

A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in the provinces of Ontario and Québec but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. These securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

This short form 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 regulatory authority has expressed an opinion about the securities and it is an offence to claim otherwise.

This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities in the United States. These securities have not been registered under the United States Securities Act of 1933, as amended, or the "1933 Act", or any state securities laws and may not be offered or sold, directly or indirectly, in the United States without registration or the availability of an exemption therefrom. The underwriter named in this prospectus has agreed that, except as permitted by the underwriting agreement, it will not offer or sell the securities as part of the distribution of securities at any time within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the 1933 Act.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Certicom Corp. at 25821 Industrial Boulevard, Hayward, California 94545 (telephone (510) 780-5400). For the purpose of the province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from the Secretary of Certicom Corp. at the above-mentioned address and telephone number.

Preliminary Short Form Prospectus

New Issue

September 12, 2001

CERTICOM CORP.

\$13,500,000

\$13,500,000 Aggregate Principal Amount of 7.25% Senior Convertible Unsecured Subordinated Debentures Due August 30, 2004 Issuable upon the Conversion of an Equal Principal Amount of 7.25% Convertible Notes

This prospectus qualifies the distribution of \$13,500,000 aggregate principal amount of 7.25% Senior Convertible Unsecured Subordinated Debentures, or the Debentures, of Certicom Corp. issuable, without payment of additional consideration, upon the conversion or deemed conversion of an equal principal amount of 7.25% Convertible Notes, or the Notes, of our Company. The Notes were issued by us on August 30, 2001 pursuant to prospectus exemptions under applicable securities laws. The Notes were sold pursuant to an underwriting agreement dated August 30, 2001 between Yorkton Securities Inc., or the Underwriter, and us.

The Debentures are not secured by any mortgage, pledge, hypothec or other charge and are subordinate to any Permitted Secured Debt (as hereinafter defined) that we may incur in the future. We have agreed not to incur any Debt (as hereinafter defined), other than Permitted Secured Debt and trade debt, that ranks senior to, or *pari passu* with, the Debentures. See "Description of the Debentures". The Debentures bear interest at the rate of 7.25% per annum from the date of issue, payable semi-annually and at maturity. The interest payments are required to be paid in cash on February 28 and August 30 and, commencing February 28, 2002.

The Notes may be exercised by holders thereof to acquire an equal principal amount of Debentures, without payment of additional consideration, at any time and automatically at 5:00 p.m. (Toronto time) on the date, or the Conversion Date, that is the earlier of (i) the fifth business day

following the date on which a receipt, or the Receipt, for this prospectus has been issued by the last of the securities regulatory authorities in Ontario and Quebec, and (ii) August 30, 2002.

The gross proceeds received from the sale of the Notes plus any accrued interest are being held in escrow pursuant to an escrow and custodial agreement dated as of August 31, 2001 between Computershare Trust Company of Canada, as escrow agent, the Underwriter and us, or the Escrow Agreement, to be released to us on the date, or the Escrow Release Date, that is the earlier of (i) our delivery of the Receipt to the Underwriter, the trustee under the indenture governing the Notes or Debentures, as the case may be, and the escrow agent under the Escrow Agreement, and (ii) the Conversion Date. The distribution of the Debentures will not result in any additional proceeds being received by us.

In the event that we do not obtain a Receipt prior to 4:00 p.m. (Toronto time) on October 1, 2001 or such later date as agreed to in writing by the Underwriter and us, or the Receipt Deadline, holders of Notes may elect to cause us to redeem the Notes held by them at par plus accrued and unpaid interest. If holders of Notes representing in the aggregate more than 50% of the aggregate principal amount of Notes outstanding on September 28, 2001 elect to cause us to redeem the Notes held by them, we will redeem all outstanding Notes. We intend to pay any such redemption price with the proceeds from the sale of the Notes held in escrow pursuant to the Escrow Agreement.

The Debentures will mature on August 30, 2004, or the Maturity Date. The Debentures are convertible into our common shares at the holder's option at any time prior to the close of business on the earlier of the Maturity Date and the last business day before the date specified for redemption. The Debentures are convertible at a conversion price, or the Conversion Price, of \$3.85 per common share, subject to customary anti-dilution adjustments.

Except in the event of a change of control of our Company (as described below), the Debentures will not be redeemable at our option before August 30, 2003. On or after August 30, 2003 to and including August 30, 2004, the Debentures will be redeemable in cash, in whole or, from time to time, in part, at our option at par plus accrued and unpaid interest, provided that the weighted average trading price of our common shares on The Toronto Stock Exchange, or the TSE, during the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given by us is not less than 125% of the Conversion Price.

	Price to the Public	Underwriter's Fee ⁽¹⁾	Net Proceeds to the Company ⁽²⁾
Per Note	\$1,000	\$55.00	\$945.00
Total Offering	\$13,500,000	\$742,500	\$12,757,500

Notes:

- (1) No additional fee will be paid to the Underwriter in connection with the distribution of the Debentures. Assumes the maximum amount of the Underwriter's Fee payable in respect of the offering of the Notes. The Underwriter's Fee, together with any accrued interest thereon, will be released to the Underwriter by the escrow agent under, and in accordance with, the Escrow Agreement. The Escrow Agreement provides that the Underwriter's Fee, together with any accrued interest thereon, will be paid to the Underwriter in respect of each Note that is outstanding and unexercised on the Escrow Release Date or that is exercised prior to the Escrow Release Date.
- (2) Before deducting the estimated expenses of this issue estimated at \$500,000. We plan to pay these expenses from the proceeds received from the sale of the Notes.

Our common shares are listed on the TSE under the symbol "CIC" and are quoted on The Nasdaq National Market, or NASDAQ, under the symbol "CERT". On August 27, 2001, the last day that our common shares traded prior to the public announcement of the sale of the Notes, the closing sale price of our common shares as reported on the TSE was \$3.76 and on NASDAQ was US\$2.47. On September 10,

2001, the last full day that our common shares traded prior to the date hereof, the closing sale price of our common shares as reported on the TSE was \$3.01 and on NASDAQ was US\$1.90.

Investing in our common shares should be regarded as highly speculative and should be considered only by those investors able to withstand a total loss of their investment. Please see the “Risk Factors” section for a discussion of the risks associated with an investment in our common shares.

There is no market through which the Debentures may be sold and purchasers may not be able to resell Debentures acquired under this short form prospectus.

The earnings coverage ratios with respect to the Debentures are less than one-to-one. See “Earnings Coverage Ratios”.

This offering is subject to the approval of certain legal matters by McCarthy Tétrault LLP, on our behalf, and Blake Cassels & Graydon LLP, on behalf of the Underwriter.

Definitive certificates evidencing the Debentures issuable upon the conversion of the Notes will be available for delivery upon conversion or deemed conversion of the Notes.

You should rely only on the information contained in this prospectus. We and the Underwriter have not authorized anyone to provide you with information different from that contained in this prospectus. We are distributing the Debentures only in jurisdictions where, and to persons to whom, such distribution is lawfully permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any distribution of the Debentures.

In this prospectus, “Certicom”, “Company”, “we,” “us,” and “our” refer to Certicom Corp., a corporation governed by the laws of the Yukon Territory, Canada and its subsidiaries.

All currency amounts in this prospectus are stated in Canadian dollars, unless otherwise indicated.

Certicom[®] and Security Builder[®] are our registered trademarks, and *certicom encryption* , *SSL Plus* , *SSL Plus for Embedded Systems* , *WTLS Plus* , *Certilock* , *Mobile Trust* and *Trustpoint* are our trademarks. *Palm OS*[®] and *Palm.Net*[®] are registered trademarks, and *Palm VII* are trademarks of *Palm, Inc.* and *Powertool Pro* is a trademark of *BellSouth Wireless Data, L.P.* There are also references in this prospectus, or the documents incorporated by reference herein, to the trademarks of other companies.

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Exchange Rate Information

The following table sets forth, for each period indicated, information concerning the exchange rates between U.S. dollars and Canadian dollars based on the inverse of the noon buying rate in the City of New York on the last business day of each month during the period for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”). The table illustrates how many U.S. dollars it would take to buy one Canadian dollar. On September 10, 2001 the Noon Buying Rate was U.S. \$0.6387 per Cdn. \$1.00.

Fiscal Year Ended April 30,	Average (1)	Low	High	End of Period
2001	0.6616	0.6831	0.6333	0.6510
2000	0.6804	0.6969	0.6607	0.6756
1999	0.6629	0.6982	0.6341	0.6860

(1) The average of the daily Noon Buying Rates on the last business day of each month during the period.

Special Note Regarding Forward-Looking Statements

Certain statements contained in this prospectus, and in certain documents incorporated by reference in this prospectus, constitute “forward-looking statements”. When used in this document, the words “may,” “would,” “could,” “will,” “intend,” “plan,” “anticipate,” “believe,” “estimate”, “expect” and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, those which are discussed under the heading “Risk Factors”. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. We do not intend, and do not assume any obligation, to update these forward-looking statements.

Risk Factors

Before making an investment decision investors should carefully consider the risks and uncertainties described below. 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 such risks actually occur, our business, financial condition and operating results could be materially harmed.

Risk Factors Incorporated by Reference

In addition to the risk factors related to the offering of our securities set out below, reference should be made to “Item 1- Business – Factors that May Affect Operating Results” of our Annual Information Form dated July 27, 2001, which consists of our Annual Report filed in Form 10-K for the fiscal year ended April 30, 2001, incorporated by reference into this prospectus.

Other Risk Factors

Adverse Consequences of Financial Leverage

Our total liabilities on a consolidated basis as at April 30, 2001, which excludes our liabilities under the Notes incurred on August 30, 2001, were approximately US\$16,117,000. The level of our indebtedness could have important consequences to holders of Debentures, including the following: (i) our ability to obtain additional financing in the future could be restricted; (ii) cash flow from operations dedicated to the payment of the principal of, and interest on, our indebtedness will not be available for other purposes; (iii) our flexibility in planning for, or reacting to, changes in our business and market conditions could be restricted; (iv) we may in the future become more highly leveraged than certain of our competitors which might place us at a competitive disadvantage; and (v) we should be more vulnerable in the event of further downturns in our business.

Ability to Service Debt

We will be required to make our first payment of interest on the Debentures on February 28, 2002. Annual cash interest requirements on the Debentures will be approximately US\$637,166. There can be no assurance that we will achieve or sustain profitability or positive cash flow from operating activities in the future. If we cannot achieve operating profitability or positive cash flow from operating activities, we may not be able to meet our debt service or working capital requirements or to obtain additional capital required in order to execute our business plan.

Additional Risk of Subordination and Additional Indebtedness

The payment of principal of, and interest on, the Debentures is subordinated to the payment of certain permitted secured debt. The Debentures are unsecured and subordinated in right of payment to such permitted secured debt and, as such, we will be permitted to make payments on the Debentures only after we have satisfied all of our obligations on such debt. Therefore, we may not have sufficient assets remaining to pay amounts due on any or all of the Debentures. The Debentures do not limit our ability to incur certain additional secured debt. We may have difficulty paying our obligations under the Debentures if we incur such additional indebtedness. Moreover, no payments of principal or interest will be made under the Debentures if an event of default has occurred and is continuing under any of such permitted secured debt. Certain of our existing operations are currently conducted through our wholly-owned subsidiaries. Our ability to meet debt service obligations, including payment of principal and interest on the Debentures, may depend upon the cash flow of our subsidiaries and the payment of funds by our subsidiaries to us in the form of loans, dividends, fees or otherwise, to pay any amounts due pursuant to the Debentures or to make funds available therefor, whether in the form of loans, dividends or otherwise. Any right of our Company to receive assets of our subsidiaries upon their liquidation or reorganization (and the consequent right of the holders of the Debentures to participate in the distribution of proceeds from those assets) will be effectively subordinated to the claims of such subsidiaries' creditors (including tax authorities and lenders). Consequently, the Debentures effectively are subordinate to liabilities of our subsidiaries and any subsidiaries that it may in the future acquire or establish.

Asset Value in Event of Default

At April 30, 2001, our assets included intangible assets, including patents, net of amortization, in the amount of US\$17,507,000. During the three months ended July 31, 2001, we wrote down approximately US\$8,652,801 of intangible assets. The value of our intangible assets continue to depend significantly upon the success of our business. In the event of a default on indebtedness or a liquidation of our Company, there can be no assurance that the value of these assets will be sufficient to satisfy our obligations.

Bankruptcy and Related Laws

The rights of a holder of Debentures to enforce its remedies are likely to be significantly impaired by the restructuring provisions of applicable Canadian federal bankruptcy, insolvency and other restructuring legislation if the benefit of such legislation is sought with respect to our Company. For example, both the *Bankruptcy and Insolvency Act* (Canada) and the *Companies' Creditors Arrangement Act* (Canada) contain provisions enabling "an insolvent person" to obtain a stay of proceedings as against its creditors and others and to prepare and file a proposal for consideration by all or some of its creditors and others to be voted on by the various classes of its creditors. Such a restructuring proposal, if accepted by the requisite majorities of creditors and if approved by the court, would be binding on persons who might not otherwise be willing to accept it. Moreover, this "proposal" legislation permits, in certain circumstances, the insolvent debtor to retain possession and administration of its property, even though it may be in default under the applicable debt instrument.

The powers of the court under the *Bankruptcy and Insolvency Act* (Canada) and particularly under the *Companies' Creditors Arrangement Act* (Canada) have been exercised broadly to protect a restructuring entity from actions taken by creditors and other parties. Accordingly, it is impossible to predict if payments under the Debentures would be made following commencement of or during such a proceeding, whether or when the holder could exercise its rights under the Debentures or whether and to what extent holders of the Debentures would be compensated for any delay, if any, in payments of principal and interest.

Change of Control

In the event that a Change of Control (as defined under "Description of the Debentures — Change of Control") occurs prior to August 30, 2003, we will offer to purchase all of the outstanding Debentures at par plus accrued and unpaid interest, together with payment of Foregone Interest (as defined under "Description of the Debentures – Change of Control"). In the event that a Change of Control occurs on or after August 30, 2003 but prior to the Maturity Date, we will offer to purchase all of the outstanding Debentures at par plus accrued and unpaid interest. There can be no assurance that we would have sufficient funds to repurchase the Debentures and to consummate such purchase and make payment of any Foregone Interest payable or that we could do so under any of our other financing agreements in the event that we cannot satisfy any amounts owing through the issuance of our common shares or other securities. See "Description of Debentures — Change of Control". In particular, a Change of Control may result in us having to refinance the indebtedness outstanding under the Debentures. There can be no assurance that we would be able to refinance such indebtedness or, if such refinancing were to occur, that such refinancing would be on terms favourable to us.

Lack of Public Market for the Debentures

There is no public market for the Debentures and we do not intend to apply for listing of any of the Debentures on any stock exchange. There can be no assurance as to the liquidity of the trading market for the Debentures or that a trading market for the Debentures will develop.

Issue of Additional Common Shares

If the principal sums outstanding under the Debentures are converted, or if we elect to satisfy all or a significant part of our obligations pursuant to an offer to purchase Debentures following a Change of Control through the issuance of our common shares, a substantial number of additional common shares of our Company will be available for trading in the public market. The additional common shares in the market may cause the price of the common shares to decline. In addition, if our shareholders sell substantial numbers of our common shares in the public market following this offering, the market price of our common shares could fall. These sales might also make it more difficult for us to sell equity or

equity related securities at a time and at a price that we would deem appropriate and would inhibit our ability to raise cash by issuing new equity.

Our Management will have Broad Discretion in Using the Net Proceeds from this Offering

We intend to use the net proceeds, as determined by our management in its sole discretion, for working capital and general corporate purposes. See “Use of Proceeds”. We have not determined the specific allocation of the net proceeds among the various uses described above and, accordingly, investors in this offering will rely upon the judgment of our management with respect to the use of proceeds. Our management may spend the net proceeds of this offering in ways with which you do not agree and in ways that may not yield a favourable return. Management’s failure to spend the proceeds effectively could have a material adverse effect on our business, financial condition and operating results.

The Company

Overview

We are a leading provider of information security software and services, specializing in solutions for mobile e-business. Our products and services are specifically designed to address the challenges imposed by a wireless data environment. We offer comprehensive solutions that incorporate our proprietary encryption technology which are based on industry standards for information security that utilize public key cryptography.

Historically, we have focused on the development and marketing of cryptographic and information security protocol toolkits. Today, our comprehensive product offering includes: (i) enabling technologies, which allow original equipment manufacturers, or OEMs, to develop secure e-business applications and to implement secure transactions on the wired and wireless Internet; (ii) trust services, which provide OEMs and enterprises with the necessary public-key infrastructure, management tools and certificate services to authenticate users and servers; and (iii) our enterprise application software, which provides virtual private network security and strong personal digital assistant data security for enterprises wanting to enable a mobile workforce. In addition, we provide consulting and systems integration services to assist our customers in designing and implementing efficient security solutions. Our products and services solve difficult security problems for the world's leading providers of computing and communication products. OEM customers integrate our enabling technologies into their hardware and software products, then sell the finished products to consumers or enterprise customers. In addition, we sell our enterprise application software directly to Fortune 1000 companies.

We carry on business directly and indirectly through the following five subsidiaries, each of which is a direct or indirect, wholly-owned subsidiary of Certicom Corp.: Trustpoint and DRG Resources Group, Inc., each of which is a California corporation, Certicom Corp., a Delaware corporation, Certicom Corp., Europe, B.V., a Netherlands corporation, and Certicom Corp. International, a Cayman Islands corporation.

Our head office is located at 25821 Industrial Boulevard, Hayward, California, U.S.A. 94545 and our registered office is located at 204 Lambert Street, Suite 200, Whitehorse, Yukon Territory, Y1A 3T2.

Acquisitions

On September 12, 2000, we acquired all of the outstanding common shares of DRG Resources Group, Inc., a corporation based in Redwood City, California. DRG Resources Group, Inc. is an eCommerce security consulting company. Prior to our acquisition of DRG Resources Group, Digital Resources Group, LLC merged into DRG Resources Group, Inc., a newly incorporated company. Prior to this merger, Digital Resources Group, LLC distributed all but \$100,000 of its tangible assets to its members. At the time these two companies merged, Digital Resources Group, LLC transferred all of its remaining operating assets to DRG Resources Group, Inc. The acquisition was completed with the issuance of 397,595 of our common shares. In connection with the acquisition, we also assumed stock options exercisable to acquire 103,100 of our common shares. This acquisition was accounted for by the purchase method and the results of operations were included in our consolidated statements of operations from the date of acquisition.

Recent Developments

On August 17, 2001, we announced a reduction of our workforce by approximately 25%. We anticipate that cost savings from this additional workforce reduction will accrue throughout the second fiscal quarter ended October 31, 2001, as projects are completed and payroll is reduced.

Use of Proceeds

The net proceeds to be received by us from the offering, after deducting the maximum amount of the Underwriter's Fee payable by us and the estimated expenses payable by us, are estimated to be \$12,257,500. Following the release of the net proceeds to us in accordance with the terms of the Escrow Agreement, we intend to use the net proceeds from this offering for working capital and general corporate purposes.

Pending such uses, we expect to invest the net proceeds in short-term, interest-bearing, investment grade securities.

Earnings Coverages

Our interest requirements, after giving effect to the issuance of the Debentures, would be US\$637,166 for the fiscal year ended April 30, 2001. We had a loss before income taxes for the fiscal year ended April 30, 2001 of US\$37,940,000. Accordingly, after giving effect to the issuance of the Debentures, we would have had a pro forma deficiency of earnings available to cover interest requirements as indicated for the year ended April 30, 2001. An increase of US\$38,577,166 in earnings would have been necessary to produce an earnings coverage ratio of one to one for the fiscal year ended April 30, 2001.

Description Of The Debentures

The following is a summary of the principal terms and conditions of the Debentures to be issued under the trust indenture dated as of August 30, 2001 as supplemented by a supplemental indenture dated as of August 30, 2001, or the Indenture, between Certicom and Computershare Trust Company of Canada, or the Trustee. You will find the definitions of certain terms used in this description under the headings "Conversion Privilege", "Events of Default", "Change of Control", "Subordination" and "Limitation on Certain Additional Debt". This summary does not purport to be complete. For full particulars, reference should be made to the Indenture.

Indenture

The Debentures will be issued under the Indenture.

Interest Rate and Maturity

The Debentures will be limited to an aggregate principal amount of \$13,500,000 and will mature on August 30, 2004, or the Maturity Date. Each Debenture will bear interest from the date of issue at 7.25% per annum, payable in equal semi-annual installments in arrears on February 28 and August 30 in each year, commencing February 28, 2002.

Form, Denomination and Register

The Debentures will be available in fully registered form in denominations of \$1,000 principal amount and integral multiples thereof. The register for the Debentures will be kept at the principal office of the Trustee in Toronto.

Payment Upon Maturity

On maturity we will repay the indebtedness represented by the Debentures by paying the Trustee in lawful money of Canada an amount equal to the principal amount of the outstanding Debentures together with any accrued and unpaid interest on the Debentures.

Conversion Privilege

Each Debenture will be convertible at the holder's option into fully paid and non-assessable freely tradable common shares of our Company at any time before the close of business on the Maturity Date or, if called for redemption, the last business day prior to the date fixed for redemption, at a conversion price, or the Conversion Price, of \$3.85 per common share, subject to adjustment in certain events described below, being a rate of 259.740 common shares for each \$1,000 principal amount of Debentures. Upon conversion, the holder of the Debentures will receive, in addition to the applicable number of our common shares, any accrued and unpaid interest in respect of the Debentures surrendered for conversion up to the date of conversion.

No fractional common shares will be issued on any conversion but in lieu thereof we may satisfy such fractional interest by a cash payment equal to the market price of such fractional interest.

Subject to the provisions thereof, the Indenture provides for the adjustment of the Conversion Price in certain events including: (i) the subdivision or consolidation of our outstanding common shares; (ii) the distribution of our common shares (or securities convertible into or exchangeable for our common shares) to all or substantially all of the holders of our common shares by way of stock dividend or otherwise (other than an issue of shares to holders of outstanding common shares pursuant to a right granted to such holders to receive such common shares in lieu of "Dividends Paid in the Ordinary Course"); (iii) the issuance of options, rights or warrants to all or substantially all of the holders of common shares entitling them within a period of 45 days to acquire common shares (or other securities convertible into or exchangeable for our common shares) at less than 95% of the weighted average trading price of our common shares on the TSE for the 20 consecutive trading days ending five trading days preceding the record date for such issuance; and (iv) the distribution to all or substantially all holders of common shares of (a) securities of our Company, including rights, options or warrants (other than those described in item (iii) above), to acquire securities of our Company or any of its property or assets (including evidences of indebtedness) or (b) any property or other assets (including evidences of indebtedness), but excluding in each case, "Dividends Paid in the Ordinary Course". There will be no adjustment of the Conversion Price in respect of any event described above (other than in item (i) above) if the holders of Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date.

Subject to certain conditions described therein, the Indenture also provides for an adjustment to the Conversion Price and/or the class and/or number of securities issuable on conversion of the Debentures if there is (x) a reclassification of our common shares, (y) a consolidation, amalgamation, merger or our Company with another entity, or (z) a transfer of all or substantially all of our assets.

We will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

"Dividends Paid in the Ordinary Course" is defined in the Indenture, in effect, as dividends paid on our common shares in any financial year of our Company, whether in (i) cash, (ii) shares of our Company, (iii) subject to certain exceptions, rights, options or warrants to purchase any shares, property or other assets of our Company, or (iv) property or other assets of our Company, in each case to the extent that the amount or value of such dividends in the aggregate does not exceed the greater of:

- (a) 150% of the aggregate amount or value of dividends paid by our Company on our common shares in our immediately preceding financial year; and
- (b) 100% of the consolidated net income of our Company (before extraordinary items but after dividends payable on all shares ranking prior to or on a parity with our common

shares with respect to the payment of dividends) for our immediately preceding financial year.

Redemption and Purchase

Except in the event of a Change of Control, the Debentures are not redeemable at our option prior to August 30, 2003. On and after August 30, 2003 to and including the Maturity Date, the Debentures may be redeemed by us, in whole or, from time to time, in part, at our option, at par plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' notice prior to the date specified for redemption provided that the weighted average trading price of our common shares on the TSE during the 20 consecutive trading days ending five trading days preceding the date on which the notice of redemption is given is not less than 125% of the Conversion Price. See “— Change of Control” below.

We will have the right at any time and at any price, subject to any required regulatory approval, to purchase Debentures in the open market or by tender or by private contract.

Events of Default

The following will be “Events of Default” under the Indenture applicable to the Debentures: (i) failure to pay any principal on any Debenture when due; (ii) failure to pay any interest on any Debenture when due, continued for a period of five days; (iii) default in the performance, or breach, of any covenant or agreement by us under the Indenture or the Debentures, continued for 30 days after written notice to us by the Trustee or holders of at least 25% in aggregate principal amount of outstanding Debentures; and (iv) certain events of bankruptcy or insolvency affecting us.

The Indenture provides that if any Event of Default has occurred and is continuing, the Trustee may in its discretion, and shall upon receipt of an instrument signed in one or more counterparts by holders of not less than 25% of the principal amount of the outstanding Debentures, declare the principal of, together with accrued and unpaid interest on the Debentures then outstanding, to be due and payable. In certain cases, the holders of a majority of the principal amount of the Debentures then outstanding may on behalf of the holders of all Debentures waive any Event of Default and/or cancel any such declaration upon such terms and conditions as such holders of Debentures shall prescribe.

Modification

The rights of the holders of the Debentures may be modified in accordance with the terms of the Indenture. For that purpose, among others, the Indenture contains certain provisions which will make binding on all holders of the Debentures, resolutions passed at a meeting of the holders of Debentures by votes cast thereat by holders of not less than 66 2/3% of the principal amount of the outstanding Debentures present at such meeting, or rendered by instruments in writing signed by the holders of not less than 66 2/3% of the principal amount of the outstanding Debentures.

Change of Control

If a Change of Control occurs prior to August 30, 2003, we must commence, within 45 days of the occurrence of the Change of Control, and consummate an Offer to Purchase for all Debentures then outstanding. The Offer to Purchase shall be made at a purchase price equal to par plus accrued and unpaid interest plus a bonus in an amount equal to the interest otherwise payable, or the Foregone Interest, on the Debentures from and including the Change of Control Date to and including August 30, 2003. Accordingly, purchasers of Debentures that are not holders of record immediately prior to the Change of Control will not be entitled to Foregone Interest.

The Indenture provides that if a Change of Control occurs prior to August 30, 2003, each holder of record of a Debenture wishing to convert such Debenture with effect immediately prior to the Change

of Control may surrender such Debenture to the Trustee for conversion into common shares with effect immediately prior to, and conditional upon completion of, a Change of Control, together with the conversion form on the back of such Debenture or any other written notice in form and substance satisfactory to the Trustee, in either case duly executed by the holder or the holder's executors or administrators or other legal representatives or the holder's attorney duly appointed by an instrument in writing and in form and substance satisfactory to the Trustee together with a letter of transmittal and/or such other documents (other than certificates or other documents evidencing ownership of the Common Shares underlying the surrendered Debentures) as may be required of holders of common shares to be deposited in order to participate in the transaction resulting in the Change of Control. Such holder of Debentures, upon the occurrence of the Change of Control, provided that the Debenture and other instruments surrendered or deposited with the Trustee have not been withdrawn prior to the occurrence of the Change of Control, shall be entitled, subject to withholding taxes, to receive accrued and unpaid interest in respect thereof for the period up to but excluding the Change of Control Date from the date of the latest interest payment date in respect thereof.

Unless the holder of record of a Debenture surrendered for conversion in accordance with the procedures described in the above paragraph irrevocably instructs the Trustee otherwise in writing, a Debenture surrendered for conversion with effect immediately prior to a Change of Control in the circumstances described in the above paragraph shall be deemed to have been withdrawn and the Debenture shall not be converted on the forty-fifth day following its surrender if the Change of Control has not occurred prior to such date, and the Debenture and all accompanying documents surrendered or deposited with the Debenture shall be returned to the holder and any right to convert such Debenture shall revive and continue.

In the event that a Change of Control occurs on or after August 30, 2003 but prior to the Maturity Date, we must commence, within 45 days of the occurrence of the Change of Control, and consummate an Offer to Purchase for all Debentures then outstanding. The Offer to Purchase shall be made at a purchase price equal to par plus accrued and unpaid interest. A holder of Debentures may accept the Offer to Purchase in respect of all or part of the Debentures held. We will not be obliged to make an Offer to Purchase if notice of redemption of all Debentures has been given by us to holders of Debentures. See "— Redemption and Purchase" above.

We may, at our option and subject to any required regulatory approval, by giving notice to the holders of the Debentures at least five trading days prior to the Change of Control Date unless an Event of Default under the Indenture has occurred and is continuing, pay any principal or interest payable pursuant to an Offer to Purchase, including Foregone Interest, by (i) issuing freely tradable, fully paid and non-assessable Common Shares; (ii) making payment in cash; (iii) issuing freely tradable, fully paid and non-assessable securities of the successor company resulting from the Change of Control or the entity that made the offer to purchase the Common Shares resulting in the Change of Control or such entity's affiliates, provided in each case that such securities were issued to holders of Common Shares in connection with the Change of Control; or (iv) any combination of the foregoing. Should no such notice be given by us, the Debentures shall be redeemed for cash. For these purposes, Common Shares or any securities of the successor company or offeror, as the case may be, will be valued at 95% of the weighted average trading price of such securities on the principal market on which the securities are traded for the twenty trading days ending five trading days preceding the Change of Control.

The Indenture provides that a "Change of Control" is deemed to have occurred at such time as (i) any "person" including a person's "affiliates" and "associates" (as such terms are defined in the Business Corporations Act (Ontario)) becomes the beneficial owner of directly or indirectly, or, exercises control or direction over, Common Shares carrying in excess of 50.1% of the total voting rights attached to the Common Shares; or (ii) our Company consolidates or amalgamates with, or merges with or into, another person or sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of its assets to any person, or any person consolidates or amalgamates with, or merges with or into, our

Company, in any such event pursuant to a transaction in which any of the outstanding Common Shares are converted into or exchanged for cash, securities or other property, other than any such transaction in which the outstanding Common Shares are converted into or exchanged for, or the assets of our Company are exchanged for, voting securities or securities exchangeable at the option of the holder into voting securities of the surviving or transferee person constituting a majority of such voting securities (giving effect to such issuance and the exercise of any rights to exchange such securities into voting securities).

“Offer to Purchase” is defined in the Indenture, in effect, as an offer to purchase Debentures by us from the holders of Debentures commenced by mailing a notice to the Trustee and each holder of Debentures stating: (i) the covenant contained in the Indenture pursuant to which the offer is being made and that all Debentures validly tendered will be accepted for payment; (ii) the purchase price and the date of payment thereof, or the Payment Date; (iii) that a holder of Debentures may tender to the Offer to Purchase all or part of the Debentures held; (iv) that any Debenture not tendered will continue to accrue interest pursuant to its terms; (v) that, unless our Company defaults in the payment of the purchase price, any Debenture accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Payment Date; (vi) that holders electing to have a Debenture purchased pursuant to the Offer to Purchase will be required to surrender the Debenture to the Paying Agent at the address specified in the notice prior to 5:00 p.m. (Toronto time) on the business day immediately preceding the Payment Date; (vii) that holders will be entitled to withdraw their election if the Paying Agent receives, not later than 5:00 p.m. (Toronto time) on the third business day immediately preceding the Payment Date, a facsimile transmission or letter setting forth the name of such holder, the principal amount of Debentures delivered for purchase and a statement that such holder is withdrawing his election to have such Debentures purchased; and (viii) that holders whose Debentures are being purchased only in part will be issued replacement Debentures equal in principal amount to and as evidence of the same underlying indebtedness as was evidenced by the unpurchased portion of the Debentures surrendered, provided that each Debenture purchased and each replacement Debenture issued shall be in a principal amount of \$1,000 or integral multiples thereof. On the Payment Date, we will (i) accept for payment Debentures or portions thereof tendered pursuant to an Offer to Purchase; (ii) deposit with the Paying Agent money and/or securities sufficient to pay the purchase price of all Debentures or portions thereof; and (iii) deliver, or cause to be delivered, to the Trustee all Debentures or portions so accepted together with an officers’ certificate specifying the Debentures or portions thereof accepted for payment. The Paying Agent shall promptly mail to the holders of Debentures payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to the holders of the Debentures a new Debenture equal in principal amount to any unpurchased portion of the Debenture surrendered; provided that each Debenture purchased and each new Debenture issued shall be in a principal amount of \$1,000 or integral multiples thereof. We will publicly announce the results of an Offer to Purchase as soon as practicable after the Payment Date. The Trustee shall act as the “Paying Agent” for an Offer to Purchase. We will comply with all applicable securities laws and regulations in the event that we are required to repurchase Debentures pursuant to an Offer to Purchase.

Subordination

The Debentures (including the principal amounts, accrued and unpaid interest, the Redemption Price, the Offer to Purchase price and the Foregone Interest) are subordinate debt obligations.

We have agreed that we will not make any payment, and the Trustee and the holders of Debentures will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including without limitation by set-off, combination of accounts or otherwise in any manner whatsoever) on account of the Debentures (i) in a manner inconsistent with the terms of the Debentures, or (ii) at any time when an event of default, as defined in any Permitted Secured Debt or any instrument evidencing the same, has occurred and is continuing and notice of such event of default has been given by or on behalf of the holders of Permitted Secured Debt to us and the Trustee, unless the Permitted Secured Debt has been repaid in full. “Permitted Secured Debt” is defined in the Indenture, in

effect, as (i) indebtedness (other than trade debt) created, incurred, assumed or guaranteed, for moneys borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers' acceptances, debt instruments, bank debt and financial leases, and any liability evidenced by bonds, debentures, notes or similar instruments); (ii) indebtedness created, incurred, assumed or guaranteed after the date of the Indenture to finance the cost of the acquisition by us or any of our subsidiaries of any assets or services; (iii) any guarantee of any indebtedness of a type described in clause (i) or (ii) above; and (iv) renewals, extensions or refunds of any indebtedness or guarantee referred to in clauses (i), (ii) or (iii) above; provided that, in each case, such indebtedness or guarantee is secured by a Lien (as defined below) and such Lien has been created or granted for bona fide purposes of our Company or any of our subsidiaries and not for the purpose of avoiding our obligations described below under "— Limitation on Certain Additional Debt". The conversion rights of the holder remain unaffected in the event that payment of principal and interest is suspended owing to the occurrence of an event of default under the Permitted Secured Debt.

In the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to our Company, or to our property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of our Company, whether or not involving insolvency or bankruptcy, or any marshalling of the assets and liabilities of our Company, the holders of Permitted Secured Debt will be entitled to receive payment in full of all the Permitted Secured Debt before the Trustee will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of the Debentures.

Limitation on Certain Additional Debt

We have agreed that we will not, and will not permit any of our subsidiaries to, create, incur, assume, suffer, permit to exist or guarantee, directly or indirectly, any Debt that ranks senior to, or *pari passu* with, the Debentures other than Permitted Secured Debt. Nothing in the Indenture will prevent or be deemed to prevent us or any of our subsidiaries from creating, incurring, assuming, suffering, permitting to exist or guaranteeing trade debt.

"Debt" is defined in the Indenture, in effect, as at any time: (i) all items which would then be classified as a liability on a consolidated balance sheet of our Company or in the notes thereto; and (ii) to the extent not otherwise included as Debt pursuant to the provisions of paragraph (i) of this definition, without duplication, any item that is (a) an obligation of our Company or any of our subsidiaries in respect of borrowed money or for the deferred purchase price of property or services or an obligation of our Company which is evidenced by a note, bond, debenture or other similar instrument, (b) a transfer with recourse or with an obligation to repurchase, to the extent of the liability of our Company or any of our subsidiaries with respect thereto, (c) an obligation secured by any Lien on any property of our Company or any of our subsidiaries to the extent attributable to its respective interest in such property, even though it has not assumed or become liable for the payment thereof, (d) an obligation of our Company or any of our subsidiaries arising in connection with an acceptance facility or letter of credit or letter of guarantee issued by or for the account of our Company or any of our subsidiaries, or (e) a Contingent Obligation (as hereinafter defined) of our Company or any of our subsidiaries to the extent that the primary obligation so guaranteed is not otherwise classified as a liability on the consolidated balance sheet of our Company, provided, however, that there shall not be included for the purpose of this definition any item which is on account of (w) issued share capital or surplus, (x) reserves for deferred income taxes or general contingencies, (y) minority interests in our subsidiaries, or (z) trade debt.

"Lien" is defined in the Indenture, in effect, as any lien, encumbrance, mortgage, pledge, charge, security interest or other encumbrance.

“Contingent Obligation” is defined in the Indenture, in effect, as to any person, any obligation, whether secured or unsecured, of such person guaranteeing or indemnifying, or in effect guaranteeing or indemnifying, for any indebtedness, leases, dividends, letters of credit or other monetary obligations (the “primary obligations”) of any other person (the “primary obligor”) in any manner, whether directly or indirectly, including any obligation of such person as an account party in respect of a letter of credit or letter of guarantee issued to assure payment by the primary obligor of any such primary obligation and any obligation of such person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds for the purchase or payment of any such primary obligation or to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the obligee under any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (iv) otherwise to assure or hold harmless the obligee under such primary obligation against loss in respect of such primary obligation; provided, however, that the term Contingent Obligation does not include endorsements of instruments for deposit or collection in the ordinary course of business.

Covenants

Pursuant to the Indenture, we covenant with the holders of the Debentures that while any principal sums remain outstanding, we will, in addition to our covenants described above under “— Limitation on Certain Additional Debt”: (i) duly and punctually pay all amounts as they come due; (ii) subject to certain exceptions, maintain our corporate existence; (iii) furnish the Trustee with copies of all financial statements and other periodic reports furnished to shareholders; (iv) duly and punctually perform and carry out all things to be done under the Indenture; (v) promptly notify the Trustee of the occurrence of an event of default; (vi) not declare or pay dividends on or redeem or purchase our shares; (vii) consider calling a special meeting of shareholders for the purpose of approving a share consolidation if the closing price of our common shares on NASDAQ is below US \$1.00 for any ten consecutive trading days; (viii) reserve and authorize a sufficient number of our common shares to satisfy our obligations under the Debentures; (ix) duly issue and deliver our common shares in accordance with the Debentures and the terms of the Indenture; and (x) to provide a copy of the Indenture to the Trustee on written request. There are no ratio or other financial tests which we are required to meet.

Continued Listing

We have agreed to take all reasonable steps and actions and do all such acts and things as may be required to, among other things: (i) as long as we meet the minimum listing requirements of such institutions, maintain the listing and posting for trading of our common shares on the TSE or, in the event of a Change of Control, on the TSE, the Nasdaq National Market or the New York Stock Exchange of the securities for or into which our common shares were exchangeable or converted in connection with a Change of Control, and (ii) maintain our status as a reporting issuer not in default of the requirements of applicable securities legislation of the provinces of Canada or have outstanding securities registered under the *U.S. Securities Exchange Act of 1934*, as amended, or in the event of a Change of Control, maintain the status of the person whose securities were exchanged or converted for our common shares as part of such Change of Control as a reporting issuer not in default of the requirements of applicable securities legislation of the provinces of Canada or have outstanding securities registered under the *U.S. Securities Exchange Act of 1934*, as amended.

Trustee

Computershare Trust Company of Canada is the trustee under the trust indentures governing the Notes and the Debentures.

Canadian Federal Income Tax Considerations

In the opinion of McCarthy Tétrault LLP, counsel to us, and Blake, Cassels & Graydon LLP, counsel to the Underwriter, the following is a general summary of the principal Canadian federal income tax considerations under the *Income Tax Act* (Canada) (the “Tax Act”) generally applicable to certain holders of Notes as set out below, of the exchange of Notes for Debentures, the acquisition, holding and disposition of such Debentures, the conversion of Debentures into common shares of the Company, and the acquisition, holding and disposition of common shares of the Company acquired on such conversion or other payment under a Debenture.

This summary generally applies to holders of Notes who, for purposes of the Tax Act and at all relevant times, hold their Notes, and will hold any Debentures acquired on the exchange of Notes and any common shares acquired on the conversion of Debentures, as capital property and deal at arm’s length with and are not affiliated with the Company (a “Holder”). Securities issued by the Company will generally be considered to be capital property to a Holder unless the Holder holds such securities in the course of carrying on a business of trading or dealing in securities or otherwise as part of a business of buying or selling securities or the Holder acquired such securities in an adventure in the nature of trade.

The Tax Act contains certain provisions relating to securities held by certain financial institutions (the “mark-to-market rules”). This summary does not take into account the mark-to-market rules or any amendments thereto contained in the Tax Proposals (defined below). This summary also does not apply to a Holder, an interest in which would be a “tax shelter investment” as defined in section 143.2 of the Tax Act. Holders that are “financial institutions” for purposes of the mark-to-market rules or an interest in which would be a tax shelter investment should consult their own tax advisors.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the “Regulations”), the current provisions of the *Canada-United States Income Tax Convention* (the “Treaty”) all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the “Tax Proposals”), and counsel’s understanding of the current administrative practices of the Canada Customs and Revenue Agency (the “CCRA”). No assurances can be given that the Tax Proposals will be enacted as proposed, if at all.

This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Tax Proposals, does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action, or any changes in the administrative practices of the CCRA, nor does it take into account the tax legislation of any province, territory or foreign jurisdiction. Provisions of provincial income tax legislation vary from province to province in Canada and in some cases differ from federal income tax legislation.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder. Accordingly, Holders should consult their own tax advisors for advice with respect to the income tax consequences to them of acquiring, holding and disposing of Debentures and common shares having regard to their own particular circumstances.

Residents of Canada

The following portion of the summary is applicable to a Holder who, for purposes of the Tax Act and at all relevant times, is or is deemed to be resident in Canada.

Certain Holders for whom Notes, Debentures or common shares might not otherwise be considered capital property may be entitled to have their Notes, Debentures and common shares deemed to be capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act.

Exchange of Notes

A Holder that elects to exchange a Note for a Debenture by exercising the Holder's right of conversion to effect such exchange will dispose of the Note, but will not be considered to realize a capital gain or capital loss on such exchange. The cost to such a Holder of a Debenture acquired upon the exchange of a Note will be equal to the adjusted cost base to the Holder of the Note at the time of the exchange. The adjusted cost base of a Debenture at any time will be determined by averaging the cost of the Debenture with the adjusted cost base of all other Debentures held by the Holder as capital property at that time.

A Holder who exchanges a Note for a Debenture by virtue of a deemed or automatic exercise of the right of conversion will also dispose of the Note and will be considered to have realized a capital gain (or capital loss) to the extent that the proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base of the Note to the Holder immediately before the disposition and any reasonable costs of disposition. For this purpose, the proceeds of disposition will be equal to the fair market value of the Debenture received on the exchange, determined at the time of the exchange.

A Holder who exchanges a Note for a Debenture may also be required to include in income interest accrued on the Note to the date of exchange. See "Interest on Notes and Debentures" below.

Interest on Notes and Debentures

A Holder that is a corporation, partnership, unit trust or trust of which a corporation or partnership is a beneficiary will be required to include in computing its income for a taxation year all interest on a Note or Debenture that accrues to the Holder to the end of that taxation year or becomes receivable or is received by the Holder before the end of that taxation year, except to the extent that such amount was included in its income for a preceding taxation year.

Any other Holder of a Note or Debenture, including an individual, will be required to include in computing its income for a taxation year any interest on a Note or Debenture received or receivable by such Holder in that year (depending upon the method regularly followed by the Holder in computing income), to the extent that such amount was not otherwise included in the Holder's income for that or any preceding taxation year. In addition, if a Note or Debenture is held on its "anniversary day", the Holder will be required to include in computing income for the year interest that has accrued to the Holder to the end of that day on the Note or Debenture to the extent that the interest was not otherwise included in computing the income of the Holder for the year or a preceding taxation year. For this purpose, the "anniversary day" of a Note or Debenture means (i) the day that is one year after the day immediately preceding the date of its issue, (ii) the day that occurs at every successive one year interval from the day determined under (i), and (iii) the day on which the Note or Debenture was disposed of.

A Holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable for an additional refundable tax of 6 2/3% on investment income. For this purpose, investment income will generally include interest income and any Foregone Interest.

A Holder will be required to include in computing its income for a taxation year any amount received by the Holder from the Company in that year in respect of Foregone Interest in respect of a Debenture because of the occurrence of a Change of Control prior to August 30, 2003, to the extent that such amount was not otherwise included in the Holder's income for that or any preceding taxation year.

On a disposition or deemed disposition of a Note or Debenture, including an exchange of a Note for a Debenture, a payment on maturity, or redemption or a purchase for cancellation, but not a conversion of a Debenture into common shares pursuant to a Holder's right of conversion, a Holder will generally also be required to include in income the amount of interest accrued on the Note or Debenture (as the case may be) to the date of disposition to the extent that such amount has not otherwise been included in the Holder's income for the taxation year or a previous taxation year.

Disposition of Debentures

In general, a disposition or deemed disposition of a Debenture, including a redemption, payment on maturity or purchase for cancellation, but not a conversion of a Debenture into common shares pursuant to a Holder's right of conversion of a Debenture, will give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any accrued interest and other amounts included in the Holder's income on a redemption of the Debenture, exceed (or are less than) the aggregate of the adjusted cost base of the Debenture to the Holder immediately before the disposition and any reasonable costs of disposition.

If the Company pays any amount on the purchase of a Debenture by issuing common shares or delivering other securities to the Holder, the Holder's proceeds of disposition will be equal to the fair market value of the common shares or other securities so received at that time. The cost to the Holder of common shares or other securities so received will be equal to the fair market value of such common shares or other securities. The adjusted cost base to the Holder of common shares or other securities so received will be determined by averaging the cost of such shares or other securities with the adjusted cost base of all other common shares or other identical securities, as the case may be, held by such Holder as capital property.

One-half of any capital gain (the "taxable capital gain") realized by a Holder in a taxation year will be included in computing such Holder's income for such taxation year. One-half of any capital loss (the "allowable capital loss") realized by a Holder in a taxation year may be deducted by such Holder against taxable capital gains realized by such Holder in such taxation year or against net taxable capital gains for the three preceding or any subsequent taxation years, subject to and in accordance with the rules contained in the Tax Act.

A Holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable for an additional refundable tax of 6 2/3% on investment income. For this purpose, investment income will generally include taxable capital gains.

A capital gain realized by an individual may give rise to a liability for alternative minimum tax.

Exercise of Conversion Privilege

A Holder that converts a Debenture into common shares pursuant to the conversion right will not be considered to realize a capital gain or capital loss on such conversion. The cost to such Holder of the common shares acquired on such conversion will be equal to the Holder's adjusted cost base of the Debenture immediately before the conversion. The adjusted cost base to the Holder of common shares acquired on such conversion will be determined by averaging the cost of such shares with the adjusted cost base of all other common shares held by such Holder as capital property. Under the current administrative practice of the CCRA, a Holder who, upon conversion of a Debenture, receives cash not in

excess of \$200 in lieu of a fraction of a common share may either treat this amount as proceeds of disposition of a portion of a Debenture, thereby realizing a capital gain or capital loss, or alternatively, may reduce the adjusted cost base of the common shares that the Holder receives on the conversion by the amount of the cash received.

Common Shares

Dividends received or deemed to be received by a Holder on common shares will be included in the Holder's income for the purposes of the Tax Act. Such dividends received by an individual (including a trust) will generally be subject to the gross-up and dividend tax credit rules in the Tax Act normally applicable to taxable dividends received from taxable Canadian corporations. A Holder that is a corporation will include such dividends in computing its income and generally, subject to the limitations set out in the Tax Act, will be entitled to deduct the amount of such dividends in computing its taxable income. Certain corporations may be liable under Part IV of the Tax Act to pay a refundable tax of 33 1/3% of the amount of the dividends.

A Holder will realize a capital gain (or a capital loss) on a disposition or deemed disposition of common shares acquired upon the conversion of Debentures equal to the amount by which the proceeds of disposition exceed (or are less than) the aggregate of the Holder's adjusted cost base of such common shares immediately before the disposition and any reasonable costs of disposition. The tax treatment of capital gains and losses is discussed above under "Disposition of Debentures".

The amount of any capital loss realized by a corporation on a disposition of common shares may be reduced by the amount of dividends received or deemed to be received on such common shares. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary.

Eligibility for Investment

Provided the common shares continue to be listed on a prescribed stock exchange (which includes the TSE and NASDAQ), Debentures and Common Shares will be "qualified investments" under the Tax Act for trusts governed by registered retirement savings plans, registered education savings plans, registered retirement income funds and deferred profit sharing plans (other than, with respect to the Debentures, a trust governed by a deferred profit sharing plan to which contributions are made by the Company or a person with whom the Company does not deal at arm's length within the meaning of the Tax Act). Based in part on a certificate of an officer of the Company, the Debentures and Common Shares, if issued on the date hereof, would not be "foreign property" under the Tax Act for purposes of Part XI of the Tax Act.

Non-Residents of Canada

The following portion of the summary is applicable to a Holder who, for purposes of the Tax Act and at all relevant times, is not resident or deemed to be resident in Canada and will not use or hold, and will not be deemed to use or hold, a Debenture or common share acquired under the terms thereof in carrying on business in Canada (a "Non-Resident Holder"). Special rules, which are not discussed below, may apply to a Holder who is a non-resident insurer which carries on business in Canada and elsewhere.

Exchange of Notes

A Non-Resident Holder that exchanges a Note for a Debenture pursuant to the exchange right will realize the same tax consequences as those described above under "Residents of Canada – Exchange of Notes".

Taxation of Interest on Notes or Debentures

All amounts paid or credited to a Non-Resident Holder on the Notes or Debentures as, on account or in lieu of payment of or in satisfaction of interest, including without limitation any amount paid or credited to a Non-Resident Holder in respect of Foregone Interest in respect of a Debenture because of a Change of Control prior to August 30, 2003, will be subject to Canadian withholding tax imposed under Part XIII of the Tax Act. The rate of such withholding tax is generally 25% of the gross amount of the payment, subject to reduction under an applicable tax treaty between Canada and the Holder's jurisdiction of residence. The rate applicable under the Treaty is generally 10% where the Non-Resident Holder is the beneficial owner of the interest and is a resident of the United States for purposes of the Treaty.

If the Minister of National Revenue (the "Minister") issues a "certificate of exemption" under the Tax Act to a Non-Resident Holder, and such certificate of exemption is in force at the time interest or deemed interest on a Debenture is paid or credited to the Holder, withholding tax will not be imposed on such interest or deemed interest paid or credited to such Non-Resident Holder, provided that Holder deals at arm's length with the Company at the time the interest or deemed interest is paid or credited. In addition, withholding tax will not apply to any amount paid to such Non-Resident Holder in respect of Foregone Interest in respect of a Debenture because of a Change of Control prior to August 30, 2003, to the extent the amount so paid does not exceed the value at the time of such payment, of the amount that, but for the redemption of the Debenture before maturity, would have been paid or payable as interest on the Debenture for a taxation year of the Non-Resident Holder ending after the time of payment. In general, a certificate of exemption may be issued by the Minister to a Non-Resident Holder that is resident in a country which imposes an income tax, is exempt from income tax under the laws of that country and either would be exempt from tax in Canada if the Holder were resident in Canada or is a trust or corporation operated exclusively to administer or provide pension or employee benefits or is a charitable organization.

Under the Treaty, interest (including deemed interest) paid to certain religious, scientific, literary, educational or charitable organizations and certain pension organizations that are resident in, and generally exempt from tax in, the United States are generally exempt from Canadian non-resident withholding tax. Provided that certain administrative procedures are observed by such an organization, withholding tax will not apply to interest or deemed interest (or from an amount in respect of Foregone Interest payable because of a Change of Control prior to August 30, 2003) paid or credited to such an organization.

Exercise of Conversion Privilege

The conversion of a Debenture into common shares on the exercise of a conversion privilege by a Holder will not constitute a disposition of the Debenture and, accordingly, a Holder who is a Non-Resident Holder will not realize a gain or loss on such conversion. Such a Holder may, however, be subject to withholding tax. See "— Disposition of Debentures and Common Shares" below.

Disposition of Debentures and Common Shares

A Holder who is a Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Holder on a disposition of a Debenture or common share, as the case may be, unless the Debenture or common share constitutes "taxable Canadian property" of the Holder for purposes of the Tax Act and the Holder is not entitled to relief under an applicable tax treaty or convention. As long as the common shares are listed on a prescribed stock exchange (which includes the TSE and NASDAQ), the Debentures and the common shares acquired on conversion or other payment under a Debenture generally will not constitute taxable Canadian property of a Holder who is a Non-Resident unless at any time during the 60 month period immediately preceding the disposition of the Debenture or the common shares, as applicable, the Holder, persons with whom the Holder does not deal

at arm's length or the Holder together with such persons, owns or is considered to own (or had an interest in or option to acquire) not less than 25% of the issued shares of any class or series of shares of the capital stock of the Company. For this purpose, a Holder will be considered to own common shares into which such person's Debentures may be converted and any other common shares which the Holder has a right to acquire. Upon any disposition of a Debenture to the Company (including by means of a redemption or conversion) the amount by which the consideration received from the Company exceeds the amount for which the Debenture was issued and any interest accrued on the Debenture from the date of the last interest payment to the date of disposition is or is deemed to be interest on the Debentures and will be subject to withholding tax. On a disposition to any other Canadian resident, a Non-Resident Holder may also be subject to withholding tax on such amounts.

Taxation of Dividends

Under the Tax Act, dividends on common shares paid or credited to a Non-Resident Holder will be subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividends. The rate of withholding tax may be reduced pursuant to the terms of an applicable tax treaty between Canada and the country of residence of the Non-Resident Holder. In general, pursuant to the Treaty, the rate of this withholding tax is reduced to 15% in respect of dividends paid to a resident of the United States for purposes of the Treaty who is the beneficial owner of the common share. Moreover, under the Treaty, dividends paid to certain, religious, scientific, literary, educational or charitable organizations and certain pension organizations that are resident in, and generally exempt from tax, in the United States, are generally exempt from Canadian non-resident withholding tax. Provided that certain administrative procedures are observed by such an organization, no withholding tax will apply to dividends paid or credited to such organization.

Share and Loan Capital Structure

Our share capital consists of common shares and preference shares, each of which have an unlimited authorized number of shares available for issuance. As of August 31, 2001, 31,423,004 common shares were issued and outstanding. No preference shares are currently outstanding.

On July 12, 2000, we completed a 2-for-1 subdivision of our outstanding common shares. On October 19, 2000, our shareholders approved the subdivision of our common shares on a 2-for-1 or 3-for-2 basis, at the discretion of our board of directors on up to two occasions at any time prior to October 19, 2001.

Common Shares

Voting

Each common share entitles its holder to receive notice of and to attend all general and special meetings of our shareholders, other than meetings at which only the holders of a particular class or series are entitled to vote. Each common share entitles its holder to one vote.

Dividends

The holders of common shares are, at the discretion of the board of directors, entitled to receive out of any or all profits or surplus of our Company properly available for the payment of dividends (after the payment of any dividend payable on our securities entitled to receive dividends in priority to the common shares), any dividends declared by the board of directors and payable by us on the common shares.

Dissolution

The holders of common shares are entitled to share rateably in any distribution of the assets of our Company upon the liquidation, dissolution or winding-up of our Company or other distribution of our assets among our shareholders for the purpose of winding-up our affairs.

Preference Shares

The preference shares are issuable in series. Subject to our Articles, the board of directors is authorized to fix, before issuance, the designation, rights, privileges, restrictions and conditions attaching to the shares of each series. The preference shares, if issued, will rank prior to the common shares with respect to dividends and return of capital on dissolution. Except with respect to matters as to which the holders of preference shares are entitled by law to vote as a class, the holders of preference shares are not entitled to vote at meetings of shareholders.

Shareholder Rights Plan

Our directors and shareholders have approved a shareholder rights plan. The terms of the shareholder rights plan are such that a take-over bid must be made for all of our common shares and must be open for 60 days after the bid is made. If at least 50% of the common shares held by persons independent of the bidder are deposited or tendered pursuant to the bid, and not withdrawn, the bidder may take up and pay for such shares. The bid must then remain open for a further period of 10 business days on the same terms.

In the event a take-over bid is made that does not adhere with the above terms, the rights attaching to each common share will separate from the common shares and become exercisable eight trading days after the earlier of: (a) a person having acquired 20% or more of the common shares, or (b) the commencement or announcement in respect of a take-over bid to acquire 20% or more of the common shares. Prior to this separation event, the rights are not transferable separately from the common shares. After separation, rights will be evidenced by rights certificates which are transferable and will be traded separately from the common shares.

The rights, when exercisable, permit the holder to purchase, for the exercise price of the rights, common shares having a value (based on the then prevailing market price) equal to twice such exercise price (i.e., at a 50% discount). The exercise price of the rights will be equal to five times the prevailing market price at the time the rights separate from the common shares. Rights that are beneficially owned by the person making the take-over bid which does not adhere to the above terms shall become null and void.

The term of the shareholder rights plan is ten years from August 1997, subject to reconfirmation by shareholders at every third annual meeting of our shareholders. At our annual and special meeting of shareholders held on October 19, 2000, our shareholders reconfirmed the shareholders rights plan.

Private Placement and Plan of Distribution

On August 30, 2001, we sold the Notes by way of private placement pursuant to an underwriting agreement dated August 30, 2001 between the Underwriter and us, or the Underwriting Agreement. The terms of the Notes were determined by negotiation between us and the Underwriter.

The Notes were created and issued under and are governed by a trust indenture dated as of August 30, 2001 between the Trustee and us, or the Note Indenture. The Notes bear interest at the rate of 7.25% per annum from the date of issue, payable semi-annually and at maturity. The interest payments are required to be paid in cash on February 28 and August 30, commencing February 28, 2002. The

Notes may be converted by holders thereof to acquire an equal principal amount of Debentures, without payment of additional consideration, at any time and automatically converted at 5:00 p.m. (Toronto time) on the date, or the Conversion Date, that is the earlier of (i) the fifth business day following the date on which a receipt, or the Receipt, for this prospectus has been issued by the last of the securities regulatory authorities in Ontario and Quebec, and (ii) August 30, 2002. This prospectus qualifies the distribution of the Debentures to be issued on conversion of the Notes.

The gross proceeds received from the sale of the Notes plus any accrued interest are being held in escrow pursuant to an escrow and custodial agreement dated August 30, 2001 between Computershare Trust Company of Canada, as escrow agent, the Underwriter and us, or the Escrow Agreement, to be released first to the Underwriter in respect of its fee referred to below, together with any accrued interest thereon, and the balance to us on the date, or the Escrow Release Date, that is the earlier of (i) our delivery of the Receipt to the Underwriter, the trustee under the indenture governing the Notes or Debentures, as the case may be, and the escrow agent under the Escrow Agreement, and (ii) the Conversion Date. The distribution of the Debentures will not result in any additional proceeds being received by us.

In the event that we do not obtain a Receipt prior to 4:00 p.m. (Toronto time) on October 1, 2001, or such later date as agreed to in writing by the Underwriter and us, or the Receipt Deadline, holders of Notes may elect to cause us to redeem the Notes held by them at par plus accrued and unpaid interest. If holders of Notes representing in the aggregate more than 50% of the aggregate principal amount of Notes outstanding on September 28, 2001 elect to cause us to redeem the Notes held by them, we will redeem all outstanding Notes. We intend to pay any such redemption price with the proceeds from the sale of the Notes held in escrow pursuant to the Escrow Agreement.

The Underwriting Agreement provides for the payment to the Underwriter, for its services in connection with the offering of the Notes, of a fee in the amount of 5.5% of a specified portion of the aggregate proceeds raised pursuant to the offering of the Notes. The Underwriter's Fee, together with any accrued interest thereon, will be released to the Underwriter by the escrow agent under and in accordance with the Escrow Agreement. The Escrow Agreement provides that the Underwriter's Fee, together with any accrued interest thereon, will be paid to the Underwriter in respect of each Note that is outstanding and unexercised on the Escrow Release Date or that is exercised prior to the Escrow Release Date. No additional fee will be paid to the Underwriter in connection with the distribution of the Debentures. Pursuant to the Underwriting Agreement, we have agreed to indemnify the Underwriter and each of its directors, officers, employees and agents against certain liabilities.

The Underwriter acquired as principal \$150,000 principal amount of the Notes. In addition, Yorkton Asset Management Inc., a subsidiary of the Underwriter and a registered portfolio manager and investment counsel, acquired \$150,000 principal amount of the Notes on behalf of a managed account for which it acts as investment manager.

Pursuant to the Underwriting Agreement, we have agreed that, during a period of 90 days from the closing date of the offering of the Notes, we will not issue or sell, or enter into any agreement to issue or sell, any of our equity securities in excess of 5% of the total value or number of securities currently outstanding without the prior written consent of the Underwriter, such consent not to be unreasonably withheld or delayed, other than the grant of options pursuant to our stock option plans or stock purchase plan or the issuance of securities on the exercise of options, warrants or other securities granted or issued by us prior to August 30, 2001 or in connection with any acquisition, strategic investment or strategic alliance involving us.

The Debentures and the common shares issuable on conversion of the Debentures have not been and will not be registered under the U.S. Securities Act of 1933, as amended, or the 1933 Act, and such securities may not be offered or sold within the United States or to, or for the account or benefit of, any

U.S. Person (as defined under in Regulation S under the 1933 Act) unless an exemption from the registration requirement of the 1933 Act is available.

Holders should consult their legal advisors prior to any resale of any securities issued by us and referred to in this prospectus to ensure that such sale is made in compliance with the requirements of applicable securities legislation.

Legal Matters

Certain legal matters relating to this offering will be reviewed on our behalf by McCarthy Tétrault LLP, Toronto, Ontario, and on behalf of the Underwriter by Blake, Cassels & Graydon LLP. As at September 12, 2001, the partners, associates and counsel of McCarthy Tétrault LLP as a group, and the partners, associates and counsel of Blake, Cassels & Graydon LLP as a group, each beneficially owned, directly or indirectly, less than 1% of our outstanding common shares.

Auditors, Transfer Agent and Registrar

Our auditors are KPMG LLP, San Francisco, California and Toronto, Ontario. Prior to August 23, 2000, our auditors were Deloitte & Touche LLP. The transfer agent and registrar for our common shares is Computershare Investor Services at its principal office in Toronto, Ontario together with its Co-Agent, American Securities Transfer & Trust, Inc., at its offices in Lakewood, Colorado.

Documents Incorporated By Reference

The following documents, filed with securities commissions or similar authorities in Canada, are specifically incorporated by reference into and form an integral part of this Prospectus:

- (a) our Annual Information Form dated July 27, 2001, which consists of our Annual Report filed in Form 10-K for the fiscal year ended April 30, 2001 (excluding the sections entitled “Item 6 – Selected Consolidated Financial Data”, “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Item 8 – Financial Statements and Supplementary Data”, and “Item 14 – Exhibits, Financial Statements Schedules, and Reports on Form 8-K”);
- (b) our audited consolidated financial statements as at and for the year ended April 30, 2001 (expressed in U.S. dollars and presented in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”)) together with the auditors’ report dated June 1, 2001 of KPMG LLP thereon;
- (c) our audited consolidated financial statements as at and for the year ended April 30, 2000 (expressed in U.S. dollars and presented in accordance with Canadian GAAP) together with the auditors’ report dated June 13, 2000 of Deloitte & Touche LLP thereon;
- (d) management’s discussion and analysis of financial condition and results of operation for the year ended April 30, 2001 (expressed in U.S. dollars and presented in accordance with Canadian GAAP);
- (e) our Management Proxy Circular dated September 10, 2001 (excluding the sections entitled “Report on Executive Compensation” and “Performance Graph”);and
- (f) the material change report dated September 6, 2001 filed by us in respect of the completion of the issue and sale of the Notes.

Any documents of the type referenced to above and any material change reports (excluding confidential material change reports), which we file with the various securities commissions or similar authorities in Canada after the date of this prospectus and prior to the distribution of the Debentures, shall be deemed to be incorporated by reference into and form an integral part of this prospectus.

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

Purchasers' Statutory Rights

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus or any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. You should refer to any applicable provisions of the securities legislation of your 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 Notes who acquires Debentures upon the conversion of Notes as provided for in this prospectus is or becomes entitled under applicable securities legislation to the remedy of rescission by reason of this prospectus or any amendment containing a misrepresentation, such holder will be entitled to rescission not only of the conversion of its Notes but also of the private placement transaction pursuant to which the Notes were initially acquired and will be entitled in connection with such rescission to a full refund of all consideration paid to us on the acquisition of the Notes. In the event such holder is a permitted assignee of the interest of the original Notes subscriber, such permitted assignee will be entitled to exercise the right of rescission and refund granted to the original Notes subscriber as if such permitted assignee was such original subscriber. No action may be taken to enforce the foregoing rights more than 180 days after the conversion of the Notes. The foregoing is in addition to any other right or remedy available to a holder of the Notes under Section 130 of the *Securities Act* (Ontario) or the corresponding provisions of the securities legislation of the province of Québec or otherwise at law.

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**AUDITED FINANCIAL STATEMENTS OF DIGITAL RESOURCES GROUP, LLC –
U.S. GAAP**

INDEPENDENT AUDITORS' REPORT

The Members
Digital Resources Group, LLC:

We have audited the accompanying balance sheet of Digital Resources Group, LLC (a Limited Liability Company) as of July 31, 2000, and the related statements of operations, members' capital, and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Digital Resources Group, LLC as of July 31, 2000, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(Signed) KPMG LLP

San Francisco, California
October 20, 2000

DIGITAL RESOURCES GROUP, LLC

Balance Sheet July 31, 2000

U.S. GAAP

In thousands of U.S. dollars

Assets

Current:

Cash and cash equivalents	\$444
Accounts receivable (net of allowance for doubtful amounts of \$23)	522
Prepaid expenses.....	1

967

Fixed assets, net.....	9
------------------------	---

\$976

Liabilities and Members' Capital

Current:

Accrued liabilities.....	\$198
Payable to members.....	423

Members' capital	355
------------------------	-----

Total liabilities and members' capital.....	<u>\$976</u>
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APPROVED BY THE BOARD

(Signed) "Richard P. Dalmazzi"

Richard P. Dalmazzi, Director

(Signed) "Gregory M. Capitolo"

Gregory M. Capitolo, Director

See accompanying notes to financial statements

DIGITAL RESOURCES GROUP, LLC

Statement of Operations year ended July 31, 2000

U.S. GAAP

In thousands of U.S. dollars

Revenue	\$2,213
Cost of Service.....	<u>1,826</u>
Gross Profit.....	\$ 387
Expenses:	
Selling, general and administrative.....	\$ 131
Net income from operations	<u>\$ 256</u>
Interest income	2
Net income.....	<u>\$ 258</u>

See accompanying notes to financial statements.

DIGITAL RESOURCES GROUP, LLC

Statement of Changes in Members' Capital year ended July 31, 2000

In thousands of U.S. dollars

Balance at July 31, 1999.....	\$ 82
Members' contributions of cash and notes	35
Due from member.....	(20)
Net income.....	<u>258</u>
Balance at July 31, 2000.....	<u>\$ 355</u>

See accompanying notes to financial statements.

DIGITAL RESOURCES GROUP, LLC

Statement of Cash Flows year ended July 31, 2000

U.S. GAAP

In thousands of U.S. dollars

Operating activities	\$ 258
Net Income.....	
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation.....	(1)
Increase in accounts receivable.....	(390)
Increase in prepaid expenses.....	(1)
Increase in accrued liabilities.....	120
Increase in payable to members.....	350
Net cash provided by operating activities.....	<u>336</u>
Investing activities	
Purchase of fixed assets.....	<u>(6)</u>
Net cash used in investing activities.....	(6)
Financing activities	
Members' contributions.....	<u>15</u>
Net cash provided by financing activities.....	<u>15</u>
Increase in cash and cash equivalents.....	345
Cash and cash equivalents, beginning of year.....	99
Cash and cash equivalents, end of year.....	<u>\$ 444</u>

See accompanying notes to financial statements.

DIGITAL RESOURCES GROUP, LLC

Notes to Financial Statements

July 31, 2000

(in thousands of U.S. dollars)

U.S. GAAP

1. Description of Business

Digital Resources Group, LLC (the "Company"), a California Limited Liability Company, was registered in May 1998. The Company is a professional consulting organization specializing in the area of security for the Internet. The Company was scheduled to terminate on December 31, 2008.

The Company does not have any employees. The consulting force is comprised of the three owner members of the Company and a number of outside consultants. All consultants are independent contractors. All members and consultants perform services for the Company's clients and then bill the Company for their time and expense. As a result, there are no amounts reflected in these financial statements for salaries or payroll tax expense. In addition, there are no lease commitments as all consultants work from the client locations or their own facilities.

The liability of the members is limited in accordance with the applicable laws of the State of California.

2. Significant Accounting Policies

Generally accepted accounting principles

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States. These financial statements have been prepared for inclusion in the securities filing of Certicom Corp. and, therefore, only disclose the current period financial statements, in accordance with regulatory requirements.

Foreign currency

The functional and reporting currency of the Company is U.S. dollars.

Cash equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Revenue recognition

Consulting revenue is recognized as services are rendered. Consultants and members submit invoices to the Company detailing the project, hours, rate per hour and expense with copies of receipts. These invoices are recorded in the period in which the services are performed and then billed to the customer. The majority of contracts with customers are billed on a time and materials basis. There were no significant fixed-price contracts at July 31, 2000.

Fixed assets

Fixed assets which consist of computer equipment are recorded at cost. Depreciation is provided for using the straight-line method over the estimated useful life of three years.

Income taxes

No provision has been made in these financial statements for income taxes as income taxes are the responsibility of the individual members.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. Fixed Assets (in thousands of U.S. dollars)

Fixed assets consists of the following:

	<u>Cost</u>
Computer equipment.....	\$ 15
Accumulated depreciation.....	(6)
	<u>\$ 9</u>

4. Due from Member

The amount due from member was paid in full during August 2000.

5. Allocation of Income and Loss

Income and loss are allocated among the members on a project-by-project basis in accordance with certain percentages agreed to by the members.

6. Related Parties

During the year ended July 31, 2000, the members charged to the Company \$856 for consulting services rendered and the Company paid \$508 to the members.

7. Financial Instruments

Concentration of credit risk

As of July 31, 2000, two customers accounted for approximately 48% and 17% respectively of accounts receivable. These two customers accounted for approximately 48%, and 12% respectively of current year revenues.

8. Subsequent Event

Subsequent to the year end, the Company merged into DRG Resources Group, Inc., a newly incorporated company. Prior to this merger, the Company distributed all but \$100,000 of its tangible assets to its members. At the time these two companies merged, Digital Resources Group, LLC transferred all of its remaining operating assets into DRG Resources Group, Inc. On September 12, 2000, all of the outstanding stock of DRG Resources Group, Inc. was acquired by Certicom Corp. in exchange for 397,595 Certicom common shares (valued at \$15,482 based on the closing price of Certicom common shares on September 12, 2000) and stock options exercisable to acquire a total of 103,100 Certicom common shares.

Details of the consideration and the fair values of the assets acquired are recorded on Certicom Corp.'s books at the date of acquisition as follows:

Assets acquired	
Current assets (net equity per agreement).....	\$ 100
Other acquired intangibles	634
Goodwill	9,529
Deferred compensation expense	7,741
	\$ <u>18,004</u>
Consideration	
Common shares (397,595 shares issued)	\$ 15,482
Options to acquire 103,100 common shares	2,322
Acquisition costs.....	200
	\$ <u>18,004</u>

9. Material Differences between Generally Accepted Accounting Principles in the United States and Canada

The financial statements have been prepared in accordance with generally accepted accounting principles as applied in the United States. The financial statements also conform, in all material respects, with Canadian generally accepted accounting principles.

**FUNAUDITED PRO FORMA CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

COMPILATION REPORT

To the Directors of Certicom Corp.

We have reviewed, as to compilation only, the accompanying pro forma condensed consolidated statement of operations of Certicom Corp. for the year ended April 30, 2001 which has been prepared in accordance with accounting principles generally accepted in Canada. This pro forma financial statement has been prepared for inclusion in the short form prospectus. In our opinion, the pro forma condensed consolidated statement of operations has been properly compiled to give effect to the transactions and the assumptions described in the notes thereto.

(Signed) KPMG LLP
Chartered Accountants
Toronto, Canada
September 12, 2001

**COMMENT FOR UNITED STATES READERS ON DIFFERENCES BETWEEN
CANADIAN AND UNITED STATES REPORTING STANDARDS**

The above opinion, provided solely pursuant to Canadian requirements, is expressed in accordance with standards of reporting generally accepted in Canada. Such standards contemplate the expression of an opinion with respect to the compilation of pro forma financial statements. United States standards do not provide for the expression of an opinion on the compilation of pro forma statements. To report in conformity with United States standards on the reasonableness of the pro forma adjustments and their application to the pro forma condensed consolidated statement of operations would require an examination or review which would be substantially greater in scope than the review as to compilation only that we have conducted. Consequently, under United States standards, we would be unable to express any opinion with respect to the compilation of the accompanying pro forma condensed consolidated statement of operations.

(Signed) KPMG LLP
Chartered Accountants
Toronto, Canada
September 12, 2001

CERTICOM CORP.

Unaudited Pro Forma Condensed Consolidated Statement of Operations For the year ended April 30, 2001

(In thousands of U.S. dollars, except share data and share amounts)

	CDN GAAP			
	Certicom Corp. Year ended April 30, 2001	DRG Resources Group Period from May 1, 2000 to September 12, 2000	Pro Forma Adjustments	Pro Forma Combined
Revenues	\$ 26,647	\$ 1,293	\$ (214) 3(a)	\$ 27,726
Costs and expenses:				
Cost of hardware	824	-	-	824
Consulting and systems integration	6,180	986	97 3(b)	7,263
Deferred compensation amortization	3,444	-	1,720 3(c)	5,164
Selling and marketing	19,731	-	-	19,731
Research and development	12,838	-	(214) 3(d)	12,624
Depreciation and amortization	10,601	1	706 3(e)	11,308
General and administrative	11,871	102	-	11,973
One time secondary offering costs	1,693	-	-	1,693
Total costs and expenses	67,182	1,089	2,309	70,580
Net income (loss) from operations	(40,535)	204	(2,523)	(42,854)
Interest income (expense), net	2,595	2		2,597
Net income (loss) before income taxes	(37,940)	206	(2,523)	(40,257)
Income taxes	135	-	-	135
Net income (loss)	\$ (38,075)	\$ 206	\$ (2,523)	\$ (40,392)
Basic and diluted net loss per share	\$ (1.44)			\$ (1.53)
Shares used in computing basic and diluted net loss per share	26,376,728		100,115 3(f)	26,476,843

See accompanying notes to unaudited pro forma condensed consolidated statement of operations

CERTICOM CORP.

Notes to Unaudited Pro Forma Condensed Consolidated Statement of Operations

(in thousands of U.S. dollars, except share data and share amounts)

CDN GAAP

1. Basis of Presentation

The unaudited pro forma condensed consolidated statement of operations for the year ended April 30, 2001 has been prepared by Management in accordance with accounting principles generally accepted in Canada (“Canadian GAAP” or “CDN GAAP”) to reflect Certicom Corp.’s (“the Corporation” or “Certicom”) acquisition of all the outstanding common shares of DRG Resources Group, Inc. (“DRG Resources Group”), formerly Digital Resources Group, LLC, effective September 12, 2000. The acquisition has been accounted for using the purchase method. The unaudited pro forma condensed consolidated statement of operations for the year ended April 30, 2001 gives effect to the acquisition of DRG Resources Group as if it had occurred on May 1, 2000.

The financial information has been derived from the following financial statements:

- (a) The consolidated financial statements of the Corporation for the year ended April 30, 2001.
- (b) The unaudited interim statement of operations of DRG Resources Group for the four months and 12 days ended September 12, 2000. The results of operations of DRG Resources Group for the period subsequent to September 12, 2000 are included in the results of operations of Certicom for the year ended April 30, 2001. Therefore, only four months and 12 days of operations are being added for the purpose of pro forma condensed consolidated statement of operations for the year ended April 30, 2001.

The pro forma condensed consolidated statement of operations, including the notes thereto, should be read in conjunction with the financial statements referred to above prepared in U.S. dollars. The pro forma condensed consolidated statement of operations may not be indicative either of the results that would have actually occurred if the business combinations had taken place on the dates indicated, or the results which may be achieved in the future.

2. Description of Acquisition of DRG Resources Group

On September 12, 2000, we acquired all of the outstanding common shares of DRG Resources Group, Inc. a corporation based in Redwood City, California. DRG Resources Group is an e-commerce security consulting company. Prior to our acquisition of DRG Resources Group, Inc., Digital Resources Group, LLC merged into DRG Resources Group, Inc, a newly incorporated company. Prior to this merger, Digital Resources Group, LLC distributed all but \$100,000 of its tangible assets to its members. At the time these two companies merged, Digital Resources Group, LLC transferred all of its remaining operating assets to DRG Resources Group, Inc. The acquisition was completed with the issuance of 397,595 of our common shares. In connection with the acquisition, we also assumed stock options exercisable to acquire 103,100 of our common shares. This acquisition was accounted for by the purchase method and the results of operations were included in our consolidated statements of operations

CERTICOM CORP.

Notes to Unaudited Pro Forma Condensed Consolidated Statement of Operations

(in thousands of U.S. dollars, except share data and share amounts)

CDN GAAP

from the date of acquisition. Details of the consideration and the fair values of the assets acquired are as follows:

Assets acquired		
Current assets (net equity per agreement)	\$	100
Other acquired intangibles		634
Goodwill		9,529
Deferred compensation expense		7,741
	\$	<u>18,004</u>
Consideration		
Common shares (397,595 shares issued)	\$	15,482
Options to acquire 103,100 common shares		2,322
Acquisition costs		200
	\$	<u>18,004</u>

The value of common shares issued in connection with the acquisition was determined based on the average market price of our common shares near the date the acquisition was announced. The stock options assumed in connection with the acquisition were valued at the time of issuance based on the Black-Scholes option valuation model. Deferred compensation of approximately \$7.7 million was recorded in connection with the acquisition as we issued restricted stock to the partners of DRG Resources Group. Such stock is considered compensation for services to be provided by the partners, and the related expense will be recognized over the term of the services provided, which is 18 months. Other acquired intangibles include the fair value of workforce and customer base are amortized over 3 years. The goodwill is amortized over 5 years.

3. Pro Forma Adjustments

- (a) Reflects the elimination of inter-company revenue of DRG Resources Group from the Corporation.
- (b) Reflects payroll taxes for DRG Resources Group consultants and owner members.
- (c) Reflects the additional amortization of deferred compensation recorded in connection with the acquisition of DRG Resources Group. The remaining amortization of deferred compensation has been reflected in the deferred compensation amortization of the Corporation for the year ended April 30, 2001.
- (d) Reflects the elimination of inter-company expenses of the Corporation from DRG Resources Group.
- (e) Reflects four months amortization of acquired intangibles in connection with the acquisition of DRG Resources Group. The other eight months amortization of acquired intangibles has been reflected in the depreciation and amortization of the Corporation for the year ended April 30, 2001.

CERTICOM CORP.

Notes to Unaudited Pro Forma Condensed Consolidated Statement of Operations

(in thousands of U.S. dollars, except share data and share amounts)

CDN GAAP

- (f) Reflects the common shares of the Corporation which are not included in the weighted average shares number of the Corporation for the year ended April 30, 2001 and are not subject to contingencies as of April 30, 2001 in connection with the acquisition of DRG Resources Group. The effect of stock options assumed in the acquisition has not been included as their inclusion would be anti-dilutive.

4. Income Taxes

The pro forma condensed consolidated statement of operations does not reflect income taxes related to the operations of DRG Resources Group as the Corporation has current net operating losses greater than the taxable income that would be generated by DRG Resources Group as a taxable entity. The Corporation has not recorded a pro forma adjustment for the deferred tax liability arising from the purchase of DRG Resources Group due to the Corporation's deferred tax position.

5. United States Generally Accepted Accounting Principles

This pro forma condensed consolidated statement of operations has been prepared in accordance with generally accepted accounting principles in Canada, which conform in all material respects with those in the United States ("U.S. GAAP") except with respect to the following:

	Year ended April 30, 2001
Pro forma net loss in conformity with Canadian GAAP.....	(40,392)
Adjustments:	
Deferred product development costs, net of amortization	278
Amortization of acquired intangibles and purchased in-process research and development	(2,408)
Stock compensation expense.....	(312)
Unrealized foreign exchange gain.....	(155)
Pro forma net loss in conformity with U.S. GAAP.....	(42,989)
Comprehensive income (loss)	
Net unrealized gain (loss) on marketable securities available-for-sale.....	(118)
Foreign currency translation adjustment	155
Pro forma comprehensive loss in conformity with U.S. GAAP	<u>\$(42,952)</u>
Basic and diluted net loss per common share—U.S. GAAP.....	<u>\$ (1.62)</u>

Certificate of the Company

Dated: September 12, 2001

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

(signed) Richard P. Dalmazzi
President and Chief Executive
Officer

(signed) Gregory M. Capitolo
Chief Financial Officer, Vice
President, Finance and Secretary

On behalf of the Board of Directors

(signed) Scott A. Vanstone
Director

(signed) William T. Dodds
Director

Certificate of the Underwriter

Dated: September 12, 2001

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

YORKTON SECURITIES INC.

By: (signed) Mark R. McQueen