities in Amherst, NH.

We offer a variety of service arrangements to meet customer needs. European product support is provided on our behalf pursuant to a strategic arrangement with IBM, who has been supplied our technical documentation, product update information and a revolving inventory of spare modules. Additionally, IBM personnel have been formally trained at our facilities.

## ***Competition***

Our business is highly competitive and influenced by advances in technology, product improvements, new product introductions and price competition. We compete on the basis of product features, price, quality, reliability, brand name recognition, developed sales channels, product documentation, product warranties and technical support and service. Many firms are engaged in the manufacture and marketing of portable data collection systems and bar code reading equipment utilizing laser and other scanning technology. Furthermore, numerous companies, including present manufacturers of scanners, lasers, optical instruments, microprocessors, notebook computers, PDAs and data radios have the technical potential to compete with us. Historically, we competed with the principal manufacturers of mobile computing and communications systems including Intermecc Technologies Inc. and Symbol Technologies, Inc.

As a result of our recent business strategy, we no longer compete with the traditional providers of hand-held data collection terminals, but rather a variety of businesses serving the wireless communications industry, particularly within the Internet hardware appliance segment. Additionally, as remote communications over the Internet increases, we will place a greater emphasis on providing Internet access appliances to facilitate wireless E-commerce.

## ***Product Development***

Our product development initiatives are focused on developing a multi-platform CPU board supporting various leading operating systems including DOS, Windows CE, Palm OS and Linux and developing a family of enclosures supporting various end-user requirements.

## ***Intellectual Property***

We regard certain of our hardware and software products as proprietary and rely on a combination of United States and foreign patent, copyright, trademark and trade secret laws and license and other contractual confidentiality provisions to protect our proprietary rights. Notwithstanding these protections, we believe that the competence and creative ability of our highly trained and creative personnel is as important to our competitive position as are the legal protections noted above, especially in light of the rapidly changing nature of the industry's technology.

## ***Production***

Our production operations consist primarily of final assembly, burn-in, functional testing, shipping and quality control. We use third party contract manufacturers for certain component and circuit board assembly and testing and have developed strategic relationships with several qualified and reliable local assembly houses. All components are procured from third party, ISO-certified suppliers. Our headquarters and assembly facility are located in approximately 7,500 square feet of leased space in Amherst, NH. The above facility is sufficient to support its operations for the foreseeable future.

## ***Government Regulations***

Certain of our products must comply with regulations promulgated by the FCC, Underwriters Laboratories ("UL"), the Canadian Standards Association ("CSA"), the European Community Standards ("ECS") and other similar regulatory bodies. These regulations relate to laser light emissions, intentional or non-intentional RF energy emissions, standards for weighing instruments, European Electromagnetic Compatibility ("EMC") directives and include mandates for warning labels, safety features, levels for laser power, weight measuring, voltage and electromagnetic fields. Our operations are also subject to certain federal, state and local requirements relating to environmental, waste management, health and safety regulations.

## Human Resources

We currently employ 43 people. None of our employees are governed by a collective bargaining agreement. We believe that the working relationships with our employees are excellent.

## Leased Properties

Our Canadian office is located at 170 Attwell Drive, Suite 620, Toronto, ON, M9W 5Z5. Our U.S. offices are located at 13 Columbia Drive, Suite 6, Amherst, NH, 03031 and 2250 Obispo Ave., Suite 105, Signal Hill, CA, 90806. We lease all of these properties.

Our U.S. premises are leased for terms of 3 years expiring in April 2002 (Amherst, NH) and April 2003 (Signal Hill, CA). The total lease costs for the fiscal year ended June 30, 1999 were approximately \$2,000 per month for the Toronto, ON office, U.S. \$3,900 per month for the Amherst, NH location and U.S. \$1,675 per month for our former office in Huntington Beach, CA location. Lease costs for the Amherst, NH premises are expected to be approximately the same amount for the fiscal year ended June 30, 2000, while lease costs for our Toronto, ON premises are expected to be \$3,500 per month and U.S.\$4,624 per month for our Signal Hill, CA premises.

## CONSOLIDATED CAPITALIZATION

The following table sets forth our consolidated capitalization as at June 30, 1999, and March 31, 2000, respectively and as at March 31, 2000 after giving effect to this offering. This table should be read in conjunction with the consolidated financial statements and the notes thereto contained elsewhere in this prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operation".

	Authorized	As at June 30, 1999	As at March 31, 2000 (Unaudited)	As at March 31, 2000 after giving effect to this offering <sup>(1)(3)</sup> (Unaudited)
Convertible Debentures . . . . .	-	-	\$ 482,961	-
Shareholders' Equity				
Special Warrants . . . . .	-	-	\$ 5,000,000 <sup>(6)</sup> (5,324,000 Special Warrants)	-
Common Shares and Convertible Shares . . . . .	Unlimited	\$ 24,379,055 (14,239,998 shares)	\$ 26,297,954 <sup>(7)</sup> (21,324,425 shares)	\$ 31,843,287 <sup>(5)</sup> (30,208,423 shares)
Preference Shares . . . . .	Unlimited	-	-	-
Equity component of Convertible Debentures . . . .	-	-	\$ 62,372	-
Accumulated Deficit . . . . .	-	\$ (24,282,434)	\$ (25,138,466) <sup>(4)</sup>	\$ (25,138,466) <sup>(4)</sup>
Total Shareholders' Equity . . . . .	-	\$ 96,621	\$ 6,221,860	\$ 6,704,821
Total capitalization . . . . .	-	\$ 96,621	\$ 6,704,821	\$ 6,704,821

**Notes:**

- (1) After giving effect to the issuance of 5,324,000 Common Shares upon the exercise or deemed exercise of the Special Warrants and 3,559,998 Common Shares upon the conversion of the Convertible Debentures. See "Plan of Distribution". Excludes employee stock options outstanding at April 30, 2000 to purchase an aggregate of 1,426,734 Common Shares. See "Options to Purchase Common Shares".
- (2) Broker warrants to acquire Compensation Options were issued to the Agent in connection with the offering of the Special Warrants. The Compensation Options entitle the holder thereof to purchase 500,000 Common Shares at a price of \$1.00 per share on or before the date which is twelve months from the Class B/C Qualification Date. See "Plan of Distribution - Broker Warrants".
- (3) After giving effect to the conversion of all of the outstanding Convertible Debentures.
- (4) As at March 31, 2000, we had an accumulated deficit of \$25,138,466 (unaudited).
- (5) Before adjustment for unamortized Convertible Debenture issue costs.
- (6) Before deducting estimated share issue costs.
- (7) Net of estimated share issue costs.

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

Investors should read the following discussion and analysis in conjunction with our consolidated financial statements and the related notes thereto appearing elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual financial condition and results of operations could differ materially from those that may be contemplated by these forward-looking statements as a result of those risks, uncertainties and assumptions. For additional information regarding those risks, uncertainties and assumptions, please see "Risk Factors".

### **Overview**

We provide remote communications solutions using wireless and wireline technology for commercial and industrial markets. We operate our business as units allowing for greater market focus and customer awareness. Our business units are noted below:

**Global Data Wireless.** Based in Signal Hill, CA with regional offices in Toronto, ON, Raleigh, NC and Albuquerque, NM, Global Data Wireless designs, develops, markets and supports products and services for automated meter reading and remote telemetry applications for the electric power industry.

**StarComm Products.** Based in Huntington Signal Hill, CA, StarComm Products is a leading developer of industrial rated wireline and wireless modems, Digital Subscriber Line, or DSL, devices and custom communications modules for industrial automation, transportation, security and card access and telecommunications markets. StarComm Products' development efforts are focused on deploying circuit switched and packet data services in a wide variety of commercial and industrial applications. StarComm Products' DSL and wireless products enable customers to transition their existing networks to a new generation of communications technology offering higher performance and reliability at reduced costs.

**Granite Communications.** Based in Amherst, NH, Granite Communications is a leading developer of application-specific wireless computing products for commercial markets. Specifically, Granite Communications provides custom wireless solutions for industry-leading Original Equipment Manufacturers and Systems Integrators.

We derive our revenues primarily from sales of products assembled by us using components primarily procured from third parties. In addition, a small amount of our revenue comes from royalties based upon per unit charges and maintenance fees. Maintenance services revenues are recognized rateably over the period.

Our expenses consist of product costs, selling and marketing, product development and general and administrative. Our cost of products sold consists primarily of the component cost of our hardware products manufactured by third parties to our specifications as well as the procured costs of third-party hardware. Our selling and marketing expenses consist primarily of employee salaries and commissions, and include related travel, public relations and corporate communications costs and trade shows, marketing programs and market research. Research and development expenses consist primarily of employee salaries. General and administrative expenses consist primarily of salaries and other personnel-related expenses for executive, financial and administrative personnel, as well as facility, telecommunications and professional services fees. In anticipation of business growth, we expect to incur significantly higher selling and marketing, product development, and general and administrative expenses and capital expenditures in subsequent periods. We may not continue to grow at a pace that will support these costs and expenditures. To the extent that our revenue does not increase at a rate commensurate with these additional costs and expenditures, our results of operation and liquidity would be materially adversely affected.

On March 15, 2000, we acquired all the outstanding shares of StarComm Products, Inc. The acquisition was completed for cash consideration of U.S.\$343,156 and the issuance of 3,084,918 of our Common Shares.

### **Nine months ended March 31, 2000 compared to nine months ended March 31, 1999**

#### *Net Sales*

Net sales for the nine months ended March 31, 2000 were \$5.0 million compared to \$5.3 million for the nine months ended March 31, 1999. Net sales generated by Global Data Wireless for the nine months ended March 31, 2000 were \$1.8 million compared to \$1.5 million in the same period in 1999. This increase reflects the continued rollout of our CS-832 product line and its strong acceptance in the marketplace. Net sales generated by StarComm Products for the 16 days ended March 31, 2000 were approximately \$50,000. Net sales generated by Granite Communications for the nine months ended March 31, 2000 were \$3.2 million compared to \$3.8 million in the same period in 1999. This decrease can be attributed to a reduction in the number of Videopad™ and Featherweight™ shipments as those products are being phased out in favour of our NOVAS™ product line and custom engineering services.

#### *Cost of Sales*

Cost of sales for the nine months ended March 31, 2000 was \$2.9 million (41% gross margin) compared to \$3.8 million (28% gross margin) for the nine months ended March 31, 1999. The increase of 13% in gross margin is attributed to a lower quantum of factory overhead due to cost cutting initiatives.

#### *Operating Expenses*

Operating expenses declined to \$2.9 million in the nine month period ended March 31, 2000 from \$4.5 million in the nine month period ended March 31, 1999. This decrease is primarily attributable to the comprehensive reorganization of Granite Communications which was implemented in March 1999 and involved a reduction of staff and relocation of premises.

### **Year ended June 30, 1999 compared to year ended June 30, 1998**

#### *Net Sales*

Net sales in fiscal 1999 were \$7.2 million compared to \$10.1 million in fiscal 1998. Net sales generated by Global Data Wireless were \$2.1 million compared to \$2.6 million in fiscal 1998, a 20% decrease attributable to exiting legacy products and focusing on sales of the CS-832 product line late in the second quarter of the fiscal year. Net sales generated by Granite Communications were \$5.1 million compared to \$7.5 million in fiscal 1998, a 32% decrease attributable to a slower than anticipated rollout of the NOVAS™ product line.

### *Cost of Sales*

Cost of sales in fiscal 1999 was \$4.9 million (31% gross margin) compared to \$6.7 million (34% gross margin) in fiscal 1998. The decrease in gross margin in fiscal 1999 was caused by lower sales volumes and underutilized factory overhead.

### *Operating Expenses*

Operating expenses declined from \$6.6 million in fiscal 1998 to \$5.3 million in fiscal 1999 as the result of a reduction in staff at Granite Communications as well as a series of cost reduction initiatives initiated at the corporate level commencing in the third quarter. We incurred expenses of \$1.6 million (22% of sales) in efforts to bring our CS-832 and NOVAS™ product lines to market. Additionally, we invested \$1.5 million (21% of sales) in marketing and sales channel development.

Our royalty and licensing income was \$0.1 million in fiscal 1999 compared to \$0.4 million in fiscal 1998. In fiscal 1999, we received a one-time payment of \$0.1 million for licensing certain of its fixed wireless patents to Nortel Networks Corporation.

During fiscal 1999, our portfolio investment in Telular Corporation was revalued to market and subsequently sold. Similarly, our investment in Triarx Gold Corporation was revalued to market at year-end. These actions resulted in a charge to earnings of \$0.2 million.

We conducted an extensive review of our intangible assets. This review resulted in a charge to earnings of \$0.8 million in fiscal 1999. Additionally, we conducted an extensive review resulting in a number of charges totalling \$0.3 million recorded in the fiscal year.

## **Year ended June 30, 1998 compared to year ended June 30, 1997**

### *Net Sales*

Net sales increased from \$9.5 million in fiscal 1997 to \$10.1 million in fiscal 1998. Net sales generated by Granite Communications increased by 17% from \$6.5 million in fiscal 1997 to \$7.5 million in fiscal 1998, due in part to the production release of the Featherweight™ product. Net Sales from Global Data Wireless declined marginally from \$2.9 million in fiscal 1997 to \$2.6 million in fiscal 1998 as the unit streamlined its marketing direction and began to focus on the utility industry.

### *Cost of Sales*

Cost of sales in fiscal 1998 was \$6.7 million (34% gross margin) compared to cost of sales in fiscal 1997 of \$6.4 million (32% gross margin).

Gross margins for Granite Communications strengthened as expected in fiscal 1998 as factory efficiencies increased with increasing production. Concurrently, we worked with our key vendors to keep costs down and improve product/inventory turns.

### *Operating Expenses*

Operating expenses (excluding restructuring expenses, write-downs and royalty income) declined from \$6.8 million in fiscal 1997 to \$6.6 million in fiscal 1998. This was primarily the result of our continued and concentrated focus on managing to the bottom line.

Despite the reduction in operating expenses, we incurred expenses of \$2 million (20% of sales) in completing the Featherweight™ product line and several key ancillary devices; initial design and prototyping of the NOVAS™ product; the development of an OEM product for a major telecommunications company; and the initial development of the CS-832, Global Data Wireless' new product offering for the utility industry.

Our investment in Telular Corporation was revalued to reflect the market value of this investment as of June 30, 1998. Similarly, our investment in Triarx Gold Corporation, formerly Arrowlink Corporation, was revalued to reflect the market value of this investment as of June 30, 1998. This revaluation resulted in a charge to earnings of \$0.1 million.

### **Liquidity and Capital Resources**

In August 1999, we completed a private placement of the Convertible Debentures in an aggregate principal amount of \$545,333, which bear interest at the rate of 15% per annum. The Convertible Debentures are convertible into our Common Shares at a rate of \$0.15 per share at the option of the holder with the exception of Convertible Debentures in an aggregate principal amount of \$45,333, which are convertible at a rate of \$0.20 per share.

In the fourth quarter of fiscal 1999, we entered into a financing agreement with Montcap Financial Corporation ("Montcap") pursuant to which Montcap provides financing on a recourse basis of up to \$1.0 million by the factoring of accounts receivable. Montcap does not purchase and claim ownership to these accounts receivable but rather provides factoring services on a recourse basis. Montcap advances funds against selected accounts receivable in an amount up to 85% of approved accounts receivable. These funds are subject to a 1.5% discount fee on the face value of factored accounts receivable plus an interest charge calculated at a variable interest rate for the period the factored accounts receivable remain outstanding. These funds are secured by a general security agreement creating a first charge on all of our assets. We used \$457,082 of the net proceeds from the sale of the Special Warrants to repay the indebtedness outstanding under this facility, which remains available to us.

In December 1999, we completed a rights offering for aggregate net proceeds of \$0.5 million. Under the rights offering, holders of our Common Shares received one right for each Common Share held by them. Four and one-half rights entitled a holder to purchase one Common Share at a subscription price of \$0.20.

On January 26, 2000, February 24, 2000, and April 27, 2000 we completed the sale of an aggregate of 5,324,000 Special Warrants, convertible into Common Shares at no additional cost, for gross proceeds of \$5.0 million. Net cash proceeds after deduction of the Agent's fees payable in cash and issue expenses are expected to be approximately \$4.624 million. We believe that our available cash, including the net proceeds from the sale of the Special Warrants and interest earned thereon, should be sufficient to finance our operations and capital needs until the fourth quarter of calendar 2000. We expect to raise additional capital to fund our growth plans during the fourth quarter of calendar 2000 and beyond. We will seek such additional funding through public or private equity or debt financings from time to time, as market conditions permit, or through collaborative arrangements.

On March 15, 2000, we completed the acquisition of StarComm Products, Inc. The purchase price was satisfied by the payment of US\$343,156 and the issuance of 3,084,918 of our Common shares.

### **Impact of Year 2000 Issue**

The Year 2000 issue relates to the way dates have traditionally been stored and used in computing systems. To conserve expensive memory space, years were stored as two digits, so that the year 2000 will appear in many computing systems as "00". Many systems and computers will interpret "00" as the year 1900 instead of the year 2000. This could create difficulties in performing certain computing functions or potentially cause system failures. This in turn could result in miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in other normal business activities. In addition, similar

problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000.

We did not encounter any problems as a result of the Year 2000 issue.

## PLAN OF DISTRIBUTION

Definitive certificates for Common Shares issuable upon the exercise or deemed exercise of the Special Warrants and for Common Shares issuable upon conversion of the Convertible Debentures will be available for delivery upon the exercise or deemed exercise of the Special Warrants and the conversion of the Convertible Debentures, respectively.

Subsequent to the Expiry Date, Special Warrant certificates will cease to evidence Special Warrants and will represent only the right of the registered holder to receive certificates for the applicable number of Common Shares pursuant to the terms of the Special Warrant certificates.

**Common Shares issued to holders of Special Warrants or Convertible Debentures in any province in which a receipt for this prospectus has not been issued may be subject to resale restrictions contained in the applicable securities legislation.**

The securities offered under this prospectus 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, sold or delivered directly or indirectly, in the United States of America, its territories or possessions.

### Special Warrants

We are hereby qualifying for distribution 5,324,000 Common Shares, which are issuable without additional consideration upon the exercise or deemed exercise of 950,000 Class A Special Warrants, 3,090,240 Class B Special Warrants and 1,283,760 Class C Special Warrants previously issued by us on January 26, 2000 and February 24, 2000. The Special Warrants were sold at a price of \$1.00 per Special Warrant pursuant to the Agency Agreement. Each Class A Special Warrant entitles the holder thereof to acquire one Common Share, at no additional cost, at any time prior to 5:00 p.m. (Toronto time) on the earlier of: (i) the Class A Qualification Date; or (ii) the Expiry Date. Each Class B Special Warrant and each Class C Special Warrant entitles the holder thereof to acquire one Common Share, at no additional cost, at any time prior to 5:00 p.m. (Toronto time) on the earlier of: (i) the Class B/C Qualification Date; or (ii) the Expiry Date. Any Special Warrants not exercised prior to 5:00 p.m. (Toronto time) on the Expiry Date will be deemed to have been exercised, as at such time, without any further action on the part of the holder.

If the Class A Qualification Date or the Class B/C Qualification Date has not occurred prior to the Qualification Deadline, holders of Class A Special Warrants or Class B Special Warrants and Class C Special Warrants, respectively, will be entitled to receive upon exercise or deemed exercise of each Class A Special Warrant, Class B Special Warrant or Class C Special Warrant, as the case may be, 1.1 Common Shares in lieu of the one Common Share otherwise receivable without payment of additional consideration. Under no circumstances will the Penalty be applicable to the Special Warrants issued to the Agent as partial payment of its fees in connection with the sale of Special Warrants. In accordance with the rules of the TSE, the issuance of: (i) an additional one-tenth of a Common Share upon the exercise or deemed exercise of a Class B Special Warrant in the event that the Class B/C Qualification Date has not occurred prior to the Qualification Deadline; and (ii) the Class C Special Warrants and certain other securities issued in connection with the sale of the Special Warrants required Shareholder Approval, which approval was received at a special meeting held on April 27, 2000.

## Convertible Debentures

We issued and distributed the Convertible Debentures on August 31, 1999 in an aggregate principal amount of \$545,333. Interest on the Convertible Debentures at an annual rate of 15% per \$1,000 principal amount of Convertible Debentures is payable on a quarterly basis in cash or in kind. An aggregate principal amount of \$500,000 of the Convertible Debentures are convertible at the option of the holders into Common Shares by March 1, 2001 at a conversion price of \$0.15 per Common Share, being a rate of 6,667 Common Shares per \$1,000 principal amount of Convertible Debentures, and an aggregate principal amount of \$45,333 of the Convertible Debentures are convertible at the option of the holders into Common Shares by March 1, 2001 at a conversion price of \$0.20 per Common Share, being a rate of 5,000 Common Shares per \$1,000 principal amount of Convertible Debentures, subject to adjustment in certain circumstances. This prospectus qualifies the distribution of 3,559,998 Common Shares issuable upon conversion of \$545,333 aggregate principal amount of Convertible Debentures.

## Compensation Options

We granted to the Agent broker warrants to acquire the Compensation Options. The Compensation Options entitle the holder thereof to purchase an aggregate number of Common Shares equal to 10% of the total number of Special Warrants sold (being 500,000 Common Shares) at a price of \$1.00 per share on or before the date which is twelve months from the Class B/C Qualification Date. This prospectus qualifies the distribution of one-half of the Compensation Options issuable upon exercise of such broker warrants and the Common Shares issuable upon exercise of such Compensation Options.

## USE OF PROCEEDS

The estimated net proceeds from the sale of Special Warrants after deducting the expenses of this offering, estimated to be \$300,000, which includes legal and audit expenses, and after deducting the Agent's fee paid in cash of \$76,000 in respect of the Special Warrants, will be \$4,624,000. We intend to use the net proceeds from the sale of the Special Warrants as follows:

To fund the cash portion of the purchase price payable in connection with the acquisition of StarComm Products, Inc.	\$ 514,734
Product development	\$ 2,000,000
Repayment of secured notes	\$ 457,082
Working capital requirements	<u>\$ 1,652,184</u>
Net proceeds	<u>\$ 4,624,000</u>

We used \$514,734 of the net proceeds from the sale of the Special Warrants to fund the cash portion of the purchase price payable in connection with the acquisition of StarComm Products, Inc. on March 15, 2000 and \$457,082 to repay our indebtedness under secured notes owing to Montcap Financial Corporation.

**DIRECTORS AND EXECUTIVE OFFICERS**

**Directors**

The following table sets forth, for each of our directors, his name, municipality of residence, the year in which he became a director, and his principal occupation. Directors are elected or appointed until the next annual meeting of shareholders or, in the case of a vacancy or resignation, until a successor is elected or appointed.

<b>Name and Municipality of Residence</b>	<b>Director Since</b>	<b>Principal Occupation</b>
Lawrence E. Davis . . . . . Toronto, ON	April, 1999	President and Chief Executive Officer of GDI Global Data Inc.
David R. Dempster . . . . . Burlington, ON	August, 1997	Partner, Malach & Fidler (Barristers and Solicitors)
Barry Hildred . . . . . Burlington, ON	February, 1999	Chairman, The Equicom Group Inc. (investor relations consulting firm)

**Executive Officers**

The table below sets forth the name, municipality of residence, the first year of employment and the position of each executive officer of the Company on the date hereof.

<b>Name and Municipality of Residence</b>	<b>With GDI Global Data Inc. Since</b>	<b>Position</b>
Lawrence E. Davis . . . . . Toronto, ON	February, 1999	President and Chief Executive Officer of GDI Global Data Inc.
Robert St. Amand . . . . . Chester, NH	November, 1995	President, Granite Communications
Phillip R. Sutter . . . . . San Pedro, CA	March, 2000	Chief Technology Officer of GDI Global Data Inc. and President, StarComm Products, Inc.
Craig A. Laurence . . . . . Toronto, ON	February, 2000	Vice President, Finance and Administration, Corporate Secretary of GDI Global Data Inc.

**Audit Committee**

Our Board of Directors is required to elect annually from among its members an audit committee comprised of not less than three members. At present, the Audit Committee consists of Lawrence E. Davis, David R. Dempster and Barry Hildred. The Audit Committee must review our annual and interim financial statements and report thereon to the Board of Directors before such statements are approved by the Board of Directors.

**Directors' and Officers' Insurance**

We maintain liability insurance for our directors and officers. The policy does not distinguish between the liability insurance for its directors and officers, the coverage being the same for both groups. For the 12-month period

ending June 30, 1999 we paid the premiums under this policy of approximately \$32,000. The coverage is subject to a maximum annual amount with a fixed corporate deductible per loss. Our individual directors and officers are insured against losses arising from claims against them for certain of their acts, errors or omissions in such capacity. We are insured against losses arising out of any liability to indemnify a director or officer.

## EXECUTIVE COMPENSATION

### Compensation of Executive Officers

The following table and related narrative below provide a summary of the compensation earned during our last three fiscal years by our President and Chief Executive Officer and other employees whose salaries and bonuses exceeded \$100,000 in the fiscal year ended June 30, 1999 ("Named Executive Officers").

**Summary Compensation Table**

Name and Principal Position	Year <sup>(8)</sup>	Salary (\$)	Bonus (\$)	Other Annual Compensation (\$) <sup>(6)</sup>	Long-Term Compensation Awards – Shares under Option (#)
Harry R. Klein <sup>(1)</sup> President and Chief Executive Officer	1999	118,984 <sup>(2)</sup>	22,614 <sup>(2)</sup>	15,000 <sup>(2)</sup>	50,000
	1998	140,005 <sup>(2)</sup>	25,000 <sup>(2)</sup>	–	–
	1997	145,390 <sup>(2)</sup>	47,000 <sup>(2)</sup>	–	–
Lawrence E. Davis <sup>(3)</sup> President and Chief Executive Officer	1999	60,750	-	-	625,000 <sup>(7)</sup>
J. Catherine Widmer <sup>(4)</sup> Chief Financial Officer	1999	75,894 <sup>(2)</sup>	17,547 <sup>(2)</sup>	–	30,000
	1998	88,005 <sup>(2)</sup>	14,500 <sup>(2)</sup>	–	36,500
	1997	93,082 <sup>(2)</sup>	24,000 <sup>(2)</sup>	–	–
Christopher Naprawa <sup>(5)</sup> President, Global Data Wireless	1999	83,402	–	51,397	30,000
	1998	79,615	–	26,766	50,000
	1997	55,000	2,000	24,702	–
Robert St. Amand President, Granite Communications	1999	91,944 <sup>(2)</sup>	17,000 <sup>(2)</sup>	–	30,000
	1998	80,231 <sup>(2)</sup>	14,000 <sup>(2)</sup>	–	36,500
	1997	78,430 <sup>(2)</sup>	20,000 <sup>(2)</sup>	–	–

**Notes:**

- <sup>(1)</sup> Mr. Klein resigned as our Chief Executive Officer in February 1999.
- <sup>(2)</sup> Expressed in U.S. dollars.
- <sup>(3)</sup> Mr. Davis was appointed Interim President and Chief Executive Officer on February 28, 1999. He was later appointed President and Chief Executive Officer and a Director on April 13, 1999.
- <sup>(4)</sup> Ms. Widmer resigned as an officer in February 1999.
- <sup>(5)</sup> Mr. Naprawa was appointed as President, Global Data Wireless in July, 1999 and commenced employment with GDI in January, 1996. Mr. Naprawa resigned as an officer in January 2000.
- <sup>(6)</sup> Perquisites and other personal benefits, securities and property did not exceed the lesser of \$50,000 and 10% of the total annual salary and bonus of each Named Executive Officer for the financial year.
- <sup>(7)</sup> Mr. Davis was granted 500,000 options for a term of 3 years on February 28, 1999 as part of his compensation as President and Chief Executive Officer. The Board of Directors granted him an additional 125,000 options for a term of 3 years on August 6, 1999.
- <sup>(8)</sup> Our fiscal year ends on June 30. Reference to "1999" means the period July 1, 1998 though June 30, 1999, with similar periods applied to the years "1998" and "1997", respectively.

### Option Grants During the Most Recently Completed Financial Year

The following table sets forth information regarding the grant to Named Executive Officers of options to purchase Common Shares during the year ended June 30, 1999.

Name	% of Total Options Granted to Employees & Directors in Financial Year	Exercise Price (\$/Security)	Market Value of Shares Underlying Options on the Date of Grant (\$)	Expiration Date
Harry R. Klein	5.18	\$0.63	\$31,500	March 29, 1999 <sup>(1)</sup>
Lawrence E. Davis	51.81 <sup>(3)</sup>	\$0.18	\$90,000	February 28, 2002
J. Catherine Widmer	3.11	\$0.63	\$18,900	March 29, 1999 <sup>(2)</sup>
Christopher Naprawa	3.11	\$0.63	\$18,900	August 17, 2008
Robert St. Amand	3.11	\$0.63	\$18,900	August 27, 2008

#### Notes:

- (1) Following his resignation on February 26, 1999, all options granted to Mr. Klein expired on March 29, 1999.
- (2) Following her resignation on February 26, 1999, all options granted to Ms. Widmer expired on March 29, 1999.
- (3) Mr. Davis was granted 500,000 options for a term of 5 years on February 28, 1999 as part of his compensation as President and Chief Executive Officer. The Board of Directors granted him an additional 125,000 options for a term of 3 years on August 6, 1999, subsequent to our fiscal year end of June 30, 1999. These additional 125,000 options are not factored into the totals reflected in this table.

### Option Exercises During The Most Recently Completed Financial Year and Financial Year-end Option Values

The following table sets forth information concerning exercises of options to purchase Common Shares by Named Executive Officers during the year ended June 30, 1999 and the number and value of unexercised options held by them at June 30, 1999.

Name	Shares Acquired on Exercise	Aggregate Value Realized (\$)	Unexercised Options at June 30, 1999 (#) Exercisable/Unexercisable	Value of Unexercised in-the-Money Options at June 30, 1999 (\$) Exercisable/Unexercisable <sup>(1)</sup>
Harry R. Klein <sup>(2)</sup>	Nil	Nil	Nil	Nil
Lawrence E. Davis	Nil	Nil	200,000/300,000 <sup>(3)</sup>	\$26,000/\$54,000 <sup>(3)</sup>
J. Catherine Widmer <sup>(4)</sup>	Nil	Nil	Nil	Nil
Christopher Naprawa	Nil	Nil	43,332/36,668	Nil
Robert St. Amand	Nil	Nil	104,332/32,168	Nil

#### Notes:

- (1) As at June 30, 1999, with the exception of the options held by Mr. Davis, none of the options granted to the Named Executive Officers were in-the-money.
- (2) Following his resignation on February 26, 1999, all options granted to Mr. Klein expired on March 29, 1999.

- (3) Mr. Davis was granted 500,000 options for a term of 5 years on February 28, 1999 as part of his compensation as President and Chief Executive Officer. The Board of Directors granted him an additional 125,000 options for a term of 3 years on August 6, 1999, subsequent to our fiscal year end of June 30, 1999. These additional 125,000 options are not factored into the totals reflected in this table.
- (4) Following her resignation on February 26, 1999, all options granted to Ms. Widmer expired on March 29, 1999.

### **Employment Contracts**

Lawrence E. Davis performs his duties as the President and Chief Executive Officer for us pursuant to an employment contract made as of February 28, 2000. This agreement terminates on February 28, 2003, but is automatically renewable for successive periods of one year following the original three year term or any renewal term unless either party has given at least 30 days' written notice to the other that such agreement is to terminate at the end of the term in question. In the event that we terminate Mr. Davis' employment, other than for cause, Mr. Davis is entitled to be paid the amount of his salary for twelve months following termination. Under the terms of our stock option plan, in the event Mr. Davis voluntarily terminates his employment with good reason, then all of Mr. Davis' options and other rights to acquire securities shall vest immediately.

Phillip R. Sutter performs his duties as our Chief Technology Officer and President of StarComm Products pursuant to an employment contract made as of March 13, 2000. The agreement terminates on March 15, 2003, but is automatically renewable for successive periods of one year following the original three year term or any renewal term unless either party has given at least 90 days' written notice to the other that such agreement is to terminate at the end of the term in question. In the event that we terminate Mr. Sutter's employment, other than for cause, Mr. Sutter is entitled to be paid the amount of his salary for twelve months following termination. Under the terms of our stock option plan, in the event Mr. Sutter voluntarily terminates his employment with good reason, then all of Mr. Sutter's options and other rights to acquire securities shall vest immediately.

### **Compensation of Directors**

Our directors who are not also officers of our Company are paid a fee of \$500 per meeting of our Board of Directors or committee thereof attended by a director. Directors who are not also officers of the Company are also paid a quarterly fee of \$2,500. Our Chairman receives an additional monthly fee of \$1,500. In the aggregate, \$24,250 in fees were paid to directors of our Company from July 1, 1998 to June 30, 1999.

During the period from November 1998 to March 1999, David Dempster provided certain consulting services related to the restructuring of our operations during that period. As payment for those services, we have made a cash payment of \$10,000 to Mr. Dempster and, subject to the approval of our shareholders and applicable regulatory approval, agreed to issue Mr. Dempster 100,000 of our Common Shares.

### **Composition of the Compensation Committee**

Our Board of Directors is comprised of Messrs. Dempster, Davis and Hildred. Currently, matters relating to executive compensation are the responsibility of the entire Board of Directors, except for Mr. Davis' compensation, which is determined by Messrs. Dempster and Hildred.

## **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

No individual who is, or at any time during our most recently completed financial year was, a director, executive officer or senior officer, nor any associate of any one of them is, or at any time since the beginning of our most recent completed financial year has been, indebted to us or any of our subsidiaries or was indebted to another entity, which such indebtedness is, or was at any time during our most recent completed financial year of the Company, the

subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by us or any of our subsidiaries.

## DILUTION

### Special Warrants

The effective issue price of \$1.00 per Common Share issuable upon exercise of the Special Warrants exceeds the net tangible book value per Common Share as at March 31, 2000, after giving effect to the 5,324,000 Common Shares to be issued upon exercise of the Special Warrants but prior to giving effect to the issuance of the 3,559,998 Common Shares to be issued upon conversion of the Convertible Debentures, by \$0.84 or 84%. The following table sets out the dilution per Common Share as at March 31, 2000:

Issue price per Special Warrant <sup>(1)</sup>		\$1.00
Net tangible book value per share as at March 31, 2000	\$0.00	
Net tangible book value per share attributable to the distribution of the Special Warrants	<u>\$0.16</u>	
Net tangible book value per share after giving effect to the distribution of the Special Warrants <sup>(2)</sup>		<u>\$0.16</u>
Dilution to holders of Common Shares issuable on exercise of the Special Warrants		<u>\$0.84</u>
Percentage of dilution in relation to the offering price for the distribution of the Special Warrants		<u>84%</u>

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**Notes:**

- <sup>(1)</sup> Before deducting the cash fee of \$76,000 paid to the Agent in connection with the sale of the Special Warrants and estimated expenses of that issue.
- <sup>(2)</sup> Assuming the exercise or deemed exercise of each Special Warrant into one Common Share.

### Convertible Debentures

The issue prices of \$0.15 and \$0.20 per Common Share, respectively, issuable upon the conversion of the Convertible Debentures, exceeds the net tangible book value per Common Share as at March 31, 2000, before giving effect to the 5,324,000 Common Shares to be issued upon exercise or deemed exercise of the Special Warrants by \$0.13 or 87%. The following table sets out the dilution per Common Share as at March 31, 2000:

Issue price per Common Share		\$0.15
Net tangible book value per share as at March 31, 2000	\$0.00	
Net tangible book value per share attributable to the conversion of the Convertible Debentures	<u>\$0.02</u>	
Net tangible book value per share after giving effect to the conversion of the Convertible Debentures		<u>\$0.02</u>
Dilution to holders of Common Shares issuable on conversion of the Convertible Debentures		<u>\$0.13</u>
Percentage of dilution in relation to the offering price for the conversion of the Convertible Debentures		<u>87%</u>

## STOCK OPTIONS

### Stock Option Plan

We maintain a stock option plan (the "Plan"). The Plan is designed to develop the interest of our directors, officers, employees and other persons who provide ongoing services to us in our growth and development by providing such persons with the opportunity to acquire an increased proprietary interest in us and to better enable us to attract and retain persons of desired experience and ability.

The maximum number of Common Shares reserved for issuance at any time pursuant to the Plan is 4,264,885. The vesting and expiry date of options granted under the Plan are determined by our Board of Directors at the time the options are granted provided that the expiry date cannot be later than five years from the date of grant of such option. The exercise price of options granted under the Plan is fixed by our Board of Directors and must be the closing price of the Common Shares on the TSE on the first date proceeding the date of grant.

## OPTIONS TO PURCHASE COMMON SHARES

As at April 30, 2000, there were outstanding options to purchase a total of 1,426,734 Common Shares under the Plan and the following table sets out in detail all stock options issued and outstanding under the Plan.

Group	Amount	Grant Date	Expiry Date	Strike Price
<b>Officers</b>				
	125,000	06-Aug-99	08-Jun-02	\$0.30
	63,500	06-Jul-99	06-Jul-02	\$0.20
	400,000	28-Feb-99	28-Feb-02	\$0.18
	30,000	17-Aug-98	17-Aug-08	\$0.63
	36,500	08-Dec-97	07-Dec-02	\$0.48
	70,000	04-Jun-96	04-Jun-01	\$0.75
<b>Directors not Officers</b>				
	85,000	24-Feb-99	24-Feb-09	\$0.40
	50,000	17-Aug-98	17-Aug-08	\$0.63
	60,000	23-Jan-98	22-Jan-03	\$0.80
	60,000	13-Aug-97	31-Aug-02	\$0.65

<b>Group</b>	<b>Amount</b>	<b>Grant Date</b>	<b>Expiry Date</b>	<b>Strike Price</b>
<b>Employees</b>				
	100,000	19-Nov-99	19-Nov-02	\$0.20
	20,000	01-Nov-99	01-Nov-02	\$0.28
	40,000	11-Oct-99	11-Oct-02	\$0.23
	208,734	06-Jul-99	06-Jul-02	\$0.20
	20,000	17-Aug-98	17-Aug-08	\$0.63
	26,000	08-Dec-97	07-Dec-02	\$0.48
	29,000	04-Jun-96	04-Jun-01	\$0.75
	3,000	08-Feb-96	30-Jun-01	\$0.75

In addition, 316,444 options were granted to the Agent in December, 1999 pursuant to our rights offering. These options, which are not governed by the Plan, have a strike price of \$0.22 and expire on May 24, 2001.

Further, pursuant to the issuance of the Special Warrants, we granted to the Agent broker warrants to acquire the Compensation Options exercisable to purchase Common Shares at a price of \$1.00. See "Plan of Distribution - Compensation Options".

#### **DESCRIPTION OF SHARE CAPITAL**

Our authorized share capital consists of an unlimited number of Common Shares, an unlimited number of convertible shares and an unlimited number of preferred shares. As of May 31, 2000, 21,397,025 Common Shares, 22,000 convertible shares (and no Preferred Shares) were issued and outstanding as fully paid and non-assessable. In addition, 4,264,885 Common Shares are reserved for issuance under the Plan.

The holders of Common Shares are entitled to dividends, if, as and when declared by the directors, to one vote per Common Share at meetings of the holders of Common Shares and, upon liquidation, to receive such assets as are distributable to the holders of the Common Shares. The attributes of the convertible shares are identical to those of the Common Shares, and they are convertible into Common Shares on a one-for-one basis. The preferred shares may be issued in one or more series, and the directors are authorized to fix the number of preferred shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the preferred shares of each series.

#### **DIVIDEND POLICY**

Since our incorporation, we have not paid any dividends on our outstanding Common Shares. The future payment of dividends will be dependent upon our financial requirements to fund future growth, our financial condition and other factors which the Board of Directors may consider appropriate in the circumstances. It is unlikely that dividends will be paid in the foreseeable future.

## PRIOR SALES

In the twelve months prior to the date hereof, we have issued the following Common Shares:

<u>Date of Issuance</u>	<u>Number of Common Shares</u>	<u>Issue Price Per Share</u>	<u>Nature of Consideration</u>
March 15, 2000	3,084,918	\$ 0.5625 <sup>(1)</sup>	Shares <sup>(1)</sup>
December 22, 1999 to April 30, 2000 <sup>(2)</sup>	594,030	\$0.18 to \$0.80	Cash
December 31, 1999	200,000	\$ 0.20	Past services <sup>(4)</sup>
December 15, 1999	3,164,444	\$ 0.20	Cash
December 15, 1999	113,636	\$ 0.20	Agency services <sup>(3)</sup>

**Notes:**

- <sup>(1)</sup> Issued pursuant to the acquisition of StarComm Products. See "Acquisition of StarComm Products, Inc.". The issue price per share for this acquisition for accounting purposes is to be determined.
- <sup>(2)</sup> Issued upon the exercise of outstanding stock options at a weighted average price of \$0.28 per share.
- <sup>(3)</sup> Agency services provided by the Agent.
- <sup>(4)</sup> Issued to Christopher Naprawa and Robert St. Amand for past services rendered to us.

## PRINCIPAL SHAREHOLDERS

The following table sets forth the particulars, as of May 16, 2000, with respect to those persons who, to the knowledge of our directors or officers, beneficially own or exercise control or direction over more than 10% of the Common Shares (including our convertible common shares):

<u>Name</u>	<u>Number of Common Shares</u>	<u>Percentage of Common Shares</u>
The Canadian Depository for Securities Limited	14,868,511	69%

As of May 31, 2000, to the knowledge of our directors and officers, there are no other persons who are holders of record or are beneficial owners, directly or indirectly, of shares conferring over 10% of the voting rights attached to the issued and outstanding Common Shares.

As at May 31, 2000, our current directors and officers as a group own, directly or indirectly, or exercise control or direction over a total of 2,395,216 Common Shares representing approximately 11% of the issued and outstanding Common Shares.

## PRICE RANGE AND TRADING VOLUME OF THE COMMON SHARES

The Common Shares are listed for trading on the TSE. The following table summarizes the reported high and low trading prices and volume of trading of the Common Shares on the TSE for the periods indicated:

	<u>High</u>	<u>Low</u>	<u>Volume</u>
<b>1998</b>			
First Quarter . . . . .	\$1.30	\$0.65	2,721,466
Second Quarter . . . . .	0.99	0.50	967,920
Third Quarter . . . . .	1.00	0.40	717,367
Fourth Quarter . . . . .	1.56	0.52	1,544,495
<b>1999</b>			
First Quarter . . . . .	\$0.70	\$0.12	1,342,708
Second Quarter . . . . .	0.40	0.16	605,022
Third Quarter . . . . .	0.32	0.15	450,095
Fourth Quarter . . . . .	0.70	0.20	4,902,871
<b>2000</b>			
January . . . . .	\$1.62	\$0.70	5,081,881
February . . . . .	3.19	1.40	7,150,256
March . . . . .	3.70	1.95	3,956,946
April . . . . .	1.90	1.00	1,348,889
May 1 to May 30 . . . . .	1.25	0.86	685,181

On May 30, 2000, the closing price of our Common Shares on the TSE (as reported by the TSE) was \$0.91.

**INTERESTS OF MANAGEMENT AND OTHERS  
IN MATERIAL TRANSACTIONS**

The only transactions in which our directors or officers or any of our principal shareholders mentioned under "Principal Shareholders", or any associate or affiliate of any of the foregoing persons or companies has had, since May 31, 1997, a material interest, direct or indirect, which has materially affected or will materially affect us are as follows:

1. Phillip Sutter, our Chief Technology Officer, is a former shareholder of StarComm Products. We acquired all of the common shares of StarComm Products on March 15, 2000 and, in connection therewith, Mr. Sutter and his wife received an aggregate of 1,591,670 Common Shares and U.S.\$250,000 in cash; and
2. in August 1999, Lawrence E. Davis, our President and Chief Executive Officer purchased Convertible Debentures in an aggregate principal amount of \$25,333. In December 1999, Mr. Davis purchased Convertible Debentures in an aggregate principal amount of \$15,000 from Christopher Naprawa upon his departure from the Company. These Convertible Debentures are convertible into our Common Shares at a rate of \$0.20 per share.

## **MATERIAL CONTRACTS**

Except for contracts entered into the normal course of its business, the only material contracts we entered into during the past two years prior to the date hereof are the Convertible Debentures, the Agency Agreement and the Escrow Agreement referred to in "Plan of Distribution", a merger agreement dated March 14, 2000 pursuant to the acquisition of StarComm Products and the Montcap Facility referred to under "Management's Discussion and Analysis of Financial Condition and Results of Operations". Copies of the documents referred to above may be inspected at the offices of the Company located at 170 Attwell Drive, Suite 620, Toronto, Ontario, for a period of twenty days following the date of this prospectus during regular business hours.

## **LEGAL MATTERS**

Certain legal matters relating to the securities to be distributed pursuant to this prospectus will be passed upon by McCarthy Tétrault, Toronto on behalf of the Company and by Weir & Foulds, Toronto on behalf of the Agent only with regard to the Special Warrants and related securities, and not the Convertible Debentures and related securities.

## **LEGAL PROCEEDINGS**

We are not aware of any material existing or pending legal proceedings against us.

## **AUDITORS, TRANSFER AGENT AND REGISTRAR**

Our auditors are Deloitte & Touche LLP, Chartered Accountants, located at Suite 1400, 181 Bay Street, BCE Place, Toronto, ON, M5J 2V1.

The transfer agent and registrar for our Common Shares is Montreal Trust Company of Canada at its offices in Toronto, Ontario.

## **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in certain provinces provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus or any amendment thereto. In several of the provinces, applicable securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus or any amendment thereto 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 their province for the particulars of these rights or consult with a legal advisor.

## **CONTRACTUAL RIGHT OF ACTION FOR RESCISSION**

In the event that a holder of a Special Warrant who acquires Common Shares upon the exercise of a Special Warrant as provided for in this prospectus, is or becomes entitled under applicable legislation to the remedy of rescission by reason of this prospectus or any amendment hereto containing a misrepresentation, the holder shall be entitled to rescission not only of the holder's exercise of its Special Warrant but also of the private placement transaction pursuant to which the Special Warrant was initially acquired, and shall be entitled, in connection with such rescission, to a full refund of all consideration paid to us on the acquisition of the Special Warrant. In the event the holder is a permitted assignee of the interest of the original Special Warrant subscriber, that permitted assignee shall be entitled to exercise the rights of rescission and refund described herein as if the permitted assignee was the original subscriber. The foregoing is in addition to any other right or remedy available to a holder of a Special Warrant under section 168 of the

*Securities Act* (Alberta) and section 130 of the *Securities Act* (Ontario) and similar sections of other applicable securities legislation or otherwise at law.

**CONSOLIDATED FINANCIAL STATEMENTS**

**GDI GLOBAL DATA INC.**

**As at March 31, 2000 and the nine month periods ended March 31, 2000 and 1999 and as at June 30, 1999, 1998 and 1997 and for each of the years in the three year period ended June 30, 1999**

## **Auditors' Report**

To the Directors of GDI Global Data Inc.:

We have audited the consolidated balance sheets of GDI Global Data Inc. as at June 30, 1999, 1998 and 1997 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1999, 1998 and 1997 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario

August 6, 1999

(except as to Notes 13, 20 and 21, which are as of April 27, 2000).

# GDI Global Data Inc.

## Consolidated Balance Sheets

	As at March 31 <u>2000</u> (Unaudited)		As at June 30 <u>1998</u> <u>1997</u>					
<b>Assets</b>								
<b>Current</b>								
Cash and short-term investments	\$	1,703,130	\$	165,817	\$	711,830	\$	230,035
Cash held in escrow (Note 21)		1,188,505		-		-		-
Accounts receivable		1,602,958		810,602		2,519,563		923,940
Inventory (Note 6)		1,149,670		760,793		1,669,775		2,354,981
Deposits, prepaid expenses and other assets		702,035		163,560		87,598		163,775
		<u>6,346,298</u>		<u>1,900,772</u>		<u>4,988,766</u>		<u>3,672,731</u>
Equipment and leaseholds (Note 7)		125,255		243,857		393,444		589,787
Long-term investments (Note 8)		37,500		-		765,729		5,752,058
Patent (Note 9)		1		1		917,144		1,019,048
Goodwill, net (Note 3)		1,901,407		-		433,120		970,218
	\$	<u>8,410,461</u>	\$	<u>2,144,630</u>	\$	<u>7,498,203</u>	\$	<u>12,003,842</u>
<b>Liabilities</b>								
<b>Current</b>								
Bank indebtedness	\$	-	\$	-	\$	-	\$	2,285,000
Notes payable (Note 11)		-		362,575		-		-
Accounts payable and accrued charges		1,697,621		1,652,379		2,605,546		2,397,807
Capital leases		-		-		5,559		16,198
Customer deposits		4,187		33,055		13,087		52,754
		<u>1,701,808</u>		<u>2,048,009</u>		<u>2,624,192</u>		<u>4,751,759</u>
Deferred income tax		3,832		-		-		-
Convertible Debentures (Note 12)		482,961		-		-		-
		<u>2,188,601</u>		<u>2,048,009</u>		<u>2,624,192</u>		<u>4,751,759</u>
<b>Shareholders' Equity</b>								
Stated capital (Note 14)		26,297,954		24,379,055		24,379,055		24,379,055
Special Warrants (Note 21)		5,000,000		-		-		-
Equity portion of convertible debentures (Note 12)		62,372		-		-		-
Deficit		(25,138,466)		(24,282,434)		(19,505,044)		(17,126,972)
		<u>6,221,860</u>		<u>96,621</u>		<u>4,874,011</u>		<u>7,252,083</u>
	\$	<u>8,410,461</u>	\$	<u>2,144,630</u>	\$	<u>7,498,203</u>	\$	<u>12,003,842</u>

Approved by the Board of Directors:

(Signed) Lawrence E. Davis  
Lawrence E. Davis  
DIRECTOR

(Signed) David Dempster, LL.B.  
David Dempster, LL.B.  
CHAIRMAN

## GDI Global Data Inc. Consolidated Statements of Operations

	9 month period ended March 31		Year ended June 30		
	<u>2000</u> (Unaudited)	<u>1999</u> (Unaudited)	<u>1999</u>	<u>1998</u>	<u>1997</u>
Net sales	\$ 4,989,223	\$ 5,308,632	\$ 7,175,432	\$ 10,076,308	\$ 9,467,928
Cost of sales	2,938,796	3,833,844	4,932,565	6,696,663	6,440,611
Gross profit	2,050,427	1,474,788	2,242,867	3,379,645	3,027,317
Operating expenses excluding undernoted	2,913,740	4,454,719	5,347,018	6,592,554	6,789,573
Royalty and licensing income	(61,503)	(75,575)	(75,575)	(392,816)	-
Operating loss before undernoted	(801,810)	(2,904,356)	(3,028,576)	(2,820,093)	(3,762,256)
Amortization of goodwill	7,956	427,984	433,120	537,100	537,097
Restructuring (recovery)/provision (Note 4)	(20,000)	401,748	335,224	-	(210,656)
Operating loss	(789,766)	(3,734,088)	(3,796,920)	(3,357,193)	(4,088,697)
Interest and other income	98,397	40,635	78,760	118,109	96,011
Interest expense	(164,663)	-	-	-	(40,376)
Write-down of assets (Note 5)	-	(188,594)	(1,003,833)	(87,487)	(102,921)
(Loss) gain on sale of long-term investment (Note 8)	-	(55,397)	(55,397)	948,499	1,999,116
Net loss for the period	\$ (856,032)	\$ (3,937,444)	\$ (4,777,390)	\$ (2,378,072)	\$ (2,136,867)
Loss per share	\$ (0.05)	\$ (0.28)	\$ (0.34)	\$ (0.17)	\$ (0.15)

## GDI Global Data Inc. Consolidated Statements of Deficit

	9 month period ended March 31		Year ended June 30		
	<u>2000</u> (Unaudited)	<u>1999</u> (Unaudited)	<u>1999</u>	<u>1998</u>	<u>1997</u>
Deficit at the beginning of the period	\$ (24,282,434)	\$ (19,505,044)	\$ (19,505,044)	\$ (17,126,972)	\$ (14,935,983)
Cost of Common Shares repurchased in excess of stated value	-	-	-	-	(54,122)
Net loss for the period	(856,032)	(3,937,444)	(4,777,390)	(2,378,072)	(2,136,867)
Deficit at the end of the period	\$ (25,138,466)	\$ (23,442,488)	\$ (24,282,434)	\$ (19,505,044)	\$ (17,126,972)

# GDI Global Data Inc.

## Consolidated Statements of Cash Flows

	9 month period ended March 31		Year ended June 30		
	2000 (Unaudited)	1999 (Unaudited)	1999	1998	1997
Net Inflow (Outflow) of Cash Related to the Following Activities					
Operating Activities					
Net loss for the period	\$ (856,032)	\$ (3,937,444)	\$ (4,777,390)	\$ (2,378,072)	\$ (2,136,867)
Items not affecting cash					
Amortization of goodwill	7,956				
Amortization of fixed assets	133,304	669,486	797,908	1,060,839	919,376
Write-down of assets	-	188,594	1,003,833	87,487	102,921
Loss (gain) on sale of long-term investment	-	55,397	55,397	(948,499)	(1,999,116)
Loss (gain) on sale of equipment	2,645	-	-	(108,583)	3,442
Employee compensation paid in shares	40,000	-	-	-	-
	(672,127)	(3,023,967)	(2,920,252)	(2,286,828)	(3,110,244)
Changes in working capital components excluding cash					
Accounts receivable	(593,491)	1,753,403	1,708,961	(1,595,623)	704,274
Inventory	(97,315)	215,539	908,982	685,206	804,181
Deposits, prepaid expenses and other assets	(503,066)	(4,486)	(75,962)	76,177	(84,073)
Accounts payable and accrued charges	(111,700)	38,157	(953,165)	207,739	(2,272,285)
Customer deposits	(33,055)	(1,639)	19,968	(39,667)	(163,414)
	(2,010,754)	(1,022,993)	(1,311,468)	(2,952,996)	(4,121,561)
Investing Activities					
Additions to equipment and leaseholds	(75,400)	(104,519)	(113,299)	(605,653)	(295,073)
Proceeds from sale of investment	-	521,738	521,738	5,847,341	2,530,579
Proceeds from sale of equipment	66,767	-	-	488,742	15,633
Long-Term investments	(50,000)	-	-	-	-
Acquisition	(568,349)	-	-	-	-
Other	-	-	-	-	(18,993)
Cash held in escrow	(1,188,505)	-	-	-	-
	(1,815,487)	417,219	408,439	5,730,430	2,232,146
Financing Activities					
Issue of common shares and warrants	5,774,687	-	-	-	5,000
Issue costs	(593,891)	-	-	-	-
Issue of convertible debentures	482,961	-	-	-	-
Equity portion of convertible debentures	62,372	-	-	-	-
Repurchase of common shares for cancellation	-	-	-	-	(525,619)
Notes payable	(362,575)	-	362,575	-	(1,697,969)
Capital leases	-	(5,559)	(5,559)	(10,639)	(13,266)
	5,363,554	(5,559)	357,016	(10,639)	(2,231,854)
Increase (decrease) in cash and cash equivalents	1,537,313	(611,333)	(546,013)	2,766,795	(4,121,269)
Cash and cash equivalents, beginning of period	165,817	711,830	711,830	(2,054,965)	2,066,304
Cash and cash equivalents, end of period	\$ 1,703,130	\$ 100,497	\$ 165,817	\$ 711,830	\$ (2,054,965)
Cash and cash equivalents are comprised of:					
Bank indebtedness	\$ -	\$ -	\$ -	\$ -	\$ (2,285,000)
Cash and short-term investments	1,703,130	100,497	165,817	711,830	230,035
	\$ 1,703,130	\$ 100,497	\$ 165,817	\$ 711,830	\$ (2,054,965)

**GDI Global Data Inc.**  
**Supplemental Disclosure of Financial Information**

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	9 month period ended March 31		Year ended June 30		
	<u>2000</u> (Unaudited)	<u>1999</u> (Unaudited)	<u>1999</u>	<u>1998</u>	<u>1997</u>
Cash paid for:					
Interest expense	\$ 116,946	\$ -	\$ -	\$ -	\$ 40,376
Income taxes paid	-	-	-	-	-

# **GDI Global Data Inc.**

## **Notes to the Consolidated Financial Statements**

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(Amounts as at March 31, 2000 and for the nine month periods ended March 31, 2000 and 1999 are unaudited.)

### **1. Basis of Presentation**

These consolidated financial statements have been presented using accounting principles applicable to a going concern, which assume that GDI Global Data Inc. (the "Company") will continue in operation in the foreseeable future and be able to realize assets and satisfy liabilities in the normal course of business. During the nine month periods ended March 31, 2000 and March 31, 1999, the Company incurred net losses of approximately \$0.9 million and \$3.9 million, respectively. During 1999, 1998 and 1997, the Company incurred net losses of approximately \$4.8 million, \$2.4 million and \$2.1 million, respectively. These consolidated financial statements do not include any adjustments to the recoverability and classification of certain recorded asset amounts and classification of certain liabilities that might be necessary, if the Company were unable to continue as a going concern. The Company plans to achieve profitable operations through its continuing efforts to streamline operations and by focusing marketing, sales and product development efforts on its core businesses.

### **2. Significant Accounting Policies**

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and reflect the following policies:

*Basis of Consolidation.* The consolidated financial statements include the accounts of GDI Global Data Inc. (see Note 18), and its wholly owned subsidiaries, Global Data, Inc. and StarComm Products, Inc.

*Inventory.* Work-in-process and finished goods inventories are valued at the lower of cost and net realizable value. Raw materials are valued at the lower of cost and replacement cost. Cost is determined on a first in, first out basis and includes material, labour, and manufacturing overhead where applicable.

*Equipment and Leaseholds.* Equipment and leaseholds are stated at acquisition cost. Amortization on equipment is generally provided for by the straight-line method over three years. Leaseholds are amortized using the straight-line method over the term of the lease.

*Long-term Investments.* The Company accounts for its long-term investments using the cost method. On a quarterly basis, management and the Board of Directors review each investment with a view to determining whether a permanent decline in value has occurred. This analysis includes both the quoted market values of the investments as well as qualitative factors, such as access to trademarks, patents, distribution channels, and customers, which the Company believes are not fully reflected in the quoted market value.

*Research and Development.* Research costs are expensed as incurred. Development costs which meet generally accepted criteria, including reasonable assurance regarding future benefits, are deferred and amortized over periods ranging from three to seven years. No development costs have yet met the criteria to support their deferral.

*Patents.* Patents are recorded at acquisition cost and are amortized using the straight-line method over fifteen years, which approximates their useful lives. On a quarterly basis, management and the Board of Directors review the valuation of patents for permanent impairments. If such impairments are identified, appropriate write-downs are taken.

## **GDI Global Data Inc.**

### **Notes to the Consolidated Financial Statements**

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*Goodwill.* Goodwill is amortized on a straight-line basis over four years (Granite Communications) or ten years (StarComm Products, Inc.). On a quarterly basis, management and the Board of Directors review the valuation of goodwill for permanent declines in value. This analysis includes consideration of external evidence and internal evidence such as valuation of the original intangibles purchased, customers, distribution channels, key personnel and manufacturing capabilities.

*Foreign Currency Translation.* Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the year-end. Foreign currency transactions are translated into Canadian dollars at rates of exchange in effect when the transactions were entered into. The Company's wholly owned subsidiaries are classified as integrated operations for purposes of foreign currency translation. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses (other than amortization, which is translated at the same rates as the related capital assets) are translated at average rates of exchange for the period. Translation exchange gains or losses of integrated subsidiaries are reflected in operations.

*Use of Estimates.* The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The assets requiring management to make significant estimates and assumptions in determining carrying values include inventory, long-term investments, patents and goodwill.

*Loss Per Share.* Loss per share is based on the weighted average number of common shares outstanding during the year. The fully diluted loss per share is not presented as the amount is anti-dilutive.

*Financial Instruments.* The Company's short-term financial instruments, comprising cash and short-term investments, accounts receivable, bank indebtedness, accounts payable and accrued charges, and customer deposits, are carried at cost which, due to their short-term nature, approximates their fair value. Such fair value estimates are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions. Potential taxes and other transaction costs have not been considered in estimating fair value.

- a) *Credit Risk.* The Company is subject to credit risk through trade receivables. The Company manages this risk through evaluation and monitoring processes.
- b) *Commodity Price and Foreign Exchange Risks.* The Company operates using both the Canadian dollar and the US dollar, and as such may be negatively impacted by fluctuations in foreign exchange rates. The Company manages this risk by minimizing the number of transactions that result in the settlement currency differing from the currency of the initial transaction.
- c) *Interest Rate Risk.* The Company currently has a secured line of credit with Montcap Financial Corporation for which it pays a variable interest rate on funded trade receivables. As such, the Company is exposed to a nominal level of interest rate risk through fluctuations in the prime interest rate.

## GDI Global Data Inc.

### Notes to the Consolidated Financial Statements

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#### 3. Goodwill

Goodwill consists of:

	March 31 2000 (Unaudited)	1999	June 30 1998	1997
Goodwill, beginning of period	\$ -	\$ 433,120	\$ 970,218	\$ 1,507,313
Additions during the period (Note 20)	1,909,363	-	-	-
Amortization for the period	7,956	433,120	537,098	537,095
<b>Goodwill, end of period</b>	<b>\$ 1,901,407</b>	<b>\$ -</b>	<b>\$ 433,120</b>	<b>\$ 970,218</b>

#### 4. Restructuring Provision

In March 1999, the Company carried out a comprehensive reorganization of its Granite Communications business unit. This reorganization involved a reduction of staff, relocation of premises as well as a general repositioning of this business unit. Subsequently, overprovisions were reversed and included in the nine month period ended March 31, 2000. The Company established a restructuring provision to reflect the costs associated with this plan as follows:

	9 months ended March 31		1999	June 30		1997
	2000 (Unaudited)	1999 (Unaudited)		1998		
Lease commitment costs, facility and equipment	\$ -	\$ 176,429	\$ 175,269	\$ -	\$ (210,656)	
Expenses for legal and other outside services	-	-	45,000	-	-	
Accelerated amortization of equipment placed out of service	-	47,719	41,742	-	-	
Employee termination and severance obligations	-	150,000	29,000	-	-	
Other restructuring costs/(recovery)	(20,000)	27,600	44,213	-	-	
	<b>\$ (20,000)</b>	<b>\$ 401,748</b>	<b>\$ 335,224</b>	<b>\$ -</b>	<b>\$ (210,656)</b>	

#### 5. Write-down of Patent and Investments

	9 months ended March 31		1999	June 30		1997
	2000 (Unaudited)	1999 (Unaudited)		1998		
Write-down of investment in Triarx (Note 8)	\$ -	\$ 12,105	\$ 12,105	\$ 36,316	\$ 102,921	
Write-down of investment in Telular Corporation (Note 8)	-	176,489	176,489	51,171	-	
Write-down of patent (Note 9)	-	-	815,239	-	-	
	<b>\$ -</b>	<b>\$ 188,594</b>	<b>\$ 1,003,833</b>	<b>\$ 87,487</b>	<b>\$ 102,921</b>	

**GDI Global Data Inc.**  
**Notes to the Consolidated Financial Statements**

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**6. Inventory**

	March 31 2000 (Unaudited)	1999	June 30 1998	1997
Raw materials	\$ 763,646	\$ 490,112	\$ 1,080,849	\$ 1,284,240
Work-in-process	310,742	216,690	208,978	495,705
Finished goods	75,282	53,991	379,948	575,036
<b>Total</b>	<b>\$ 1,149,670</b>	<b>\$ 760,793</b>	<b>\$ 1,669,775</b>	<b>\$ 2,354,981</b>

**7. Equipment and Leaseholds**

	March 31 2000 (Unaudited)	1999	June 30 1998	1997
<b>Cost</b>				
Equipment	\$ 909,628	\$ 1,036,546	\$ 1,599,587	\$ 1,401,081
Leaseholds	45,753	87,296	87,296	79,011
<b>Total</b>	<b>\$ 955,381</b>	<b>\$ 1,123,842</b>	<b>\$ 1,686,883</b>	<b>\$ 1,480,092</b>
<b>Accumulated Amortization</b>				
Equipment	\$ 784,373	\$ 802,602	\$ 1,237,916	\$ 870,127
Leaseholds	45,753	77,383	55,523	20,178
<b>Total</b>	<b>\$ 830,126</b>	<b>\$ 879,985</b>	<b>\$ 1,293,439</b>	<b>\$ 890,305</b>
<b>Net Book Value</b>				
Equipment	\$ 125,255	\$ 233,944	\$ 361,671	\$ 530,954
Leaseholds	-	9,913	31,773	58,833
<b>Total</b>	<b>\$ 125,255</b>	<b>\$ 243,857</b>	<b>\$ 393,444</b>	<b>\$ 589,787</b>

Equipment and leasehold costs and accumulated amortization for 1999 reflect the elimination of fully amortized, non-performing assets (cost: \$676,340, accumulated amortization: \$676,340). The amortization expense for the nine months ended March 31, 2000 was \$133,304 (unaudited) and for the nine months ended March 31, 1999 was \$268,042 (unaudited). The amortization expense for 1999 was \$262,884 (1998 - \$421,837, 1997 - \$280,377), which includes \$41,742 charged to restructuring provision (Note 4). Asset additions for 1999 totalled \$113,299. There were no asset dispositions in 1999.

## GDI Global Data Inc.

### Notes to the Consolidated Financial Statements

#### 8. Long-term Investments

	March 31 2000 (Unaudited)	1999	June 30 1998	1997
Telular Corporation	\$ -	\$ -	\$ 753,624	\$ 5,703,637
Triarx	-	-	12,105	48,421
PEI Innovations Inc.	37,500	-	-	-
	<u>\$ 37,500</u>	<u>\$ -</u>	<u>\$ 765,729</u>	<u>\$ 5,752,058</u>

In fiscal 1999, the Company sold 265,000 Telular Corporation shares, realizing a loss of \$55,397. At March 31, 2000 (unaudited) and at June 30, 1999, the Company held no Telular Corporation shares (1998 - the Company held 0.8% of the shares of Telular Corporation). During the year ended June 30, 1999, Telular Corporation shares traded in a range from a low of US\$1-1/8 per share to a high of US\$7-7/8 per share. At June 30, 1998, the Telular Corporation shares had a quoted market value of \$753,624 (US\$1-15/16 per share). In the fiscal year ended June 30, 1999, the investment in Telular Corporation was written down by \$176,489 (1998 - \$51,171) to an amount approximating its net realizable value at that time.

During the year ended June 30, 1999, the investment in Triarx was written down by \$12,105 (1998 - \$36,316) to an amount approximating its net realizable value. At June 30, 1999, the Company owned 1.21% (1998 - 1.21%) of Triarx. The quoted market value of this investment at June 30, 1999 was \$3,026 (1998 - \$12,105).

During the nine month period ended March 31, 2000, the Company invested \$50,000 in PEI Innovations Inc. The investment was comprised of 50 Cumulative Preferred Shares with a 10% coupon and a life of five years. Such an investment qualified for the Investors Incentive Program offered by the Province of Prince Edward Island (the "Province"). The Province has a 25% participation in this investment and, as such, the net investment held by the Company at March 31, 2000, is \$37,500.

#### 9. Patent

	March 31 2000 (Unaudited)	1999	June 30 1998	1997
Cost	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Cumulative write-down of patent	815,239	815,239	-	-
Adjusted patent cost	684,761	684,761	1,500,000	1,500,000
Less: Accumulated amortization	684,760	684,760	582,856	480,952
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 917,144</u>	<u>\$ 1,019,048</u>

Amortization expense for fiscal 1999 was \$101,904 (1998 - \$101,904, 1997 - \$101,904). During fiscal 1999, the patent was written down by \$815,239 (1998 - nil) to an amount approximating its net realizable value.

## **GDI Global Data Inc.**

### **Notes to the Consolidated Financial Statements**

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#### **10. Bank Indebtedness**

During the first quarter of fiscal 1998, the operating line of credit established with The Bank of Nova Scotia in 1997 was fully discharged through the use of proceeds from the sale of Telular Corporation shares.

#### **11. Notes Payable**

During the fourth quarter of fiscal 1999, the Company established a secured line of credit with Montcap Financial Corporation ("Montcap") wherein Montcap provides financing on a recourse basis of up to \$1,000,000 by the factoring of accounts receivable. Montcap advances funds against selected accounts receivable in an amount up to 85% of approved accounts receivable. These funds are subject to a 1.5% discount fee on the face value of factored accounts receivable plus an interest charge calculated at a variable interest rate for the period the factored accounts receivable remain outstanding. These funds are secured by a general security agreement creating a first charge on all of the Company's assets.

#### **12. Convertible Debentures**

In August 1999, the Company closed a private placement with Saturn Capital Corporation, members of senior management and a group of private investors generating gross proceeds of \$545,333. Under the terms of the placement, the Company issued 18 month convertible debentures that bear simple interest at the rate of 15% per annum and are payable in cash or in Common Shares, at the sole discretion of the Company. The debentures are convertible at \$0.15 per share at the holders option with the exception of \$45,333 held by insiders which are convertible at \$0.20 per share. Accounting presentation of the Convertible Debentures has been determined by calculating the present value of the liability and presenting the equity component as the residual amount from this calculation.

#### **13. Rights Offering**

In December 1999, the Company completed a Rights offering, raising approximately \$633,000. Under the Rights offering, holders of Global Data's common shares received one Right for each common share held by them. Four and one-half Rights entitled a holder to purchase one common share at a subscription price of \$0.20.

**GDI Global Data Inc.**  
**Notes to the Consolidated Financial Statements**

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**14. Stated Capital**

Authorized

An unlimited number of convertible shares and common shares and an unlimited number of preference shares, issuable in series.

Issued and fully paid	Number of Common Shares	Stated Capital
Opening Balance June 30, 1996	14,521,498	\$ 24,864,547
Employee Stock Options Exercised	5,000	5,000
Normal Course Issuer Bid	(213,700)	(365,857)
Normal Course Issuer Bid	(72,800)	(124,635)
<hr/>		
Balance, June 30, 1997, 1998 and 1999	14,239,998	24,379,055
Agency Fee	113,636	25,000
Employee Compensation Shares	200,000	40,000
Shares Issued for cash from Rights Offering (Note 13)	3,164,444	632,888
Shares Issued for the Purchase of StarComm Products, Inc. (Note 20)	3,084,918	1,698,103
Employee Stock Options Exercised	521,429	141,799
Issue Costs	-	(618,891)
<hr/>		
Balance, March 31, 2000 (Unaudited)	21,324,425	\$ 26,297,954

The issued and fully paid common shares include 22,000 (1998 – 22,000, 1997 – 22,000) convertible shares that are identical in all respects to the common shares.

**GDI Global Data Inc.**  
**Notes to the Consolidated Financial Statements**

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A summary of outstanding options is as follows:

	March 31 2000 (Unaudited)	1999	June 30 1998	1997
Outstanding options, beginning of period	1,109,000	1,119,200	978,000	1,143,834
Options granted during the period	1,351,444	965,000	650,000	75,000
Options exercised during the period	(521,429)	-	-	(5,000)
Options expired or cancelled during the period	(66,672)	(975,200)	(508,800)	(235,834)
Outstanding options, end of period	1,872,343	1,109,000	1,119,200	978,000

The expiry dates and option prices of the stock options outstanding at March 31, 2000 (unaudited) are as follows:

<u>Expiry Date</u>	<u>Option Price</u>	<u>Options Outstanding</u>
May 24, 2001	\$ 0.22	316,444
June 4, 2001	0.75	91,000
June 30, 2001	0.75	11,500
February 28, 2002	0.18	400,000
June 8, 2002	0.30	125,000
July 6, 2002	0.20	380,899
August 31, 2002	0.65	60,000
September 17, 2002	0.22	10,000
October 11, 2002	0.23	40,000
November 1, 2002	0.28	20,000
November 19, 2002	0.20	100,000
December 7, 2002	0.48	62,500
January 22, 2003	0.80	60,000
August 17, 2008	0.63	110,000
February 24, 2009	0.40	85,000
		<u>1,872,343</u>

# GDI Global Data Inc.

## Notes to the Consolidated Financial Statements

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### 15. Lease Commitments

The minimum lease payments for the next five fiscal years are as follows:

	As at March 31, 2000 (Unaudited)	As at June 30, 1999
2000	\$ 36,245	\$ 243,160
2001	157,628	110,643
2002	146,406	74,731
2003	66,404	-
2004	-	-

### 16. Income Taxes

The Company has accumulated losses as at June 30, 1999 of approximately \$6.5 million that may be applied to reduce Canadian taxable income in future periods. Of these losses, \$0.7 million expire in the year 2000, \$4.8 million in 2002 and \$1.0 million in 2006. A wholly owned subsidiary located in the United States has accumulated losses of approximately \$14.0 million (US\$9.6 million), which may be applied to reduce future taxable income earned by this subsidiary in the years 2010 through to 2018. No recognition has been given to the potential tax benefit of such losses in the financial statements.

The Company's income tax provision differs from the provision that would result from using the statutory income tax rate. The difference is explained as follows:

	March 31 2000 (Unaudited)	March 31 1999 (Unaudited)	1999	June 30 1998	1997
Income tax at the Canadian statutory rate	\$ (382,000)	\$ (1,757,000)	\$ (2,132,000)	\$ (1,061,000)	\$ (953,000)
Effect of:					
Foreign operating losses tax effected					
at lower foreign rates	44,000	234,000	246,000	318,000	295,000
Tax benefit of losses not recognized	338,000	1,523,000	1,886,000	838,000	881,000
Tax exempt portion of investment gain	-	-	-	(95,000)	(223,000)
Income tax at the effective rate	\$ -	\$ -	\$ -	\$ -	\$ -

## GDI Global Data Inc.

### Notes to the Consolidated Financial Statements

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#### 17. Segment Information

The Company and its wholly owned subsidiaries operate as three business units: Global Data Wireless, Granite Communications and StarComm Products, Inc. Global Data Wireless designs, develops and markets wireless automatic meter reading products and services for the electric power and gas industries. Granite Communications designs, develops and markets application-specific mobile computing solutions incorporating wireless local area networking for data and bar code data capture solutions. StarComm Products, Inc. is a leading developer of industrial-rated modems, DSL devices and custom communication modules. Additionally the Company operates in two geographic segments. A summary of the Company's identifiable assets, sales and operating loss by geographic area and by business unit is as follows:

	March 31		1999	June 30	
	2000	1999		1998	1997
	(Unaudited)	(Unaudited)			
Identifiable assets					
Canada	\$ 2,280,463	\$ 1,039,163	\$ 242,993	\$ 2,458,640	\$ 7,179,731
United States	4,228,591	2,531,249	1,901,637	4,606,443	3,853,893
Other	1,901,407	21,307	-	433,120	970,218
<b>Total</b>	<b>\$ 8,410,461</b>	<b>\$ 3,591,719</b>	<b>\$ 2,144,630</b>	<b>\$ 7,498,203</b>	<b>\$ 12,003,842</b>
Sales to customers outside the Company					
Canada	\$ 205,397	\$ 210,406	\$ 311,257	\$ 307,148	\$ 544,738
United States	4,783,826	5,098,226	6,864,175	9,769,160	8,923,190
<b>Total</b>	<b>\$ 4,989,223</b>	<b>\$ 5,308,632</b>	<b>\$ 7,175,432</b>	<b>\$ 10,076,308</b>	<b>\$ 9,467,928</b>
Operating loss					
Canada	\$ (311,466)	\$ (1,263,962)	\$ (1,423,980)	\$ (609,200)	\$ (1,037,394)
United States	(478,300)	(2,470,126)	(2,372,940)	(2,747,993)	(3,051,303)
<b>Total</b>	<b>\$ (789,766)</b>	<b>\$ (3,734,088)</b>	<b>\$ (3,796,920)</b>	<b>\$ (3,357,193)</b>	<b>\$ (4,088,697)</b>

## GDI Global Data Inc.

### Notes to the Consolidated Financial Statements

The investment in Telular Corporation is included in Canadian identifiable assets.

	March 31		1999	June 30	
	2000	1999		1998	1997
	(Unaudited)	(Unaudited)			
Identifiable assets					
Granite Communications	\$ 2,001,313	\$ 2,049,260	\$ 1,452,384	\$ 3,616,948	\$ 2,941,099
Global Data Wireless	1,058,573	1,521,152	692,245	1,261,542	1,321,420
StarComm Products, Inc.	1,772,130	-	-	-	-
Other	3,578,445	21,307	1	2,619,713	7,741,323
<b>Total</b>	<b>\$ 8,410,461</b>	<b>\$ 3,591,719</b>	<b>\$ 2,144,630</b>	<b>\$ 7,498,203</b>	<b>\$ 12,003,842</b>
Sales to customers outside the Company					
Granite Communications	\$ 3,164,173	\$ 3,830,771	\$ 5,090,982	\$ 7,486,964	\$ 6,542,776
Global Data Wireless	1,777,521	1,477,861	2,084,450	2,589,344	2,925,152
StarComm Products, Inc.	47,529	-	-	-	-
<b>Total</b>	<b>\$ 4,989,223</b>	<b>\$ 5,308,632</b>	<b>\$ 7,175,432</b>	<b>\$ 10,076,308</b>	<b>\$ 9,467,928</b>
Operating loss					
Granite Communications	\$ 138,781	\$ (2,062,198)	\$ (1,822,983)	\$ (2,189,884)	\$ (2,714,907)
Global Data Wireless	(707,008)	(245,380)	(384,015)	(794,201)	(581,100)
StarComm Products, Inc.	(6,852)	-	-	-	-
Other	(214,687)	(1,426,510)	(1,589,922)	(373,108)	(792,690)
<b>Total</b>	<b>\$ (789,766)</b>	<b>\$ (3,734,088)</b>	<b>\$ (3,796,920)</b>	<b>\$ (3,357,193)</b>	<b>\$ (4,088,697)</b>

#### 18. Change of Name

On December 8, 1998, the name of the Company was changed from Telular Canada Inc. to GDI Global Data Inc.

#### 19. Uncertainty Due to the Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure that could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

## GDI Global Data Inc.

### Notes to the Consolidated Financial Statements

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#### 20. Acquisition of StarComm Products, Inc.

Effective March 15, 2000, the Company acquired all of the issued and outstanding share capital of StarComm Products, Inc., a privately held communications company incorporated and with operations in the United States. The acquisition has been accounted for using the purchase method and, accordingly, the purchase price was allocated to the acquired assets and liabilities based on their estimated fair value as at the acquisition date. The excess of the purchase price over the fair value of the identifiable net assets acquired has been recorded as goodwill and is being amortized on a straight-line basis over a period of ten years. The preliminary purchase price allocation has been estimated based on available information at the time and is subject to revision. In particular, goodwill and total consideration may require adjustment.

The results of operations related to this acquisition have been included in these consolidated financial statements from the effective date of acquisition. Details of the acquired assets and liabilities at fair value are as follows:

Net Identifiable Assets of StarComm Products, Inc. (translated into Canadian \$)	
Assets	
Cash	\$ 1,235,754
Accounts Receivable	186,365
Inventory	291,562
Prepaid expenses and deposits	35,408
Fixed assets (net)	8,715
Liabilities	
Accounts payable and accrued liabilities	(161,084)
Intercompany payables	(1,223,796)
Deferred income taxes	(3,877)
Identifiable net assets	<u>369,047</u>
Goodwill on acquisition	<u>1,909,363</u>
	<u>\$ 2,278,410</u>
Consideration:	
Cash	\$ 501,797
Shares	1,698,103
Expenses related to acquisition	78,510
Total Consideration:	<u>\$ 2,278,410</u>

#### 21. Special Warrants Transaction

On January 26, 2000, the Company initiated a Special Warrants offering, raising gross proceeds of \$5,000,000 through the issuance of 5,324,000 Special Warrants. This offering closed in three separate installments raising, respectively, \$950,000, \$2,861,495, and \$1,188,505. The third installment was held in escrow subject to shareholder approval, which was obtained on April 27, 2000. Each Special Warrant is convertible into one Common Share upon the filing and receipt of a Prospectus by the respective Securities Commissions in Ontario, British Columbia and Alberta. A 10% penalty share issuance will apply if such receipt is not obtained by May 31, 2000.

*Pro forma Unaudited Consolidated Financial Statements of*

**GDI Global Data Inc.**

## **Compilation Report**

To the Directors of GDI Global Data Inc.

We have reviewed, as to compilation only, the accompanying pro forma consolidated statements of operations of GDI Global Data Inc. for the year ended June 30, 1999 and for the nine months ended March 31, 2000 prepared in accordance with Canadian generally accepted accounting principles. These statements have been prepared for inclusion in the prospectus relating to the qualification for distribution of common shares issuable on the exercise of Special Warrants and on the conversion of Convertible Subordinated Debentures.

In our opinion, the pro forma consolidated statements of operations of GDI Global Data Inc. have been properly compiled to give effect to the transactions and the assumptions described in the notes thereto.

(Signed) Deloitte & Touche LLP  
Chartered Accountants

Toronto, Ontario  
May 31, 2000

**GDI Global Data Inc.**  
**Pro forma Consolidated Statement of Operations**  
**Year ended June 30, 1999**  
**(Unaudited)**

	GDI (actual) (Canadian \$)	StarComm (actual) (US \$)	F/X Adjustment (Note 1(b))	StarComm (actual) (Canadian \$)	Pro Forma Adjustments (Note 2(a)) (Canadian \$)	Pro Forma (Canadian \$)
Net sales	\$ 7,175,432	\$ 782,353	\$ 396,241	\$ 1,178,594		\$ 8,354,026
Cost of sales	4,932,565	576,302	293,357	869,659		5,802,224
Gross profit	2,242,867	206,051	102,884	308,935	-	2,551,802
Operating expenses excluding undernoted	5,347,018	125,498	63,928	189,426		5,536,444
Royalty and licensing income	(75,575)	-	-	-		(75,575)
Operating (loss) income before undernoted	(3,028,576)	80,553	38,956	119,509	-	(2,909,067)
Amortization of goodwill	433,120		-	-	190,936	624,056
Restructuring provision	335,224	-	-	-		335,224
Operating income (loss)	(3,796,920)	80,553	38,956	119,509	(190,936)	(3,868,347)
Interest and other income	78,760	-	-	-		78,760
Interest expense	-	-	-	-		0
Income taxes	-	(16,183)	(7,862)	(24,045)		(24,045)
Write-down of patent and investments	1,003,833	-	-	-		(1,003,833)
Gain on sale of long-term investments	55,397	-	-	-		(55,397)
Net income (loss) for the period	(4,777,390)	64,370	31,094	95,464	(190,936)	(4,872,862)
Loss per share	\$ (0.34)					\$ (0.28)
Weighted average number of shares	14,239,998					17,324,916

**GDI Global Data Inc.**  
**Pro forma Consolidated Statement of Operations**  
**Nine months ended March 31, 2000**  
**(Unaudited)**

	GDI (actual) (Canadian \$)	StarComm (actual) (US \$)	F/X Adjustment (Note 1(b))	StarComm (actual) (Canadian \$)	Pro Forma Elimination Adjustments (Note 2(b)) (Canadian \$)	Pro Forma Adjustments (Note 2(a)) (Canadian \$)	Pro Forma (Canadian \$)
Net sales	\$ 4,989,223	\$ 977,742	\$ 458,127	\$ 1,435,869	\$ (47,529)		\$ 6,377,563
Cost of sales	2,938,796	798,190	374,340	1,172,530	(17,059)		4,094,267
Gross profit	2,050,427	179,552	83,787	263,339	(30,470)	-	2,283,296
Operating expenses excluding undernoted	2,913,740	164,689	77,421	242,110	(36,966)		3,118,884
Royalty and licensing income	(61,503)	-	-	-			(61,503)
Operating loss before undernoted	(801,810)	14,863	6,366	21,229	6,496	-	(774,085)
Amortization of goodwill	7,956	-	-	-	-	135,246	143,202
Restructuring (recovery) provision	(20,000)	-	-	-	-		(20,000)
Operating income (loss)	(789,766)	14,863	6,366	21,229	6,496	(135,246)	(897,287)
Interest and other income	98,397	912	414	1,326	(1,326)		98,397
Interest expense	(164,663)	(5)	(2)	(7)			(164,670)
Income taxes	-	(2,655)	(1,204)	(3,859)	-		(3,859)
Write-down of patent and investments	-	-	-	-			-
Gain on sale of long-term investments	-	-	-	-			-
Net income (loss) for the period	(856,032)	13,115	5,574	18,689	5,170	(135,246)	(967,419)
Loss per share	\$ (0.05)						\$ (0.05)
Weighted average number of shares	15,882,910						18,796,442

**GDI Global Data Inc.**  
**Notes to the Pro Forma Consolidated Statements of Operations**

**(Unaudited)**

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**1. BASIS OF PRESENTATION**

The unaudited pro forma consolidated statements of operations for the year ended June 30, 1999 and the nine months ended March 31, 2000 have been prepared by GDI Global Data Inc. ("GDI") management based on the following financial statements which have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"):

- (a) The audited consolidated statement of operations for the year ended June 30, 1999 included elsewhere in the prospectus and the unaudited consolidated statement of operations for the nine months ended March 31, 2000 included elsewhere in this prospectus; and
- (b) The unaudited statement of operations of StarComm Products, Inc. ("StarComm Products") for the year ended June 30, 1999 and the unaudited statements of operations for the nine months ended March 31, 2000, after translation of such financial statements from U.S. dollars to Canadian dollars. The statements of operations were translated at the average rates in effect for these periods.

The business combination has been accounted for as a purchase transaction, in accordance with Canadian GAAP.

The pro forma consolidated statements of operations should be read in conjunction with the notes thereto and the historical consolidated financial statements of GDI included elsewhere in this prospectus. The pro forma operating results are not indicative of the results that actually would have occurred if the business combination had been in effect on the dates indicated or which may be obtained in the future.

**2. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS**

The pro forma consolidated statements of operations give effect to the above business combination as if it had occurred on July 1, 1998, as follows:

- (a) The aggregate value of the consideration to be paid for StarComm Products (including estimated acquisition costs) exceeds the book value of the net identifiable assets by approximately \$1,909,363. The pro forma consolidated statement of operations reflects the amortization of the intangibles on the acquisition of StarComm Products of \$190,936 for the year ended June 30, 1999 and \$143,202 for the nine months ended March 31, 2000.
- (b) StarComm Products' operating results for the period from March 16 to March 31, 2000 have been included in both GDI's and StarComm Products' statements of operations for the period ended March 31, 2000. Therefore, this amount has been eliminated in the pro forma statement of operations for the nine months ended March 31, 2000.

**GDI Global Data Inc.**  
**Notes to the Pro Forma Consolidated Statements of Operations**

**(Unaudited)**

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**3. PRO FORMA EARNINGS PER SHARE**

For the purpose of computation of the pro forma earnings per share, the weighted average number of common shares outstanding for the year ended June 30, 1999 and the nine months ended March 31, 2000 have been adjusted to give effect to the issuance of 3,084,918 common shares as if the business combination occurred at July 1, 1998.

**4. PRO FORMA BALANCE SHEET**

The acquisition of StarComm Products is accounted for in the unaudited interim consolidated balance sheet of GDI as at March 31, 2000 included elsewhere in this prospectus and accordingly, a pro forma balance sheet is not required.

**CERTIFICATE OF GDI GLOBAL DATA INC.**

Dated: May 31, 2000

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 8 of the *Securities Act* (Alberta), and by Part XV of the *Securities Act* (Ontario) and by the respective regulations thereunder.

(Signed) LAWRENCE E. DAVIS  
President and Chief Executive Officer

(Signed) CRAIG A. LAURENCE  
Vice President, Finance and Administration as  
Chief Financial Officer

On behalf of the Board of Directors

(Signed) DAVID R. DEMPSTER  
Director

(Signed) BARRY HILDRED  
Director

**CERTIFICATE OF THE AGENT**

Dated: May 31, 2000

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 8 of the *Securities Act* (Alberta), and by Part XV of the *Securities Act* (Ontario) and by the respective regulations thereunder.

OCTAGON CAPITAL CORPORATION

(Signed) JOHN P. PALUMBO

The following includes the name of every person or company having an interest, either directly or indirectly, to the extent of not less than 5% in the capital of Octagon Capital Corporation:

Octagon Capital Partners Inc.