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These securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or any state securities laws, and may not be offered, sold or delivered, directly or indirectly, in the United States or to a U.S. person (as defined in Regulations promulgated under the 1933 Act) except as in transactions exempt therefrom (see "Private Placement").

October 17, 2000

NEW ISSUE



Atlantic Systems Group Inc.

2,000,000 Units (\$3,000,000)

(Issuable upon the exercise of previously issued Special Warrants)

(Each Unit consisting of one Common Share and one Common Share Purchase Warrant)

This prospectus qualifies the distribution of 2,000,000 units (collectively the "Units" and individually a "Unit") of Atlantic Systems Group Inc. ("ASG" or the "Corporation") to be issued without additional payment upon the exercise of 2,000,000 special warrants (collectively, the "Special Warrants" and individually a "Special Warrant") previously issued by the Corporation. Each Unit consists of one common share of the Corporation ("Common Share") and one Common Share purchase warrant ("Warrant"), subject to adjustment as described under "Private Placement".

Each Special Warrant entitles the holder thereof to acquire for no additional consideration, and subject to adjustment as described under "Private Placement", one Unit consisting of one Common Share and one Warrant. The Special Warrants expire at 5:00 p.m. (Toronto time) (the "Expiry Time") on the date (the "Expiry Date") that is the earlier of (i) five (5) business days after receipts are issued by the securities regulatory authorities in the Provinces of Ontario and New Brunswick (the "Qualifying Provinces") for a (final) prospectus (the "Final Prospectus"); and (ii) June 21, 2001. Any Special Warrants not exercised prior to the Expiry Time on the Expiry Date shall be deemed to have been exercised immediately prior thereto without any further action on the part of the holder. If a receipt for the Final Prospectus is not issued by the securities regulatory authorities in the Qualifying Provinces prior to 5:00 p.m. (Toronto time) on October 19, 2000 (the "Qualification Deadline"), any Special Warrants exercised after the Qualification Deadline shall entitle the holders thereof resident in the Qualifying Provinces to receive a Unit consisting of 1.1 Common Shares and one Warrant without payment of additional consideration for each Special Warrant held. The Corporation issued the Special Warrants on June 21, 2000 and July 5, 2000 at a price of \$1.50 per Special Warrant (the "Issue Price"). The Issue Price was negotiated between the Corporation and Goepel McDermid Inc. (the "Agent").

Each Warrant will entitle the holder thereof to purchase one Common Share at a price of \$2.00 per Common Share at any time from the date of issue until 5:00 p.m. (Toronto time) on June 21, 2002 (the "Time of Expiry"). Any Warrants not exercised before the Time of Expiry shall terminate and be of no value.

Pursuant to an agency agreement dated June 21, 2000, as amended on July 5, 2000, (the "Agency Agreement") between the Corporation and the Agent, the Corporation agreed to pay to the Agent a financing fee of \$30,000 (plus GST), a commission of \$180,000, and to issue to the Agent 200,000 compensation warrants ("Compensation Warrants"). The Compensation Warrants entitle the Agent to receive, on exercise and without payment of additional consideration, 200,000 options (the "Compensation Options") entitling the Agent to purchase up to 200,000 Units at the Issue Price at any time until 5:00 p.m. (Toronto time) on June 21, 2002. This prospectus also qualifies the issue of one-half of the Compensation Options. See "Private Placement".

The Corporation's outstanding Common Shares are listed on the Canadian Venture Exchange ("CDNX") under the trading symbol "YGT". Prior to October 2, 2000, the Corporation's outstanding Common Shares were quoted on the Canadian Dealing Network Inc. ("CDN") under the quotation symbol "ASGT." On June 8, 2000, the trading day immediately preceding the announcement of the offering of the Special Warrants, the last trade price of the Common Shares quoted on CDN was \$2.40 per share. The Special Warrants were issued at a discount of approximately 37.5% to such last trade price.

Resale restrictions apply to all Units issued pursuant to the exercise of the Special Warrants and all Common Shares issued pursuant to the exercise of the Warrants prior to the issuance of a receipt for the Final Prospectus. The price of the Special Warrants exceeds the net tangible book value of each Common Share as at August 31, 2000 by \$1.40 after giving effect to the issuance of the Common Shares upon exercise of the Special Warrants, representing a dilution factor of 93.3%. See "Dilution".

Investment in the securities qualified for distribution by this prospectus is subject to certain risk factors and should be considered speculative. An investment in these securities should be regarded as suitable for investment by purchasers who are aware of such risks and who have the ability and willingness to accept the risk of total loss of their invested capital. Investors should consider the risk factors and considerations described under “Risk Factors” in assessing the investment merits of such securities.

	<u>Price to the Investor</u>	<u>Agent’s Commission</u> ⁽¹⁾	<u>Net Proceeds to the Corporation</u> ⁽²⁾
Per Unit	\$1.50	\$0.09	\$1.41
Total ⁽³⁾	\$3,000,000	\$180,000	\$ 2,820,000

- (1) The Agent acted as agent in connection with the issuance and sale of the Special Warrants and received a corporate financing fee of \$30,000 plus GST and a total commission of \$180,000, which commission is equal to 6% of the aggregate gross proceeds of the sale of the Special Warrants. As additional consideration, the Corporation granted to the Agent the Compensation Warrants. See “Private Placement”. No additional fee will be paid by the Corporation to the Agent in connection with the issue or transfer of the Common Shares and Warrants comprising the Units upon the exercise of the Special Warrants.
- (2) Before deducting the expenses relating to the issuance and sale of the Special Warrants of approximately \$200,000 which, together with the Agent’s financing fees and commission, were, or will be, paid by the Corporation out of the proceeds of the issuance and sale of the Special Warrants.
- (3) The Corporation has received the net proceeds of the issuance and sale of the Special Warrants after deducting the legal fees of counsel to the Agent.

The Units immediately separate into Common Shares and Warrants upon the exercise, or deemed exercise, of the Special Warrants. Certificates representing the Common Shares and the Warrants issuable upon exercise, or deemed exercise, of the Special Warrants will be available for delivery on or about the time of such exercise or deemed exercise. Certain legal matters relating to the distribution of the Units issuable upon exercise of the Special Warrants are subject to approval by Wildeboer Rand Thomson Apps & Dellelce, LLP, on behalf of the Corporation, and by Cassels Brock & Blackwell LLP, on behalf of the Agent.

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SUMMARY

The following is a summary only and is qualified in its entirety by the more detailed information contained in this prospectus. Unless the context otherwise requires, all references in this prospectus to the "Corporation." or "ASG" refer to Atlantic Systems Group Inc. and its wholly-owned subsidiary, Prosensys Inc. (formerly Xylaur Enterprises Limited) All dollar amounts in this prospectus are stated in Canadian dollars unless stated otherwise. Certain terms used in this prospectus are defined in the Glossary.

The Corporation

Atlantic Systems Group Inc. (the "Corporation" or "ASG") is primarily engaged in the development, sale and support of proprietary network security products. The products are designed to specifically focus on the growing need to address security issues in distributed computer networks such as Intranets and the Internet, as well as security issues related to telecommunications equipment that manages Internet services and network services. The Corporation also offers Internet content management solutions for educational institutions, Internet service providers (ISPs) and businesses that wish to limit access to inappropriate Internet content as well as manage available bandwidth.

Prosensys Inc., a wholly-owned subsidiary of the Corporation, is involved in the development of advanced process sensing and control systems for the semiconductor industry.

Overview

The Corporation specializes in the development of enterprise-wide security and networking products that focus on network and perimeter security, remote management, content management, bandwidth management, as well as auditing, logging and reporting capabilities. The Corporation's products are designed to specifically focus on the growing need to address security issues in distributed computer networks such as Intranets and the Internet, as well as security issues related to telecommunications equipment that manages Internet services and network services. The Corporation also offers Internet content management solutions for educational institutions, ISPs and businesses that wish to limit access to inappropriate Internet content as well as manage available bandwidth. Many businesses and organizations have come to realize that network security and proper bandwidth and content management are not just desirable, but essential. The Corporation's primary products that address these computer network concerns are the Passwerks® Privilege Server and the En Garde™ Internet content management software.

In 1989, the Corporation established its niche as a provider of network architecture and security consulting services to corporations in the Atlantic region of Canada. By 1991, the business was extended to include network security software products, including the TurnStyle® Firewall System (now known as Passwerks® Privilege Server). In 1997, the Corporation focused its attention and resources on the internal network security market as it had developed the required code base for an internal network security solution and was oriented to the sophisticated authentication, control and audit tools required to compete in the market. While the Passwerks® Privilege Server is designed to interface and work with almost any network environment, its proprietary communication module is designed specifically to exploit the largely untapped market for products tailored to the telecommunications industry.

The Corporation has used the knowledge and expertise gained from the development of the Passwerks® Privilege Server, and other custom network and Internet security software applications, to develop a reliable and powerful Internet content/bandwidth management product, En Garde™. En Garde™ utilizes the most up-to-date Web Site blocking list in the industry and can virtually eliminate access to pornographic, objectionable and counter-productive Web Sites while logging access statistics for all end-users.

Prosensys is currently involved in research and development activities centered on advanced process sensing and control systems for the semiconductor industry. It is extensively involved in research and development intended to raise the standards of semiconductor and IC manufacturing by monitoring and controlling the complex chemical reactions that take place during the manufacturing of ICs thereby dramatically reducing process-related defects and increasing the efficiency and yield of silicon wafer processing. Prosensys has entered into negotiations with potential

collaborative partners with a view towards yielding complementary systems resulting in dramatically improved control systems for advanced semiconductor device processing.

Products and Marketing Strategy

The Passwerks® Privilege Server is marketed to include the following features:

- easy to set-up and administer;
- enables an unlimited number of users to access multiple network elements from various locations;
- allows the administration of single-point control of user privileges rather than having to administer many different network elements;
- collects session data for audit purposes;
- supports multiple authentication systems (e.g. SecureID, fingerprints, retina scanning);
- simplifies the log-on process for users who now need only one password to gain access to all network elements for which they are authorized, thus eliminating user temptation to write down their passwords which has been proven to result in theft and corporate security breaches;
- monitors all activities performed by an individual user, thereby allowing administrators to quickly detect and halt any suspicious or threatening activity;
- allows quick and easy alterations of user IDs and passwords;
- constitutes a comprehensive security solution incorporating authorization, authentication and auditing capabilities; and
- employs a modular design that can distribute different modules to various Servers allowing many different configuration options.

In June 2000, the Corporation and Nortel Networks Inc. entered into a multi-year software licence and OEM agreement which will see the components of the Passwerks® Privilege Server sold through Nortel's marketing and sales channels. The Corporation intends to migrate this technology to the digital network switching systems offered by other telecommunications providers in 2001.

En Garde™ is marketed to provide the following specific key benefits:

- immediately eliminates access to objectionable and inappropriate Web Sites;
- reduces legal consequences arising from the misuse of internal Internet services;
- increases the efficiency and productivity of students and employees ;
- increases effective bandwidth;
- provides a seamless, transparent and centrally administered solution;
- uses the industry's leading blocking list;
- backed by the support of a team of networking and security experts;
- optional remote administration and maintenance; and
- administrative logging and report generation feature for business and educational institution users.

Management intends to aggressively market En Garde™ to the North American ISP market. While the immediate focus will be on North American ISPs, the Corporation intends to pursue international opportunities. It will also target large enterprises with strong dependence on multi-user computer networks.

Upon completion of the individual components of the project relating to the real time process controller that standardizes conditions for processing silicon wafers (the "CVD Technology"), management intends to integrate various control functions into a comprehensive system for the intelligent manufacture of advanced semiconductor devices. Management's objective will then be to firmly establish the reputation of Prosensys and the CVD Technology and to establish relationships with the major equipment manufacturers to provide for sales as a direct result of major equipment vendor sales.

The Offering

- Issuer:** Atlantic Systems Group Inc. (the “Corporation” or “ASG”)
- Offering:** 2,000,000 units (each a “Unit”), each Unit consisting of one common share (“Common Share”) and one Common Share purchase warrant (“Warrant”) (subject to adjustment in certain events) to be issued by the Corporation upon the exercise of 2,000,000 special warrants (the “Special Warrants”). The Corporation will not receive any additional cash proceeds upon the exercise of the Special Warrants.
- Special Warrants:** 1,400,000 Special Warrants were issued by the Corporation on June 21, 2000 and a further 600,000 Special Warrants were issued by the Corporation on July 5, 2000 pursuant to prospectus exemptions at a price of \$1.50 (the “Issue Price”) per Special Warrant (the “Private Placements”). Each Special Warrant entitles the holder thereof to acquire, for no additional consideration, one Unit consisting of one Common Share and one Warrant (subject to adjustment in certain events). The Special Warrants expire at 5:00 p.m. (Toronto time) (the “Expiry Time”) on the date (the “Expiry Date”) that is the earlier of (i) five (5) business days after receipts are issued by the securities regulatory authorities in the Provinces of Ontario and New Brunswick (the “Qualifying Provinces”) for a (final) prospectus (the “Final Prospectus”) and (ii) June 21, 2001. Any Special Warrants not exercised on or before the Expiry Time on the Expiry Date shall be deemed to have been exercised immediately prior thereto without any further action on the part of the holder. See “Private Placement”.
- Qualification Condition:** If a receipt for the Final Prospectus has not been issued by the securities regulatory authorities in each of the Qualifying Provinces on or before 5:00 p.m. (Toronto time) on October 19, 2000, the holders of Special Warrants will be entitled, upon exercise or deemed exercise, to receive a Unit consisting of 1.1 Common Shares (in lieu of one Common Share) and one Warrant for each Special Warrant held, without payment of additional consideration.
- Warrants:** Each whole Warrant will entitle the holder to purchase one Common Share at a price of \$2.00 per share at any time from the date of issue to 5:00 p.m. (Toronto time) on June 21, 2002. See “Private Placement”.
- Compensation Warrants:** Goepel McDermid Inc. (the “Agent”) has been granted 200,000 compensation warrants (the “Compensation Warrants”) entitling it to receive, on exercise and without payment of additional consideration, 200,000 compensation options (the “Compensation Options”) entitling it to purchase up to 200,000 Units at the Issue Price at any time until 5:00 p.m. (Toronto time) on June 21, 2002. See “Private Placement”.

Use of Proceeds:

The net cash proceeds from the issue and sale of the Special Warrants was \$2,590,000 after deducting the Agent's financing fee and commission and the estimated expenses of the Private Placements. The Company has or intends to use the net proceeds of the Private Placements for the principal purposes of (i) approximately \$300,000 for capital expenditures to upgrade computer infrastructure and equip a sales and marketing organization; (ii) approximately \$500,000 as loans to its subsidiary, Prosensys Inc., to fund capital and working capital requirements for the research and development project relating to the CVD Technology (the "CVD Project"); and (iii) the balance of the net proceeds for general working capital purposes. See "Use of Proceeds".

Dividend Policy:

To date, the Corporation has not declared or paid any dividends to its shareholders and does not foresee the declaration or payment of dividends in the near future. See "Dividend Policy".

Risk Factors:

Prospective investors should carefully consider certain risks involved in an investment in the Corporation, including, but not limited to the lack of an industry-wide corporate and brand presence in the commercial network security market; the unpredictability of operating results; the strain on management, operational and financial resources in managing rapid growth; the competitive market for network security products and services; rapid and frequent technological changes; risks associated with the network security market; dependence on telecommunications infrastructure, the Internet and Intranets; the need for additional financing; the Corporation's dependence on key personnel, resellers and distributors; limited protection of intellectual property and proprietary rights; the effect of government regulation on technology exports; the ability to identify and negotiate potential acquisitions and to integrate those businesses; international sales and currency exposure and exchange rate risks; and dilution. See "Risk Factors".

Summary Financial and Other Data

The summary of the Corporation's historical consolidated financial and other data set forth below as of December 31, 1997, 1998 and 1999 has been derived from the audited consolidated financial statements appearing elsewhere in this prospectus. The summary of the Corporation's historical consolidated financial and other data set forth below for the six months ended June 30, 1999 and 2000 has been derived from the Corporation's unaudited consolidated financial statements which include all adjustments that management considers necessary for a fair presentation of the financial position and results of operations for those periods. Operating results for the six months ended June 30, 1999 and 2000 are not necessarily indicative of the results that may be expected for the entire year. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations" included elsewhere in this prospectus.

	<u>Six Months Ended June 30</u>		<u>Year Ended December 31</u>		
	<u>2000</u>	<u>1999</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(unaudited)				
	(dollars in thousands, except per share amounts and operating data)				
Revenues					
Consulting	131,070	261,823	372,998	783,717	714,508
Product sales	<u>2,828</u>	<u>950,485</u>	<u>1,215,848</u>	<u>503,832</u>	<u>646,458</u>
	<u>133,898</u>	<u>1,212,308</u>	<u>1,588,846</u>	<u>1,287,549</u>	<u>1,360,966</u>
Cost of Projects					
Consulting projects	13,016	217,765	331,660	700,784	430,454
Direct product costs	<u>6,560</u>	<u>616,435</u>	<u>917,510</u>	<u>220,425</u>	<u>573,680</u>
	<u>19,576</u>	<u>834,200</u>	<u>1,249,676</u>	<u>921,209</u>	<u>1,004,134</u>
Gross Profit	<u>114,322</u>	<u>378,108</u>	<u>339,676</u>	<u>366,340</u>	<u>356,832</u>
Expenses					
Operating	<u>229,812</u>	<u>221,053</u>	<u>562,063</u>	<u>1,271,914</u>	<u>1,465,706</u>
Research and development	<u>273,931</u>	<u>122,902</u>	<u>(61,767)</u>	<u>322,035</u>	<u>223,497</u>
Income (Loss) before income taxes	(389,421)	34,153	(160,620)	(1,227,609)	(1,632,371)
Deferred income tax (recoverable)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
Net income (loss)	<u>(389,421)</u>	<u>34,153</u>	<u>(160,620)</u>	<u>(1,227,609)</u>	<u>(1,657,371)</u>
Net income (loss) per share	<u>(.02)</u>	<u>(⁽¹⁾)</u>	<u>(.01)</u>	<u>(.07)</u>	<u>(.12)</u>

⁽¹⁾ Amount is less than \$.01.

THE CORPORATION

Atlantic Systems Group Inc. (“ASG” or the “Corporation”) was incorporated under the *Business Corporations Act* (New Brunswick) under the name Xylaur Enterprises Ltd. by articles of incorporation dated January 20, 1988. By articles of amendment dated December 20, 1996, the Corporation (i) changed its name to Atlantic Systems Group Inc., (ii) amended its authorized capital to be an unlimited number of common shares (the “Common Shares”), and (iii) split its then outstanding Common Shares on a 1,500 to 1 basis. By articles of amendment dated January 23, 1997, the Corporation’s Common Shares were split on such a basis so that the then outstanding 3,750,000 Common Shares were divided into a total of 7,000,000 Common Shares. By articles of amendment dated February 10, 1997, the Corporation, pursuant to New Brunswick law, confirmed that Common Shares may be issued by the Corporation without first being offered to the registered shareholders of the Corporation. The principal office of the Corporation is located at 8 Garland Court, P.O. Box 69000, Fredericton, New Brunswick, Canada, E3B 6C2. The Corporation’s telephone number is (506) 460-5400 and facsimile number is (506) 460-5411.

The Corporation has one active wholly-owned operating subsidiary, Prosensys Inc. (“Prosensys”), which was incorporated under the *Business Corporations Act* (New Brunswick) on December 23, 1998. By articles of amendment dated May 9, 2000, Prosensys’ name was changed from Xylaur Enterprises Ltd. The Corporation also has one inactive wholly-owned subsidiary, Amdur and Associates Inc., which was incorporated under the *Business Corporations Act* (Ontario) on August 27, 1998.

INDUSTRY BACKGROUND

Overview of Network Security Industry

In recent years, the need for computer information security has become critical. According to the Second Annual Ernst & Young Global Information Security Survey published in May 1999, 58% of senior executives consider network security to be “extremely important,” compared to 47% the previous year. Computerized business functions continue to decentralize, but industry experts predict a more centralized approach to security functions. The recent popularization of the Internet and other public networks as an integral part of business, and the increased performance capabilities offered by high-speed modems, integrated services digital network (ISDN) services, frame relay technology and “asynchronous transfer mode” (ATM), means that the volume of data transferred over networks has increased dramatically. Many companies are realizing that network security and content management are not just desirable, but essential.

Comprehensive network security involves the protection of every Server, network node, and application. While Firewalls have received much of the attention, access control, authentication and auditing are also key components to an organization’s security solution. Without these security measures, individuals and organizations are able to exploit system weaknesses, gain unauthorized access to networks, and use such access to alter or steal data or, in some cases, to launch destructive attacks on data and computing resources within a network.

With the increased use of the Internet and Intranets, many organizations are discovering that system security is a key element in successfully implementing distributed applications and services, including electronic data interchange, electronic commerce and information exchange services. E-mail becomes more vulnerable as organizations rely heavily on computer networks for the electronic transmission of data. In the absence of comprehensive networked security, computer networks can be vulnerable to activities that represent a threat to productivity and competitiveness. In a recent security bulletin, the Gartner Group stated, “The majority of security compromises could be prevented or significantly hindered if the user authentication processes were stronger.”

Corporate Internet bandwidth is expensive to provide, and is ultimately the property of the company providing it to its employees. This asset must be managed in much the same manner as other corporate property, but with further attention to the security and the potential for misuse and damages. Frivolous use and non-business related content takes up bandwidth and reduces the efficiency of the network for business purposes. ASG’s network and Internet products respond to these realities.

The Internet

The Internet can be described as a global web of inter-connected computer networks using a non-proprietary network standard known as TCP/IP which allows computers to communicate with each other through public telephone and other data communication mediums. The Internet has become the largest computer network in the world, accessible by all types of organizations and individual users. Organizations have embraced the Internet as a cost effective means of providing a communications channel among geographically dispersed locations and employees, and between an organization and its business partners and customers. The Computer Industry Almanac has reported that by the year 2002, 490 million people worldwide will have Internet access (or 79.4 per 1,000 people, increasing to 118 per 1,000 people by the end of 2005).

The recent dramatic growth in the use of the Internet has been driven primarily by E-mail applications and the World-Wide Web (the “Web”) as a method for the dissemination of consumer information, product distribution and other commercial communications applications. The Web is already recognized as a powerful bi-directional medium that allows low cost business-to-business and business-to-consumer communications including product marketing, advertising, electronic publishing and customer support. Due to the development of new network products, companies are expanding their use of the Internet to include transactional applications that are described as electronic commerce (or e-commerce). According to an October 1999 report by industry analyst Dataquest, a unit of Gartner Group, Inc., business-to-consumer e-commerce transactions are expected to reach US\$380 billion worldwide by 2003. While the majority of e-commerce spending is currently attributed to business-to-business transactions, the report focuses on the sharp increase expected in the business-to-consumer sector. Dataquest also predicts rapid overall growth of e-commerce in the years leading up to 2003. In 2000, worldwide, e-commerce transactions are expected to exceed US\$30 billion, up from US\$11.2 billion in 1998.

Enterprise Networks and Intranets

Enterprise networking, originally seen as a mainframe computer supporting dedicated terminals, has, with advances in network technologies, evolved into networks of inter-connected personal computers. Personal computers have been connected to share data and applications within user groups operating as local area networks (LANs) and, more recently, organizations, even where geographically dispersed, have inter-connected LANs into what are known as wide area networks (WANs).

As companies become increasingly dependent on electronic communications to bring their geographically dispersed personnel together, an increasing number are adopting Internet infrastructure standards. This is due to the ability of TCP/IP technologies such as Web Browsers and Servers and E-mail to communicate and operate on any type of computer, and thereby promote universal access to electronic information. The use of Internet tools and applications (TCP/IP technology) to facilitate cost effective corporate communications over internal networks is commonly referred to as “Intranets”. According to a 1998 report from the London-based research company Ovum Ltd. entitled “Intranets for Business Applications, User and Supplier Opportunities”, by the year 2002, 78% of client systems connected to a corporate network in the United States will have Intranet browsers installed on them, while in Europe and Asia-Pacific, the figures are predicted to be 64% and 41%, respectively.

Network Security Environment

Every computer network is susceptible to security breaches such as unauthorized access from external as well as internal sources. A network, in facilitating communications between personal computers, passes data through a variety of routers, which by their nature are not secure. This data can, as a result, become available to any user within the network, as well as outsiders, to the extent they are able to access the network through the Internet.

The sensitivity of data within an organization’s network depends on the use of the network by the organization and the nature of the data permitted to be transmitted over the network. It is common for most business organizations to use their networks to maintain and transmit a wide variety of sensitive data and confidential information, such as financial information, personnel files, marketing plans and research and development data. Certain organizations, such as financial institutions, healthcare providers, defense contractors, governments and law enforcement agencies, have heightened network security concerns as a consequence of the nature of their activities. Network security concerns exist within the network (i.e. protecting the data or network from unauthorized access or tampering from within the network) and with the emergence of the Internet, in protecting the network from outsiders. When connected to the Internet, an organization’s network is potentially accessible by unauthorized users who are able to

exploit weaknesses in network configurations to gain unauthorized access to network transmissions or network computers, or to validate a compromised network. Management believes that information security risks have increased and that more companies would make use of the Internet if adequate security solutions were available.

The only guaranteed security against external tampering is to not connect to the Internet. However, this is not a viable option for organizations that wish to exploit the commercial opportunities offered through the Internet. Accordingly, information security solutions are being driven by the commercialization of the Internet.

The first phase of the Internet's commercialization commenced in 1993 and has seen the introduction of general purpose products and tools to better explore the Internet and to provide companies with the ability to offer advertising and marketing information. Network security products developed to meet the needs of the first phase included defensive tools, such as Firewalls, and pro-active tools, such as security auditors. The next phase is characterized by the commercial exploitation of the Internet and its applications for business activities, including electronic commerce. As such, there is an increasing demand for security solutions requiring both existing access control security services as well as more advanced security services and solutions, known as transaction control security, in order to protect business information flows. Products developed to meet the needs of this phase will provide access control and authentication, plus integrity, confidentiality, non-repudiation and anonymity of transaction information.

Network Security Demands

In order to protect information assets, business enterprises are developing corporate policies addressing network security demands. In designing these security policies, an organization must consider, among other things, its network design and configuration, the degree of sensitivity of its data, the desired user access and application restrictions. Security measures adopted should avoid undue complexity or restraint and should provide systems administrators with adequate security auditing procedures.

Security features focus on the ability of the product to deliver security characteristics consistent with corporate security objectives. Elements include:

- ***Security Assurance*** - independent assurance that the relevant Firewall technology fulfills its specifications and assurance that it is properly installed.
- ***Privilege Control*** - the degree to which the product can impose user access restrictions.
- ***Authentication*** - the manner in which the product provides or supports authentication techniques. These techniques include security features such as source/destination computer network address authentication ("where you are"), password authentication ("what you know"), access control cards ("what you have") and fingerprint verification devices ("who you are").
- ***Audit Capabilities*** - the ability of the product to monitor network traffic, including unauthorized access attempts, generate logs, and provide statistical reports and alarms.

Implementation features focus on the ability of the product to satisfy network management concerns. Elements include:

- ***Flexibility*** - the ability to support corporate security policies as well as existing and future Internet applications.
- ***Performance*** - the volume of data throughput and transmission speed.
- ***Scalability*** - the ability to be deployed in multiple instances in various machine and security configurations.

User features focus on the product's ability to deliver features that meet systems administrator and end-user concerns. Elements include:

- ***Ease of Use*** - these features relate principally to the adoption of GUIs which simplify a systems administrator's job of installing and configuring the product in a manner that achieves corporate security policy objectives.
- ***Transparency*** - the extent to which the products are transparent to the user. If the security product is cumbersome to use, then the user will bypass the security. Conversely, the more transparent the security measure is to the user, the more likely it will be utilized in its proper configuration and thereby promote security policy objectives.
- ***Customer Support*** - the extent to which a vendor supports customer needs, such as providing prompt access to technical expertise for installation, use and maintenance, and comprehensive training courses.

Network Security Technologies

Firewall Technologies

Commercial Firewall products currently available in the market address, to varying degrees, the corporate security policy considerations described above. A Firewall is a combination of software and hardware used to keep unauthorized users from accessing a private network. The Firewall functions as a barrier between internal networks and the Internet, or as a barrier between one internal network, or sub-network, and another. An effective Firewall solution should prevent unauthorized access to a private network from the outside and control access to the outside from within the private network. While all Firewall products are designed to provide security against unauthorized access, the Corporation and a limited number of other vendors also provide controlled access from within a network to the outside. A Firewall attempts to control and monitor data traffic passing through it, acting as a barricade that may pass, reject or simply drop network traffic in accordance with an organization's security policy. Firewall security techniques are designed utilizing either Packet Filtering or Application Level Proxy technology, or subsets of these two technologies.

Security Auditors

In addition to Firewalls, which are predominately defensive by nature, there are pro-active measures an organization can take to enhance network security. These measures include a range of evaluation functions generally conducted by systems administration personnel such as the selection and evaluation of network components and configurations, the assessment of network penetration risks and the identification of corrective procedures. As part of the auditing process, logs generated by defensive security measures, such as Firewalls, will be reviewed and network monitoring activities that include risk assessment diagnostics will be undertaken. Software products designed to assist systems administrators in addressing these security monitoring and evaluation requirements are known as security auditors. As an example, hackers often attack a network by attempting to exploit commonly known or ascertainable security loopholes. Using software driven challenge and response probing techniques, a security auditor is able to identify holes and assist in the development of measures necessary to close them.

Security auditors can be used by systems administrators to evaluate security access into the network and the security safeguards of sub-networks contained within a private network. When placed outside a private network, security auditors can be used by an external user, such as a security consulting or network management firm over the Internet, to evaluate a client's security safeguards.

Enterprise Security Management

The most recent trend in network security is the move towards cross-platform centralized security, commonly referred to as "enterprise security management" (ESM). ESM focuses on the two most critical areas of securing information technology: (1) user administration and management, including such tasks as single sign-on and user privilege control, and (2) risk assessment activities such as vulnerability and threat assessment of critical networked systems. All market trends indicate that, while individual products within the industry may have maturity cycles, the nature of the industry itself will only grow in concert with the growth of, and increasing use of, the Internet and telecommunication infrastructure systems.

Semiconductor Industry: Market and Technologies

The semiconductor market is subject to intense competitive pressures, rapidly evolving technologies, extremely short end-product life cycles, and periods of oversupply – all of which result in variable production, sales and profit cycles for semiconductor manufacturers. Despite this cyclical tendency, according to regularly published industry data collected by the Semiconductor Equipment and Materials International (SEMI) Organization, worldwide semiconductor sales are growing at an average of 20% annually and show every indication of continuing to do so for years to come. The continued sales growth of existing applications (such as personal computers, network Servers and advancing electronics applications), and a constant increase in the number and types of applications that use semiconductors, drive semiconductor demand. Likewise, those companies that supply semiconductor equipment manufacturers (SEM) experience variable sales, but show overall sales growth rates which are concurrent with those of semiconductor devices.

The semiconductor industry is considered to be one of the most technologically evolving and fastest growing market sectors. According to a report issued by the Semiconductor Industry Association (SIA) on September 5, 1999, the semiconductor industry has experienced a 17% compound annual growth for the past forty (40) years. It further states that worldwide semiconductor sales reached a new high of US\$17 billion in July 2000, increasing from US\$11.5 billion in July 1999. In order for this growth to occur, however, certain things have to have happened. The industry has always experienced a rapid pace of technological and scientific development and relatively short product life cycles. However, the next generation of computers will only be possible with improvements to the silicon wafer production process. These hurdles are in large part due to physical limitations in reduction of circuitry line-widths on silicon wafers and the ability to very closely monitor and adjust all control aspects. A survey of industry publications, including “the International – 1999” published by the SIA and the regular publications of Semiconductor International and Solid State Technology, clearly indicate that the reduction of defects and increasing yield is a primary industry concern. As demands increase for faster computers, the yield rate could become worse. Current processes used in the semiconductor industry (and in other technological or manufacturing industries) rely heavily on statistical controls, which historically have produced lower output yields, significant miss-processing and excessive downtime. Real time process sensing and control is essential to increasing the fabrication efficiency of silicon wafers. Management of Prosensys intends to qualify and standardize conditions for processing silicon wafers, thereby increasing the efficiency and yield rates of wafer processing by a significant percentage.

The vast majority of microchip fabrication takes place in the United States, Western Europe, Israel and the Far East. The market has a limited number of players, making it easier to target the market and to stay in touch with potential clients. The market potential is increasing as several manufacturers have started or announced the construction of new plants. Despite past industry downturns, the current economic indicators for the semiconductor industry show a double-digit growth for the next few years. This will also benefit the SEMs who will see a steady stream of orders for equipment. Additionally, manufacturers may upgrade their equipment in order to process larger wafer sizes.

BUSINESS OF THE CORPORATION

Overview

The Corporation specializes in the development of enterprise-wide security and networking products that focus on network and perimeter security, remote management, content management and bandwidth management as well as auditing, logging and reporting capabilities. Prosensys is extensively involved in research and development intended to raise the standards of semiconductor and integrated circuit (“IC”) manufacturing by dramatically reducing machine “downtime” and significantly reducing process related defects. Current research and development activities are centered on the monitoring and control of the complex chemical interactions and reactions that take place during the manufacturing of ICs. These chemical reactions take raw materials and transform them into thin-film layers that are then used to form the individual electrical components of ICs. These reactions take place at the molecular level and are, therefore, extremely difficult to monitor and control.

In 1989, the Corporation established its niche as a provider of network architecture and security consulting services to corporations in the Atlantic region. By 1991, the business was extended to include network security software products. Public networks were becoming pervasive at that time and there was an emerging market need for a perimeter device to protect corporate Intranets from potential threats arising from connection to the Internet. The Corporation responded by developing the TurnStyle® Firewall System, which was subsequently tested and approved by the National Computer Security Association (NCSA) on June 3, 1996.

Passwerks® Privilege Server

ASG recognized that internal network security was just as important as perimeter security, if not more important. As a result, in 1997, ASG refocused its attention and resources to develop a market niche in the internal network security market. The majority of the required code base for an internal network security solution had been developed, and was oriented to the sophisticated authentication, control and audit tools required to compete in this market. The product, which became known as the TurnStyle® Security System, was later renamed the Passwerks® Privilege Server. While the Passwerks® Privilege Server is designed to interface and work with almost any network environment, its proprietary communication module is designed specifically to exploit the largely untapped market for products tailored to the telecommunications industry.

In June 2000, the Corporation and Nortel Networks Inc. entered into a multi-year software licence and OEM agreement (the “Nortel Agreement”) which will see the components of the Passwerks® Privilege Server sold through Nortel’s marketing and sales channels. Under the Nortel Agreement, the functionality of the Passwerks® Privilege Server will be marketed to the telecommunications, banking, medical and financial services industries. The telecommunications hardware purchasers that use Northern Telecom digital multiplexing switches are the primary target market for this solution. The Corporation intends to migrate this technology to the digital network switching systems offered by Siemens Information and Communication Networks, Inc., Lucent Technologies, Inc., LM Ericsson Telephone Company and AT&T Canada Inc. in 2001.

ASG realized that bandwidth and content management would become major issues and that Server level management would be more effective than at the desktop level. The Corporation used the knowledge and expertise gained from the development of the NCSA approved Firewall, and other custom network and Internet security software applications, to develop a reliable and powerful active content management engine. The resulting product is scalable, well tested, and meets commercial quality standards, making it suitable for enterprise-wide solutions. The Corporation is now primarily focused on the development, sale and support of these proprietary network security and active content/bandwidth management products for networks and telecommunication systems.

Passwerks® Architecture

The Passwerks® Privilege Server acts as a top-level broker controlling user access to corporate computing resources. It allows increasing numbers of users access to multiple network elements from various locations creating a more flexible and accessible infrastructure. Access is transparent to the user and provides a hierarchy of authority that grants priority to the users with higher privilege status. It increases the session management efficiency and utilization capabilities of each physical or logical network element by monitoring connections and automatically disconnecting inactive users. Administrators can quickly enable access by dynamically updating user profiles with the appropriate privileges. The Passwerks® Privilege Server accommodates a virtually unlimited number of user profiles. A centralized configuration and log Server enables all network elements to interface through a central location. The administrator can track all network activities performed by a single user through their unique user ID and password. This allows administrators to monitor for security threats, log switch activity, detect abuse and provide charge back capabilities. The Passwerks® Privilege Server’s centralized management and modular architecture allows all components to reside on one distinct Server, or several components to be spread across various Servers. This distributed design architecture allows for unlimited flexibility and growth. The Passwerks® Privilege Server greatly increases the level of security to access a network element. In addition to passwords, secure access is available through the use of an authentication token. Authentication with a security token is a simple, one-step log-on process. After connecting to the Passwerks® Privilege Server and being granted access to an authentication Server, a user simply enters a secret password followed by the current code displayed on the security token. Authenticated access is granted when the user’s password and unique code are accepted in combination.

While the Passwerks® Privilege Server is designed to interface and work with almost any networking environment, its proprietary communication module, Passwerks® Switch Module, is intended to exploit the largely untapped market for products tailored to the telecommunications industry.

The Passwerks® Privilege Server is marketed to include the following features:

- easy to set-up and administer;
- enables an unlimited number of users to access multiple network elements from various locations;

- allows the administration of single-point control of user privileges rather than having to administer many different network elements;
- collects session data for audit purposes;
- supports multiple authentication systems (e.g. SecureID, fingerprints, retina scanning);
- simplifies the log-on process for users who now need only one password to gain access to all network elements for which they are authorized, thus eliminating user temptation to write down their passwords which has been proven to result in theft and corporate security breaches;
- monitors all activities performed by an individual user, thereby allowing administrators to quickly detect and halt any suspicious or threatening activity;
- allows quick and easy alterations of user IDs and passwords;
- constitutes a comprehensive security solution incorporating authorization, authentication and auditing capabilities; and
- employs a modular design that can distribute different modules to various Servers allowing many different configuration options.

En Guarde™ Internet Filtering Proxy

The Corporation's most recent addition to its product and service offerings is the En Guarde™ Internet content management solution. En Guarde™ is an Internet content management solution designed for educational institutions, ISPs (and ultimately their customers) and Fortune 1000 businesses. It is capable of providing filtered Internet access to over 5,000 users per "appliance" installation, as proven by the installation currently filtering access to the Province of New Brunswick's Ministry of Education. The En Guarde™ solution utilises a combination of content-based blocking and filtering mechanisms to provide access control and screening of inappropriate material.

En Guarde™ is an integrated solution that mitigates the risks and liabilities associated with inappropriate Internet content. Management believes it effectively increases bandwidth and employee productivity and efficiency by freeing up network bandwidth that is being used inappropriately by employees "surfing" the Internet. En Guarde's™ modular and efficient design ensures it can accommodate a network of virtually any size in a transparent and seamless manner.

En Guarde™ utilises the most up-to-date Web Site blocking list in the industry, which is produced and maintained by The Learning Company, the developers of CyberPatrol®. En Guarde™ is also capable of utilizing alternative data (URL list) sources such as those being developed by ClickChoice.com. En Guarde™ represents the most intelligent solution for implementing and enforcing institutional, corporate, and home Internet usage policies. It can virtually eliminate access to pornographic, objectionable and counter-productive Web Sites while logging access statistics of all end-users. Provided as a turn-key solution to the central administrator of Internet access within an institution, it is an end-user transparent solution that requires no local (PC) installation, no advanced technical knowledge to implement, is user-friendly, upgrades itself automatically and is almost impossible to circumvent. Being centrally administered and independent of operating systems or other constraints, management believes it can meet the growing demands within any organization.

En Guarde™ is marketed to provide the following specific key benefits:

- immediately eliminates access to objectionable and inappropriate Web Sites;
- reduces legal consequences arising from the misuse of internal Internet services;
- increases the efficiency and productivity of students and employees ;
- increases effective bandwidth;
- provides a seamless, transparent and centrally administered solution;
- uses the industry's leading blocking list;
- backed by the support of a team of networking and security experts;
- optional remote administration and maintenance; and
- administrative logging and report generation feature for business and educational institution users.

Customers for Security Products

Corporations and organizations who have purchased network security software or services from the Corporation include the U.S. Army, AIL Systems Inc., Bergmeyer Associates Inc., Stentor Services Inc., NBTel Inc. (an indirect

subsidiary of Aliant Inc.), Saskatchewan Telecommunications (SaskTel), Lakefield College, Brookhaven National Labs and IBM Canada Ltd.

Management intends to aggressively target the North American ISP market for the implementation of the active content management/bandwidth management service. The service can be offered as a no risk/no cost service to the ISP if necessary. Under this model, the ISP is expected to charge their clients for the service and share the revenues with the Corporation. Management believes that its existing relationships with leading telecommunications companies in Canada and the United States will allow the Corporation to enter this market with proven mature products and a demonstrated customer base. While the Corporation's immediate focus will be on North American ISP's, it intends to pursue international opportunities. ASG will also target large enterprises with strong dependence on multi-user computer networks. Europe represents an opportunity to capture a large market share of the Internet content management and filtering market provided that in-roads are immediately pursued and attention is paid to the different cultural needs of European nations.

To the knowledge of management, ASG is the only current provider of an integrated solution for brokered access, security and auditing specifically designed to address the needs of telecommunications companies. ASG intends to maintain its relationships with Aliant Telecom Inc. (a subsidiary of Aliant Inc.) and Nortel Networks Inc. while pursuing business opportunities with other leading telecommunication equipment providers.

Semiconductor Research & Development Project

Prior to 2000, the Corporation's principal business activities in the semiconductor industry consisted of refurbishing equipment for, and providing consulting services to, the semiconductor industry. The Corporation had also undertaken the initial phases of a research and development project relating to a real time process controller for use in the fabrication of silicon wafers (the "CVD Project"). The Corporation has gained extensive experience providing some of the largest semiconductor companies in the world with specialized consulting services related to the manufacture and processing of semiconductor wafers. Customers of the Corporation have included Northern Telecom, Intel Corporation, Philips Electronics, Mitel Corp., PerkinElmer Instruments, and National Semiconductor.

As a result of the Corporation's equipment and process consulting services, it identified a need for "real time process control software" to increase fabrication efficiency of silicon wafers. Current processes rely heavily on statistical controls that historically have produced lower output yields, greater mis-processing and excessive downtime. The Corporation has developed a real time process controller that standardizes conditions for processing silicon wafers (the "CVD Technology"), thereby increasing the efficiency and yield of wafer processing. The Corporation proposes to develop the CVD Technology to enable *in situ* monitoring during the semiconductor device fabrication process so that the resulting data may be used in a closed-loop feedback method to control the device fabrication. The Corporation has developed process control models, first in linear design and then in "truth model" form (ie. non-linear) for design simulation and validation.

The Corporation is negotiating collaboration with various partners on an international scale that may yield complementary systems with the effects of dramatically improving certain control systems for advanced semiconductor device processing. Upon completion of the individual components of the CVD Project, it intends to integrate various control functions into a comprehensive system for the intelligent manufacture of advanced semiconductor devices.

The Corporation has received written endorsements and offers of technical support from many of its major customers as well as suppliers of chemicals and auxiliary equipment. The Corporation has extensive expertise in the areas of reaction intermediates and experiment design for certain processes that will assist in the rapid commercialization of the concept. With the assistance of beta-test site project partners internationally, management believes that the Corporation will be able to develop and manufacture a "real-time process controller" that meets or exceeds practical semiconductor industry requirements. The final product developed by this collaborative project will result in both qualitative and quantitative improvements in semiconductor device manufacture, with marked enhancements in yields and production capabilities for future device generations.

Effective January 1, 2000, the Corporation sold all of its assets relating to the CVD Project to its wholly-owned subsidiary, Prosensys. At the outset of the CVD Project in 1997, the Corporation entered into an understanding with an Israel-based company, Persys Technologies Inc. ("Persys"), whereby the Corporation and Persys would jointly fund the CVD Project over a two year period. The parties agreed that each would contribute to the CVD Project to the extent of 68% by the Corporation and 32% by Persys. To the end of May 2000, however, the Corporation had

funded nearly 95% of the CVD Project. By June 30, 2000, the parties reached an agreement in principle whereby their respective cash contributions to May 31, 2000 would determine their final proportionate share ownership of Prosensys. The Corporation anticipates completing formal arrangements before the end of 2000. Upon completion of the transaction, management expects that Persys will hold 5.5% of the outstanding shares of Prosensys, while the Corporation will retain 94.5% of the outstanding shares.

MARKETING, SALES AND DISTRIBUTION

Network Security Technologies

The Corporation's marketing, sales and distribution objectives are to achieve broad market penetration by employing multiple distribution channels, including electronic Web-based distribution and strategic channel sales. The Corporation believes that a multi-faceted distribution strategy will enable it to market its family of network security solutions effectively to potential customers based upon their specific needs.

Web-based Distribution

The Corporation intends to migrate a portion of its marketing and sales resources to the worldwide market through electronic distribution via an e-commerce-enabled Web Site. All resources available in print form will also be available in electronic form and downloadable over the Internet. The marketing department will endeavor to use the Web Site as a primary method to provide information to customers and potential resellers.

Channel Marketing

The Corporation intends to recruit companies such as Nortel Networks Inc., Lucent Technologies, Inc., AT&T Canada Inc. and LM Ericsson Telephone Company and Southwestern Bell as channel partners to help market its telecommunications-related Passwerks® products. As at the date hereof, the Corporation has existing agreements with Aliant Telecom Inc. and Nortel Networks Inc. The Corporation also intends to develop strategic alliances to help sell to the mainstream single sign-on/network security market.

Resellers and Distributors

The Corporation has and will continue to place considerable emphasis on gaining market penetration through reseller and distributor relationships. Companies such as Nortel Networks Inc. offer aggregated IP/Data/Voice services which approve, recommend and/or integrate third party solutions into products such as the Shasta 5000 Broadband Service Node solution. This solution, which is marketed by Nortel, incorporates several third-party offerings that meet the needs of Nortel's clients who require a selection of telecommunications services combined in one solution. The inclusion of the Corporation's products as a component of an "overall solution" such as this represents a significant resale and distribution opportunity. The Corporation is exploring other third-party reseller and distributor solutions with reputable suppliers, and has joined the Nortel/Shasta "Broad-band Ecosystem Enabling" partners programme as a recommended solution for Internet content management.

Relationship Sales

The Corporation has good working relationships with strategic customers including Bell, Aliant Telecom Inc., Nortel Networks Inc., Southwestern Bell and other North American telecommunications companies. Management believes that these relationships provide an avenue to introduce new products as well as further develop existing accounts with product updates and enhancements.

Inside Sales

The Corporation intends to retain the services of a sales manager who will be responsible for exploring and developing working relationships with strategic customers in the Corporation's target markets. Sales personnel will also be responsible for liaising with existing clientele, exploring potential strategic relationships, developing appropriate channel partners and providing feedback to marketing and technical staff with respect to market trends.

Specific Product Concerns

Passwerks® Privilege Server

Management believes the Passwerks® Privilege Server product is most effectively sold through a consultative sales and integration cycle in conjunction with direct and indirect global partners. In this regard, the Corporation has entered into an alliance with Nortel Networks to sell components of the Passwerks® Switch Module to major purchasers of telecommunications equipment in North America and internationally. Management believes that the alliance with Nortel Networks, and future similar alliances, will generate leads through interaction with telecommunications companies worldwide, while the Corporation will, if necessary, provide the tools and integration resources to help complete the sale and integrate the product in the customer's environment. In those countries where the Corporation can identify existing businesses selling complimentary technology products into the telecommunications market, it will attempt to develop that opportunity by providing reseller level margins to re-enforce sales incentives.

En Garde™

In management's opinion, the nature of En Garde™ makes it ideal for three primary target markets; educational institutions; ISPs; and corporations with large Intranets connected to the Internet. The Corporation intends to target educational institutions, specific resellers and distributors and ISPs. Management believes that sales to Fortune 1000 companies will be most easily established through resellers and distributors who are offering a variety of "service solutions" to their clients.

CVD Technology

Management believes that the sales strategy for market penetration of the CVD Technology will be crucial to the success of the venture. The semiconductor industry is a mature consolidated industry where revenues are high and the major players are few. Management's objective is to firmly establish the reputation of Prosensys and the CVD Technology and relationships with the major equipment manufacturers to provide for product sales as a direct result of major equipment vendor's sales. In combination with sales promotion and general increasing awareness of the product and its capabilities by internal marketing efforts, Prosensys may retain the services of an industry specialist as a key agent who has extensive industry background and a base of established contacts. The agent's mandate will be to educate end-users and create demand, as well as pursue and finalize strategic alliances with SEMs and other beneficial business, research or development collaborators.

COMPETITION

Network Security Technologies

Management believes that it is difficult to assess exact market share in the network security industry because the market for network security products is rapidly changing and expanding in concert with technological developments. It expects that competition among vendors of network security products will continue to intensify as security concerns continue to command industry attention.

Perimeter Access, single sign-on and brokered or certificate managed access are no longer emerging technologies. Management believes that the Corporation's success in this field was derived from, and will continue to rely on, the provision of unique and niche market products and services that solve complex business issues in the telecommunications and networked business environments.

The Corporation's current principal competitors who provide sophisticated single sign-on and access control products include Computer Associates International, Inc. including its subsidiary Platinum Technology International Inc., Evidian (formerly BullSoft), a Groupe Bull Company and Axent Technologies Inc. To the knowledge of management, none of the Corporation's competitors specializes in targeting the niche telecommunications market on which the Corporation is focused.

Competitive factors affecting the access control products market include security effectiveness, product features and reliability, ease of use, product distribution, customer service and support and price. While the Corporation believes it is in a position to compete favourably in light of these factors, a number of the Corporation's current competitors

have greater financial, technical and marketing resources. For this reason, the Corporation has elected to provide products that offer unique and somewhat specialized solutions to a niche, yet lucrative market (specifically telecommunications solution providers).

In the active content management / bandwidth management field, the Corporation's principal competitors are N2H2 Inc. (an Internet infrastructure company specializing in Internet management, content delivery and filtering services), X-Stop (a product offered by Log-On Data Corporation), and WebSense Inc. (a company providing applications that assist businesses to productively use the Internet). These companies provide similar Server-based content management software products. The Corporation is actively working on competitive advantages in regard to features and functionality to ensure that its products capture a significant market share. To the knowledge of management, the Corporation's product is the only one offering multiple profile management capability.

CVD Technology

Companies developing technologies similar to the CVD Technology include On-Line Technologies Inc. ("Online"), ATMI Inc., INFICON, and Chemical Detection Technology, Inc., a subsidiary of Lock Harris, Inc. ("ChemTech"). To the knowledge of management, On-Line, a manufacturer of sensors, is working closely with both LAM Research Corporation and Applied Materials, Inc. ATMI is developing a sensor for tetraethoxysilane, one of the chemicals frequently used in the production of ICs, that is intended for use in safety and effluent treatment. ChemTech is both a potential competitor of and a potential collaborator with the Corporation. It has developed a unique scattering technique for detecting gaseous species and is building a prototype sensor for use in semiconductor plasma processes. Management believes that ChemTech has a plasma test set-up that will allow it to demonstrate basic feasibility with the sensor. Management further believes that ChemTech has beta-site agreements with Lucent Technologies Inc. and Texas Instruments.

FACILITIES

The Corporation's headquarters are located in a leased facility located at 8 Garland Court in Fredericton, New Brunswick and consist of approximately 3,000 square feet of office space. The facility is leased on a monthly basis. The terms of the lease are reviewed annually in December of each year. The Corporation believes that its existing facilities and available office space are adequate to meet its short term requirements for the next 12 to 24 months.

PROPRIETARY RIGHTS

The Corporation has registered TurnStyle® as a trade mark in Canada (TMA443,322) and Mexico and has applied for trade mark registration in the United States and the European Economic Community. The Corporation has also registered the trademarks Passwerks® (TMA501,641) and Janus® (TMA467,298) in Canada. The Corporation will pursue registration for other marks as appropriate. Copyright is claimed in all software and related documentation. While no copyright registrations have been obtained, copyright subsists in all of the Corporation's original works in all countries signatory to the Universal and Berne Copyright Conventions, and where original works have been created for the Corporation, the copyrighted works are assigned to the Corporation. All employees of the Corporation have entered into agreements providing for the assignment and confirmation of the Corporation's ownership of all intellectual property rights created in the course of an employee's employment with the Corporation. The agreements also contain provisions relating to non-disclosure of information belonging to the Corporation and non-competition.

The Corporation has licensed encryption and authentication technology that has been and will be incorporated into the Corporation's current and future products. The Corporation's success in product development will depend, in part, on its continued right to utilize licensed technology that is important to the functionality of certain of its products.

Prosensys filed a patent application with the United States Patent and Trademark Office on October 8, 1999 on the current "CVD Monitoring and Control" process as U.S. Patent Serial Application # 09/415,395. The application has been accepted and is currently undergoing the standard acceptance and validity qualification review by the United States Patent and Trademark Office. Prosensys will pursue patents in other jurisdictions where competition or potential customers warrant the need for protection of its patentable intellectual property.

EMPLOYEES

The Corporation currently has 20 full-time employees consisting of five employees in sales and marketing, nine employees in software development, two employees in semiconductor research and four employees in general and administrative functions. None of the employees is represented by a union or is subject to a collective bargaining agreement. Management believes that the Corporation's relationship with its employees is excellent.

Key Employees

Roy Nicholl – Director and Chief Technical Officer. Please refer to Mr. Nicholl's biographical information under "Management – Directors and Officers."

Dr. Thomas Whidden - Research Scientist. Dr. Whidden is the lead scientist for the CVD Project being carried on by Prosensys. Dr. Whidden holds a Ph.D. in Chemistry from the University of New Brunswick. He has more than fifteen years experience in the field of semiconductor processing in both the industrial and the academic world. Dr. Whidden came to ASG from Arizona State University and before that was lead scientist for ASM America, a leading supplier of semiconductor manufacturing equipment.

PRINCIPAL SHAREHOLDER

The following table sets forth the name of the only person who, to the knowledge of the Corporation, beneficially, directly or indirectly, owns or exercises control or direction over 10% or more of the outstanding Common Shares as of the date hereof.

<u>Principal Shareholders</u>	<u>Type of Ownership</u>	<u>Shares Owned Before the Offering</u>		<u>Shares Owned After Giving Effect to the Offering⁽¹⁾</u>	
		Number	Percent	Number	Percent
Pieter E. Natte ⁽¹⁾ Fredericton, New Brunswick	Direct and Indirect	5,890,889 ⁽²⁾	30.2%	5,890,889	27.4%

(1) Assumes the exercise of the Special Warrants into 2,000,000 Common Shares.

(2) Includes 184,000 Common Shares held by Mr. Natte's spouse. Mr. Natte holds 5,006,889 Common Shares through 504004 NB Ltd., of which he is the sole shareholder. The remainder of Mr. Natte's Common Shares are registered in his name.

MANAGEMENT

Directors and Officers

The following table sets forth the name and municipality of residence of each director and officer of the Corporation along with his current position(s) held with the Corporation and principal occupation.

<u>Name and Municipality of Residence</u>	<u>Position with the Corporation</u>	<u>Principal Occupation</u>
Pieter E. Natte Fredericton, New Brunswick	Chairman, Chief Executive Officer, President and Director	Chief Executive Officer and President of the Corporation
R. Craig Prentice ⁽²⁾ Oakville, Ontario	Director	Vice-President, Consumer Products, Navittrak International Corporation
Michael Lang ⁽²⁾ Toronto, Ontario	Director	President, The GEM Group
Roy Nicholl Fredericton, New Brunswick	Director and Chief Technical Officer	Chief Technical Officer of the Corporation
Donald S. Reid ^{(1), (2)} Greenwich, Connecticut	Director	Private Investor
Peter A. Crossgrove ⁽¹⁾ Caledon, Ontario	Director	Chairman of the Board, Premdor Inc.
Ian S. Grant ⁽¹⁾ Toronto, Ontario	Director	President and Chief Executive Officer, Seabiscuit Capital Corp.
James G. Wilson Quispamsis, New Brunswick	Chief Financial Officer and Secretary-Treasurer	Chief Financial Officer and Secretary-Treasurer of the Corporation

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

During the past five years, each of the directors and officers of the Corporation has been engaged in his current principal occupation as specified above, except for Mr. Prentice who was President of Duraskid, Inc. from 1997 to 1999, a strategic consultant with the Toronto Star Acquisitions and New Ventures group from 1996 to 1997, and prior thereto was Senior Vice President, Ontario division of Molson Breweries; Mr. Reid who, prior to joining VERSUS Capital.Com in the fall of 1999, was Managing Director of the worldwide energy group of Morgan Stanley Dean Witter; and Mr. Wilson who, prior to February 1997, was General Manager - Stonewood Transport, Stonewood Investments Ltd., a long-haul trucking company.

To the knowledge of the Corporation and based on information provided to it, the directors and senior officers of the Corporation and their associates owned, directly or indirectly, or exercised control or direction over 8,069,295 Common Shares as at September 14, 2000, representing approximately 41.35% of the outstanding Common Shares, prior to giving effect to the exercise of the Special Warrants and the Warrants into 4,000,000 Common Shares.

Biographies of Directors and Officers

Pieter E. Natte - Chairman, Chief Executive Officer, President and Director. Mr. Natte's first position with the Corporation was President and Secretary-Treasurer. He has been a director of the Corporation since its inception in 1988. Prior to November, 1988, Mr. Natte was co-founder of Xylaur Enterprises Limited, a consulting and engineering corporation for the semiconductor industry.

R. Craig Prentice – Director. Mr. Prentice is the Vice President of Consumer Products at Navittrak International Corp. of Oakville, Ontario. He joined Navittrak in 1999 having previously served as an external director for two years. He has over 25 years of experience in consumer products at Molson Breweries and Duraskid Inc. He is an

experienced senior executive and general manager with particular strengths in the areas of sales, marketing and distribution, as well as government and public affairs.

Michael Lang - Director. Mr. Lang's broad-based background covers 20 years of business in Canada, the United States and Europe. His experience ranges from associative marketing consulting to sales promotion, event management and sponsorship engineering. He is a leading marketing communications consultant and as such, is often invited to speak at key industry conferences and seminars.

Ian S. Grant – Director. Mr. Grant is President of Seabiscuit Capital Corp. and Ian S. Grant Holdings, both of which are personal investment companies.

Roy Nicholl – Director and Chief Technical Officer. Mr. Nicholl is Chief Technical Officer of the Corporation and has been with the Corporation since 1990. Mr. Nicholl holds a BSc in Computer Science from the University of New Brunswick, and has in depth knowledge of Firewall technology. He is currently focused on optimizing active content / bandwidth management for networks connected to the Internet, as well as designing the adaptive network architecture for IP-based networks and Servers.

Donald S. Reid – Director. Mr. Reid is a private investor and was the President of VERSUS Capital.com, a subsidiary of Toronto-based VERSUS Technologies Inc., prior to September, 2000. Prior to joining VERSUS Capital.Com in 1999, Mr. Reid was Managing Director of Morgan Stanley Dean Witter, where he was co-head of that firm's worldwide energy group. Mr. Reid has been involved in numerous corporate mergers and acquisitions as well as capital markets transactions. Mr. Reid is based in Greenwich, Connecticut.

Peter A. Crossgrove – Director. Mr. Crossgrove is the Chairman of the Board for Premdor Inc. of Toronto, Canada and currently serves as director of several other public companies, including Quadralogic Technologies Inc., Barrick Gold Corporation, Philex Gold Inc. and Dundee Realty Corporation. Mr. Crossgrove has extensive experience in corporate management and brokering global relationships in various industry sectors.

James G. Wilson – Chief Financial Officer and Secretary-Treasurer. Mr. Wilson has taken the position of Chief Financial Officer with the Corporation on a part-time basis. He has held the position of general manager of Stonewood Transport as well as a variety of positions with Maritime Beverages Limited (now Pepsi Cola Canada Beverages) including Atlantic Chief Financial Officer, Vice-President of Finance (U.S. ownership) and Secretary-Treasurer (local ownership). Mr. Wilson is a Certified Management Accountant.

Executive Compensation

Summary Compensation Table

The following table sets forth all compensation earned during each of the last three fiscal years by Pieter E. Natte (the "Named Executive Officer").

Name and Principal Position	Year	Annual Compensation			Long Term Compensation			All Other Compensation (\$)
		Salary ⁽¹⁾ (\$)	Bonus (\$)	Other Annual Compensation (\$)	Securities Under Option (#)	Restricted Shares (\$)	LTIP Payments (\$)	
Pieter E. Natte Chairman, Chief Executive Officer and President	1999	96,000	-	5,000 ⁽²⁾	320,000 ⁽³⁾	-	-	-
	1998	96,000	-	4,000 ⁽²⁾	24,000	-	-	-
	1997	96,000	-	-	21,300	-	-	-

Notes:

- (1) The aggregate amount of perquisites and other personal benefits was not greater than the lesser of \$50,000 and 10% of the total annual salary of Mr. Natte for the financial year ended December 31, 1999.
- (2) Represents an automobile allowance.
- (3) On July 15, 1999, 140,000 options were granted and the granting of an additional 180,000 options was deferred subject to shareholder approval. The granting of the additional options was deferred because the number of Common Shares issuable upon the exercise of options outstanding on July 15, 1999 was close to the maximum number of Common Shares issuable under the Option Plan. The shareholders approved the granting of the additional 180,000 options on May 4, 2000 and such options became effective as of July 15, 1999.

Stock Options Grants

The following table sets forth information regarding options to purchase Common Shares granted to the Named Executive Officer during the fiscal year ended December 31, 1999.

Name	Securities Under Option (#)	% of Total Options Granted to Employees in Financial Year	Exercise Price (\$/Common Share)	Market Value of Securities Underlying Options on Date of Grant (\$/Common Share)	Expiration Date
Pieter E. Natte	140,000 180,000 ⁽¹⁾	22.9%	\$0.03 \$0.03	\$0.03 \$0.03	July 15, 2009 July 15, 2009

Note:

- (1) On July 15, 1999, 140,000 options were granted and the granting of an additional 180,000 options was deferred subject to shareholder approval. The granting of the additional options was deferred because the number of Common Shares issuable upon the exercise of options outstanding on July 15, 1999 was close to the maximum number of Common Shares issuable under the Corporation's stock option plan. The shareholders approved the granting of the additional 180,000 options on May 4, 2000 and such options became effective as of July 15, 1999.

Options Exercised and Year-End Value Table

No options were exercised by the Named Executive Officer during the fiscal year ended December 31, 1999. The following table sets forth information regarding the number and year-end value of unexercised options to purchase Common Shares held at December 31, 1999 by the Named Executive Officer.

Name	Shares Acquired On Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at December 31, 1999 Exercisable/Unexercisable	Value of Unexercised "In-the-Money" Options at December 31, 1999 Exercisable/Unexercisable (\$) ⁽¹⁾
Pieter E. Natte	0	0	320,000 / 0	\$22,400 / -

Note:

(1) Options are "in-the-money" if the fair market value of the underlying shares exceeds the exercise price of the options. The value of unexercised "in-the-money" options on December 31, 1999 is calculated based on the closing price of \$0.10 per share.

Compensation of Directors

Each director who is not also an employee of the Corporation is entitled to receive an annual fee of \$2,500 plus \$250 for each meeting attended of the board of directors or any committee thereof. To date, the Corporation has not paid, and no director has requested payment of, such fees. Directors are entitled to reimbursement for out-of-pocket expenses incurred in connection with attending meetings of the board of directors or committees thereof and other meetings or events (such as sales and investor relations) as requested and approved by the Corporation. The directors are eligible to participate in the Corporation's stock option plan. During the fiscal year ended December 31, 1999, each of Ian S. Grant, Michael J. Lang and R. Craig Prentice was granted 250,000 options pursuant to the Corporation's stock option plan. Each option entitles the holder to acquire one Common Share at an exercise price of \$0.15 and expires on November 16, 2009.

Indemnification of Directors

The Corporation has indemnified each of its directors to the fullest extent permitted by law for all costs, liabilities and expenses incurred by each director, including legal fees, in respect of claims to which each director is made a party by reason of being or having been a director of the Corporation or any subsidiary thereof, provided such director acted honestly and in good faith with a view to the best interests of the Corporation and, in the case of a criminal or administrative proceeding enforced by monetary penalty, such director had reasonable grounds for believing that his conduct was lawful.

Directors' and Officers' Insurance

The Corporation maintains insurance with ENCON Group Inc. for the benefit of its directors and officers against liability in their respective capacities as directors and officers. The annual premium payable by the Corporation in respect of such insurance is \$10,000 and the total amount of insurance purchased for the directors and officers as a group is \$1,000,000. The directors and officers are not required to pay any premium in respect of the insurance. The Corporation is liable to the extent of \$25,000 per claim under the deductibility provisions of the policy.

Directors and Employee Stock Options

The following table sets forth information as of August 31, 2000 concerning outstanding options granted to the Corporation's officers and key consultants, non-executive directors, employees and others.

	Number	Optioned Common Shares	Exercise Price ⁽¹⁾	Expiration Date
Officers and key consultants	5	314,332	\$0.30 to \$2.00	July 15, 2007 to November 2010
Non-executive directors	5	750,000	\$0.15 to \$2.00	November 16, 2009 to March 10, 2010
Employees	12	256,500	\$0.25 to \$2.20	July 15, 2007 to November, 2010
Others	0	0	–	–
TOTAL		1,320,832		

Management Contracts

The Corporation has employment agreements or remuneration arrangements with all of its executive officers. Each agreement or arrangement provides for salary, benefits, bonuses and incentive stock option grants for the executive officer and for compensation if his employment is terminated.

Executive Insurance

The Corporation has executive life insurance on the life of Pieter E. Natte. The insurance provides for coverage of \$1,000,000. All premiums are paid by the Corporation and, in the event of Mr. Natte's death, the proceeds of the insurance will be paid to the Corporation.

Indebtedness of Directors and Senior Officers

None of the directors or senior officers of the Corporation are indebted to the Corporation.

STOCK OPTIONS

In February, 1997, the Corporation approved its stock option plan (the "Plan") for senior officers, directors, employees and key contributors of the Corporation. The aggregate number of Common Shares reserved for issuance under the Plan is 15% of the number of Common Shares outstanding from time to time on a non-diluted basis. The aggregate number of Common Shares authorized for issuance to any one person under the Plan (whether pursuant to options issued under the Plan or otherwise) and the aggregate number of Common Shares authorized for issuance to insiders of the Corporation may not exceed 5% and 10%, respectively, of the Common Shares outstanding from time to time on a non-diluted basis. The exercise price of the options is determined by the board of directors of the Corporation at the time the options are granted but shall not be less than the latest closing price for the Common Shares on a stock exchange on which the Common Shares are listed or a quotation system upon which the price of the Common Shares is quoted on the last trading day preceding the date on which the grant of such options is approved by the board of directors of the Corporation. In the event that the Common Shares are not publicly traded, the exercise price shall be the fair market value of the Common Shares as determined by the board of directors in its sole discretion.

Options granted under the Plan are non-transferable and expire 10 years from the date of grant or such lesser period of time as determined at the discretion of the board of directors. If an option holder ceases to be a director, senior officer, employee or key contributor of the Corporation, options held by such holder may be exercised only within 60

days of such date, or such longer period as may be agreed to between the Corporation and the individual option holder.

As an employee benefit, the board of directors grants to all employees on July 15 of each year a number of options equal to 10% of the employee's gross payroll earnings in the previous calendar year divided by the closing price of the Common Shares on the day immediately preceding the date on which the options are granted. Generally, the options vest in equal amounts over the next three years on the anniversary dates of the grant and expire ten (10) years from the date of grant.

MANAGEMENT'S DISCUSSION OF OPERATING RESULTS AND FINANCIAL CONDITION

Overview

The Corporation is a developer of proprietary software for telecommunications manufacturers and for users of the Internet. Its primary focus is the telecommunications sector, and it has recently formalized a licence agreement with Nortel Networks Inc. to provide the Corporation's Passwerks® Privilege Service software to Nortel for resale to its customers worldwide. The Corporation is also exploring opportunities in North America and abroad to sell content management software to Internet service providers (ISPs).

The Corporation is also conducting research and development to create a real time process controller for use in the fabrication of silicon wafers (the CVD Project). Effective January 1, 2000, the Corporation sold the assets and related liabilities of the CVD Project to a wholly owned subsidiary, Prosensys.

ASG and Prosensys are headquartered in Fredericton, New Brunswick, where their respective software development staff and CVD Project research team are located.

Revenues

Revenues have been generated from two principal sources – consulting on network and software development and product sales of software and pre-owned semiconductor equipment.

During the years 1997 and 1998, the Corporation relied heavily on network consulting in the telecommunications industry, and also contracted occasionally with manufacturers in the semiconductor industry to do consulting on process improvement. In 1999, it relied heavily on sales of used semiconductor equipment and less on consulting opportunities as the semiconductor industry rebounded and consulting opportunities experienced a slowdown.

Operating Expenses

Operating expenses are divided into direct costs associated with sales activities that are classified as "Cost of Projects" and into other operating expenses that are relatively fixed.

Cost of Projects is segregated between consulting projects and direct product sales. They include the costs of travel, sales commissions and related benefits, shipping and receiving, costs of equipment re-sold and any other expenses directly attributable to the respective sales revenue.

The remaining expenses are segregated between regular operating costs and the costs associated with research and development. Regular operating costs include advertising and promotional expenses, salaries and related benefits, rent, utilities, legal and other administrative costs and amortization. Research and development expenses include all items directly involved with software development and development of the CVD Project, including salaries and related benefits. All third party assistance or tax credits received in connection with research and development have been disclosed and credited against costs to bring them to a net total.

Results of Operations

Six Month Period Ended June 30, 2000 Compared With Six Month Period Ended June 30, 1999

At the beginning of 2000, management made a decision to discontinue selling pre-owned semiconductor equipment through the Corporation's Xylaur division. Although this had provided a substantial revenue stream in the past, it was viewed as a declining market with shrinking margins and represented a significant drain on cash resources.

Management focused on the creation of a substantial and dependable revenue stream from software sales to major customers in the telecommunications industry and to ISPs, and took steps to phase out its dependence on consulting work. By the end of the period, the Corporation announced it had signed a multi-year contract with Nortel Networks Inc. to license its Passwerks® Privilege Server software to Nortel for sales to Nortel customers around the world. During the period from April to June, the Corporation began intensive work to integrate Passwerks® with Nortel's DMS telecommunication switch technology.

Revenue: Total revenues for the first six months of 2000 totaled \$133,898, compared with \$1,212,308 in the same period of 1999. The decision to cease selling pre-owned semiconductor equipment and to phase out consulting work affected revenues during this period.

Virtually all the 2000 revenue was from consulting and software support and totaled \$131,070. Last year, consulting and support provided revenue of \$261,823 during the same period. In 2000, management felt it was essential to have staff dedicated to aligning Passwerks® with the Nortel technology to ensure profitable sales in future.

Product sales revenue was only \$2,828 during the first two quarters of 2000, as compared with \$950,485 during the same period last year. However, in 1999 a total of \$920,755 of the revenue was from sales of pre-owned semiconductor equipment with low margin, which was discontinued in 2000.

Cost of Projects: Cost of consulting projects in the first six months of 2000 averaged only 10% of revenues, which was a significant improvement over 83% during the same period in the previous year. Direct product costs in 2000 were \$6,560 but included a correction from an earlier period that affected the margin. In 1999, product costs averaged 65% of revenues, but included a much greater proportion of sales of semiconductor equipment that had a lower profit margin than sales of software products. Overall, cost of projects was 15% of 2000 revenues, compared to 69% in 1999.

Gross Profit: Gross profit was \$114,322 or 85.4% of revenues for the first six months of 2000, a significant improvement from \$378,108 or 31.1% of revenues for the previous year.

Advertising and Promotion Expenses: Expenditures on advertising and promotion were \$11,011 in 2000, compared to \$1,220 during the same period last year.

Indirect Salaries and Benefits: Indirect salaries and related benefits totaled \$165,739 to the end of June 2000. In the same period in 1999, the cost was \$93,309. At the end of June 2000, the total non-research and development headcount was seven employees, as compared with four at that point in 1999.

General and Administrative: Total general and administrative costs were \$44,277 to June 30, 2000, as compared to \$115,270 the previous year. In 1999, the Corporation had cut its discretionary spending to a bare minimum at the end of March in the face of a severe financial crisis. At the end of June 1999, the total had included the higher level of spending that had occurred during the first quarter of the 1999 fiscal year. The spending restrictions continued through the end of June of 2000.

Amortization: Total depreciation in the first six months of 2000 was \$8,785 compared to \$11,254 in the same period in 1999. This reflected no capital spending during the year 1999 because of the spending restrictions, and only \$1,380 during the first half of 2000.

Research and Development: Total expenditure on research and development of software and the CVD Project was \$325,162 in 2000, compared with \$379,527 in 1999. In 2000, support totaling \$51,321 was received from the National Research Council and, in the first six months of 1999, the National Research Council and the Canada-Israel Industrial Research and Development Foundation contributed amounts of \$35,844 and \$220,781, respectively. No scientific research and development tax credits were accrued as the Corporation's migration to the CDNX in October, 2000 may affect the Corporation's ability to recover these tax credits. The Corporation's net investment in research and development was \$273,931 in 2000 and \$122,903 in 1999.

Fiscal Year Ended December 31, 1999 Compared With Fiscal Year Ended December 31, 1998

1999 was a year of special challenges for the Corporation. At the end of the first quarter, it was faced with a financial crisis when a loan guarantee was not renewed and the Corporation's bank called its operating loan. Management

immediately cut staffing by over 60% and took steps to reduce other fixed costs dramatically. The remaining employees were each given a mandate to maximize revenues and keep operating costs to a bare minimum. Special credit terms were negotiated with the bank and other major creditors, initially on a month-to-month basis.

During the remainder of the year, staff delivered on their mandate with the result that sales revenues rose 23% over 1998 and total operating costs were lowered by nearly 70%.

Revenue: Revenues for the 12 months of 1999 were \$1,588,846 compared with \$1,287,549 in 1998. Consulting revenues dropped to \$372,998 from \$783,717 in 1998. This was because of the closure of the Halifax consulting office as part of the downsizing, the loss of some key employees early in the year and a general slowdown during the latter part of the year because of Year 2000 concerns. Product sales revenues rose to \$1,215,848 from \$503,832 the previous year. Most of this came from pre-owned equipment sold to the semiconductor industry by the Corporation's Xylaur division. That industry had emerged from a worldwide slump that had severely limited opportunities for sales of pre-owned semiconductor equipment during 1998.

Cost of Projects: Cost of consulting projects in 1999 averaged 89% of revenues, which was the same as in the previous year. Direct product costs averaged 75%. That was much higher than the 44% in 1998, as a greater proportion of 1999 revenues came from sales of semiconductor equipment that had a much lower profit margin than sales of software products. Overall, cost of projects was 79% of 1999 revenues, compared to 71.5% in 1998.

Gross Profit: Gross profit was \$339,676 or 21% of revenues in 1999. This compared with \$366,340 or 28.5% of revenues for the previous year.

Advertising and Promotion Expenses: Only \$398 was spent on advertising and promotion during 1998 in light of the financial crisis the Corporation was facing.

Indirect Salaries and Benefits: Non-research and development staff headcount was reduced from 18 to nine at the end of the first quarter of 1999 in order to deal with the financial crisis. Total indirect salaries and benefits in 1999 were \$346,483, compared with \$557,701 in 1998.

General and Administrative: All discretionary general and administrative spending was slashed at the end of the first quarter of 1999, and later expenditures were strictly controlled. Total expenditures in 1999 totaled \$139,356, while in the previous year the total had been \$602,106. This was a reduction of nearly 77%.

Amortization: Total depreciation in 1999 was \$21,220 compared to \$39,787 the previous year. This reflected capital spending of only \$12,100 in 1998 and none in 1999 because of the spending restrictions.

Write-off of Goodwill: ASG acquired the small Ontario-based software development company, Amdur & Associates Inc., in October, 1998 that resulted in goodwill of \$54,606. In June of 1999, the assets and liabilities associated with Amdur & Associates Inc. were sold in exchange for the cancellation of 1,500,000 Common Shares and the rights to receive the proceeds from the sale of an additional 1,000,000 Common Shares held by a shareholder. The \$54,606 of goodwill was later written off to expense.

Research and Development: Expenditures on research and development of software were eliminated by the end of March 1999. Research and development on the CVD Project was suspended at the end of April, 1999. Total spending on research and development during the year was only \$175,352 in 1999, compared with \$1,059,163 in 1998. However, support was received from the National Research Council and the Canada-Israel Industrial Research and Development Foundation during the early part of 1999 in the amounts of \$35,844 and \$41,975, respectively. In the previous year, they had contributed \$173,709 and \$100,025 respectively. Scientific research and development tax credits were also recovered that totaled \$159,300 in 1999 and \$463,394 in 1998. This brought the Corporation's net investment in research and development to negative \$61,767 in 1999 from \$322,035 in 1998.

Fiscal Year Ended December 31, 1998 Compared With Fiscal Year Ended December 31, 1997

Revenue: Revenues for the 12 months of 1998 were \$1,287,549 compared with \$1,360,966 in 1997. Consulting revenues increased to \$783,717 from \$714,508 in 1997, following the opening of a new consulting office in Halifax, Nova Scotia. Consulting revenue did not reach the projections for the year however, primarily because of difficulties in penetrating the Nova Scotia market. Most of the increased revenues came from consulting opportunities in Bermuda. Product sales revenues in 1998 totaled \$503,832, down from \$646,458 the previous year. The decline was

due in part to the loss of a substantial order expected from a large United States corporation with whom the Corporation had completed a pilot project. The Xylaur division's revenue stream was affected by adverse conditions in the semiconductor industry. That industry went into a worldwide slump that severely limited opportunities for sales of pre-owned equipment.

Cost of Projects: Cost of consulting projects averaged 89% of revenues, which was higher than the previous year because of additional consulting staff and related overheads. Direct product costs at 44% were lower than in 1997, as a greater proportion of the 1998 revenues came from sales of software products, which had a high profit margin. Overall, cost of projects was 71.5% of 1998 revenues, compared to nearly 74% in 1997.

Gross Profit: Gross profit was \$366,340 or 28.5% of revenues in 1998. This compared with \$356,832 or 26% of revenues for the previous year.

Advertising and Promotion Expenses: Spending on advertising and promotion in 1998 dropped to \$72,320 from \$122,994 in 1997. In 1997, the Corporation spent \$29,391 to design new advertising material, \$26,302 on trade shows and \$4,350 to develop its Web Site. During 1998, cash flow was much tighter, resulting in decisions not to invest in additional advertising design, attendance at trade shows or further Web Site development.

Indirect Salaries and Benefits: Indirect salaries and benefits totaled \$557,701 in 1998, compared to \$831,935 in 1997, a reduction of 33%. During 1998, the Corporation reduced its spending on non-research and development staff and put more of its resources into research and development salaries. Research and development salaries and benefits increased by 53%.

General and Administrative: General and administrative expenses were \$602,106 in 1998, up from \$488,600 the previous year. Increased spending included the hiring of consultants to assist with human resources and public relations matters, as well as for legal services, interest expense and bank charges. Audit expenses were down, following completion of the initial public offering in 1997 that had involved more than one audit firm.

Amortization: Total depreciation in 1998 was \$39,787 compared to \$22,177 the previous year. This reflected capital investment in furniture, computers and other equipment of \$12,100 in 1998 and \$385,076 in 1997.

Research and Development: Total expenditure on research and development of software and the CVD Project was \$1,059,163 in 1998 compared with \$853,512 in 1997. Support was received from the National Research Council and the Canada-Israel Industrial Research and Development Foundation in the amounts of \$173,709 and \$100,025 respectively in 1998, and \$118,381 and \$266,000 respectively in 1997. Scientific research and development tax credits were also recovered that totaled \$463,394 in 1998 and \$245,634 in 1997, bringing the Corporation's net investment in research and development to \$322,035 in 1998 and \$223,497 in 1997.

Consulting and Advisory Services re Equity Restructuring: In 1997, the Corporation issued 50,000 common share options to employees for services rendered, and 2,500,000 common shares to third parties for consulting and advisory services. These were expensed as a non-operating item for an amount of \$300,000.

Liquidity and Capital Resources

The Corporation's current assets of over \$1.8 million at June 30, 2000, including cash and short term investments of nearly \$1.5 million, exceeded its current liabilities of \$0.5 million. This provided a working capital surplus of \$1.3 million, which was a significant improvement from December 31, 1999, at which time there was a working capital deficit of \$0.3 million.

The improvement in working capital was the result of two private placements completed in the first six months of 2000. A private placement of 1,000,000 units, each unit consisting of one common share and one common share warrant was completed on March 15, 2000 for gross proceeds of \$0.25 million. After costs, this private placement contributed \$0.24 million to working capital. On June 21, 2000, the Corporation completed a private placement of 1.4 million special warrants, each special warrant consisting of one common share and one common share purchase warrant, for gross proceeds of \$2.1 million. After costs, the private placement contributed \$1.8 million to improve working capital. A second phase of the private placement of 600,000 Special Warrants was concluded on July 5, 2000 and contributed net proceeds of approximately \$0.8 million.

In addition, during the first half of 2000, seven employees and three directors exercised a total of 2,121,070 share options at an average exercise price of \$0.068 that contributed an aggregate of \$0.14 million to working capital.

Previous Financings

1997 Private Placement and Initial Public Offering. The Company generated net cash proceeds from a private placement in early 1997 and from its initial public offering in August 1997 of \$1.5 million.

1998 Private Placement: In the first quarter of 1998, the Corporation issued a private placement consisting of 375,000 special warrants at \$0.40 per special warrant for net proceeds of \$0.14 million. In August of 1999, the special warrants were exercised and the Corporation issued 375,000 common shares and 375,000 common share purchase warrants which entitled the holder to acquire an additional common share for a period of two years at a price of \$0.55 per share. The warrants expired in January, 2000.

1998 Acquisition of Amdur & Associates Inc.: In October 1998, the Corporation issued 3,500,000 common shares valued at \$0.5 million in order to acquire 100% ownership of an Ontario-based software development company, Amdur & Associates Inc. In addition to acquiring senior programming expertise, Amdur & Associates Inc. also held much-needed cash of \$0.4 million, which was later used to fund the ongoing needs of Amdur as well as those of the Corporation.

Capital Requirements

At present, the Corporation is using its working capital to fund ongoing operations. It expects to consistently generate a positive cash flow by the second quarter of 2001. The present level of capital on hand is considered adequate to enable it to expand operations by adding sales and software development staff, upgrade its fixed asset infrastructure and fund up to \$0.5 million of research and development work through its subsidiary, Prosensys, during the next six to eight months. The Corporation's capital expenditures are expected to be approximately \$0.3 million during the remainder of the current fiscal year that ends on December 31, 2000. The majority of these expenditures will be made to restore and upgrade the Corporation's computer infrastructure and to equip an effective sales and marketing organization.

The Corporation currently generates revenue from consulting opportunities and receives monthly revenues from existing software maintenance contracts with NBTel and the Province of New Brunswick. The Corporation expects to receive regular quarterly revenue beginning in the second quarter of 2001 from a three-year renewable licence agreement with Nortel Networks Inc. Although the Corporation is confident of both the adequacy of its software and of Nortel's capability to market it, there is no certainty on the timing and amounts the Corporation will receive from Nortel over the next eight months.

The Corporation has entered into discussions with potential outside investors to ensure it can source additional capital, should it be needed, if there is a delay in the flow of license revenues expected from Nortel in the second quarter of 2001. Upon the start of license revenues, current projections indicate the Corporation will be able to fund its ongoing needs from working capital generated from operations.

Management estimates that the Corporation's present cash will provide the Corporation with sufficient liquidity to fund capital expenditures, short-term operating losses and working capital requirements to at least the end of March, 2001. The Corporation can give no assurance in this regard and such estimate is subject to change upon completion of a more detailed business plan. Thereafter, the Corporation may require additional financing. The extent of additional financing required will depend upon the rate of expansion and the success of the Corporation's business.

If the Corporation's plans change, the assumptions upon which the Corporation's plans are based prove inaccurate, the Company expands or accelerates its business plan or determines to consummate new acquisitions, the foregoing sources of funds may prove insufficient to meet the Corporation's needs, and the Corporation may be required to seek more additional financing than is currently expected. Additional sources of financing may include public equity or debt financing, capitalized leases and other financing arrangements.

The Corporation can give no assurances that additional financing will be available to it or, if available, that such additional financing can be obtained on a timely basis or on acceptable terms. Failure to obtain such financing could result in the delay or abandonment of some or all of the Corporation's development and expansion plans and

expenditures, which would have a material adverse effect on the Corporation's business, financial condition and results of operations. See "Risk Factors".

CONSOLIDATED CAPITALIZATION

The following table sets forth the capitalization of the Corporation as of December 31, 1999 and August 31, 2000 as well as the pro forma capitalization of the Corporation as of August 31, 2000 after giving effect to the sale of the Special Warrants by the Corporation and the application of the net proceeds as described under "Use of Proceeds". This table should be read in conjunction with the financial statements of the Corporation and notes thereto included elsewhere in this prospectus.

	<u>Outstanding as at December 31, 1999</u>	<u>Outstanding as at August 31, 2000</u>	<u>Outstanding as at August 31, 2000 after giving effect to the exercise of Special Warrants ⁽¹⁾</u>
Long-term debt	117,537	41,472	41,472
Shareholders' Equity (Deficiency):			
Common shares	2,281,745	2,688,782	5,278,782
Special Warrants	-	2,590,000	-
Contributed surplus	209,015	209,015	209,015
Deficit	<u>(2,837,468)</u>	<u>(3,433,741)</u>	<u>(3,433,741)</u>
Total shareholders' equity (deficit)	<u>(\$ 346,708)</u>	<u>\$ 2,054,056</u>	<u>\$ 2,054,056</u>

Note:

- (1) Excludes the exercise of the Compensation Options and the Warrants. In the event of the exercise of the Compensation Options or the Warrants, an additional 200,000 or 2,200,000 Common Shares would be issued and outstanding, respectively.

USE OF PROCEEDS

The net proceeds to the Corporation from the issuance and sale of the Special Warrants after deducting expenses including the Agent's fee and commission, were \$2,590,000, which are being applied as follows (i) approximately \$300,000 for capital expenditures to upgrade computer infrastructure and equip a sales and marketing organization; (ii) approximately \$500,000 will be loaned by the Corporation to its subsidiary, Prosensys, to fund capital and working capital requirements for the CVD Project; and (iii) the balance of the net proceeds for general working capital purposes.

DILUTION

The following table sets out certain information as at August 31, 2000 relating to the dilution of the Common Shares after giving effect to the issue and distribution of the Common Shares to be issued upon exercise of the Special Warrants. The dilution table assumes that neither the Warrants nor the Compensation Options are exercised.

	<u>Per Share</u>
Purchase Price	\$ 1.50
Net tangible book value per Common Share before the offering	\$ (0.03)
Increase in net tangible book value attributable to the offering	<u>\$ (0.13)</u>
Net tangible book value per Common Share after the offering and exercise of the Special Warrants	\$ 0.10
Dilution to investors	<u>\$ 1.40</u>
Dilution as a percentage of the purchase price	93.3%

DESCRIPTION OF SHARE CAPITAL

The Corporation's authorized capital consists of an unlimited number of Common Shares of which 19,512,517 were issued and outstanding as at August 31, 2000. Each Common Share entitles the holder thereof to one vote at meetings of the shareholders of the Corporation and to receive dividends if, as and when declared by the board of directors of the Corporation. Holders of the Common Shares participate equally in any distribution of the assets of the Corporation upon its liquidation, dissolution or winding-up. The Common Shares do not have any pre-emptive rights and are not convertible or exchangeable into any other shares or securities of the Corporation and do not have any redemption, sinking fund or purchase provisions.

The Corporation intends to submit an application to the Ontario Securities Commission to obtain approval for the cancellation of 1,000,000 Common Shares. In June 1999, the Corporation received the rights to the proceeds from the sale of these shares as part of a transaction involving the sale of a business that the Corporation did not intend to develop. It has since been determined that these shares should be cancelled for no proceeds. The Corporation has submitted an application to the Ontario Securities Commission for approval to cancel these shares.

DIVIDEND RECORD AND POLICY

To date, the Corporation has not declared or paid any dividends to its shareholders and does not foresee the declaration or payment of dividends in the near future. The decision to pay dividends in the future will be made by the board of directors and will depend upon the financial condition, capital requirements and earnings of the Corporation, as well as other factors that the board of directors may deem relevant.

PRIOR SALES

Other than the issuances of the Special Warrants and the Compensation Options, the following are the only transactions involving the sale of securities by the Corporation during the 12-month period ended September 15, 2000.

- On March 10, 2000, the Corporation issued 1,000,000 units for gross proceeds of \$250,000. Each unit consists of one Common Share and one-half of one Common Share purchase warrant. Each whole warrant is exercisable to purchase one Common Share for \$0.50 at any time up to 4:00 p.m. (Atlantic time) on August 31, 2001.
- On July 10, 2000, the Corporation issued 16,447 Common Shares, at a price of \$1.52 per share, to the Government of the Province of New Brunswick to retire indebtedness of approximately \$25,000 owed by the Corporation.
- Commencing September 15, 1999, the Corporation granted stock options to purchase a total of 2,092,737 Common Shares at exercise prices ranging from \$0.03 to \$2.00 per share to directors, officers and key contributors pursuant to its stock option plan.

PRICE RANGE AND TRADING VOLUME OF COMMON SHARES

The outstanding Common Shares are listed on the Canadian Venture Exchange Inc. (“CDNX”) under the trading symbol “YGT”. Prior to October 2, 2000, the outstanding Common Shares were quoted on the Canadian Dealing Network Inc. (“CDN”) under the quotation symbol “ASGT”. The following table sets forth the reported high and low closing prices and trading volume of the Common Shares on CDNX and CDN for the periods indicated:

	<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
2000	October (to October 16)	\$2.10	\$1.25	239,725
	September	2.15	1.25	510,755
	August	1.70	1.25	433,842
	July	2.55	1.60	472,610
	Second Quarter	3.00	1.45	4,842,117
	First Quarter	3.40	0.05	8,419,535
1999	Fourth Quarter	0.10	0.01	448,000
	Third Quarter	0.06	0.01	67,990
	Second Quarter	0.10	0.03	304,000
	First Quarter	0.15	0.10	333,000
1998	Fourth Quarter	0.25	0.05	864,972

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

On September 16, 1990, Pieter E. Natte, the Chairman, Chief Executive Officer and President of the Corporation, made a loan to the Corporation in the principal amount of \$30,000. At the time the loan was made, the Corporation was experiencing severe financial difficulties. There were no set terms of repayment for the loan. Interest was accrued at a rate of 1% per month on \$30,000 of the balance outstanding at any time, while the remaining balance was non-interest bearing. The Corporation repaid all amounts owing under the loan on September 16, 2000.

MATERIAL CONTRACTS

Except for the contracts entered into in the ordinary course of business, the only material agreements or other contractual agreements entered into by the Corporation during the past two years are:

- (a) the Agency Agreement described under “Private Placement”; and
- (b) the Nortel Agreement described under “Business of the Corporation – Passwerks[®] Privilege Server”.

A copy of the Agency Agreement may be examined during normal business hours at the principal office of the Corporation at 8 Garland Court, Fredericton, New Brunswick E3B 6C2 at any time during the course of the distribution of the securities offered hereby and for a period of thirty (30) days thereafter.

PRIVATE PLACEMENT

Special Warrants

On June 21 and July 5, 2000, the Corporation issued and sold 1,400,000 and 600,000 Special Warrants, respectively, for a total of 2,000,000 Special Warrants (the “Special Warrants”) pursuant to prospectus exemptions applicable in the jurisdiction of residence of subscribers for the Special Warrants. The Special Warrants were sold under the terms of a subscription agreement between the Corporation and each purchaser and an agency agreement between the Corporation and Goepel McDermid Inc. (the “Agent”) dated June 21, 2000, as amended on July 5, 2000 (the “Agency Agreement”), for the price of \$1.50 per Special Warrant (the “Issue Price”) for aggregate proceeds of \$3,000,000. The Issue Price was negotiated between the Corporation and the Agent.

Each Special Warrant entitles the holder to receive, for no additional consideration, one unit (“Unit”) of the Corporation consisting of one Common Share and one Common Share purchase warrant (“Warrant”), subject to adjustment as described below.

The Special Warrants expire at 5:00 p.m. (Toronto time) (the “Expiry Time”) on the date (the “Expiry Date”) which is the earlier of (i) five (5) business days after the date on which receipts are issued for this prospectus by the securities regulatory authorities in each of the provinces of Ontario and New Brunswick (the “Qualifying Provinces”) and (ii) June 21, 2001. Any Special Warrants not exercised by the Expiry Time on the Expiry Date are void and of no value. If the Corporation has not received a receipt for this prospectus from the securities regulatory authorities in each of the Qualifying Provinces by 5:00 p.m. (Toronto time) on October 19, 2000 (the “Qualification Deadline”), each Special Warrant exercised or deemed to be exercised thereafter shall entitle the holder thereof to receive a Unit consisting of 1.1 Common Shares (in lieu of one Common Share) and one Warrant.

Warrants

Each whole Warrant will entitle the holder thereof to purchase one Common Share at a price of \$2.00 per share at any time from the date of issue until 5:00 p.m. (Eastern time) on June 21, 2002 (the “Expiration Date”).

The certificates representing the Warrants (the “Warrants Certificates”) will provide that on subdivision or consolidation of the Common Shares, the number of Common Shares issuable on the exercise of the Warrants and the exercise price of the Warrants will be adjusted proportionately. In the event of any reclassification or change of the Common Shares or consolidation, amalgamation, arrangement or merger of the Corporation or any transfer of its undertaking or assets as an entirety, a holder of Warrants will be entitled to receive the kind and amount of shares and other securities or property which he or she would have been entitled to receive as a result of such event if, on the effective date thereof, he or she had been the registered owner of the number of Common Shares to which he or she was theretofore entitled upon exercise. The Warrant Certificates will provide for the adjustment of the exercise price of the Warrants in certain instances, including where there is a stock dividend or specified rights offering of Common Shares or other participating shares or other specified distribution to the holders of Common Shares.

Compensation Options

The Corporation agreed to: (i) pay to the Agent a fee of \$30,000 (plus GST), (ii) pay to the Agent a cash commission equal to 6% of the gross proceeds derived by the Corporation from the sale of the Special Warrants (\$180,000), (iii) reimburse the Agent for reasonable out-of-pocket costs and expenses including legal fees to a maximum of \$50,000 (plus disbursements and GST), and (iv) to issue to the Agent compensation warrants (“Compensation Warrants”) in an amount equal to 10% of the Special Warrants issued in consideration for its services in relation to the issuance and sale of the Special Warrants. The 200,000 Compensation Warrants issued to the Agent entitle it to receive, without payment of additional consideration, options (the “Compensation Options”) entitling the Agent to purchase up to 200,000 Units at the Issue Price at any time or times until 5:00 p.m. (Toronto time) on June 21, 2002. This prospectus qualifies the distribution of one-half of the Compensation Options.

RISK FACTORS

In evaluating the Corporation and its business, prospective investors should consider carefully the following factors in addition to the other information contained in this prospectus and incorporated by reference herein.

Lack of Industry-Wide Corporate and Brand Presence

Although the Corporation has been operating in the commercial network security market and the semiconductor equipment market since 1992, it does not have a well-known name, nor have any of its products been branded sufficiently to create industry-wide awareness. Many of the Corporation’s current and potential competitors have greater name recognition, larger installed customer bases and significantly greater financial, technical and marketing resources than the Corporation. As a result, competitors may be able to adapt more quickly to new or emerging technologies or changes in customer requirements or to devote greater resources to the promotion and sale of their products.

Unpredictability of Operating Results

The Corporation's results of operations may be unpredictable from quarter to quarter as a result of factors that include market acceptance of the Corporation's products, fluctuations in the development and growth of the commercial network security industry in general, the timing of orders and shipments of products, the introduction of new products by the Corporation or the introduction or the announcement of competitive products. In addition, a substantial portion of the Corporation's sales often occurs during the last few weeks of each quarter due to customer purchasing cycles. Therefore, delays in orders or shipments are likely to result in revenue not being recognized until the following quarter. The Corporation's current and planned expense levels are based in part on its expectations of future sales, and as a result, net income for a given period could be disproportionately affected by any reduction in sales. There can be no assurance that the Corporation will be able to achieve significant sales of products in the future or that the level of sales in the future will not decrease from past levels. There can be no assurance that the Corporation's sales or operating results will meet the expectations of stock market securities analysts and investors.

Management of Growth

Rapid growth of the Corporation has the potential to place a significant strain on the Corporation's management, operational and financial resources. The Corporation anticipates its operating expenses and staffing levels to increase in the future. To manage its growth, the Corporation must expand its operational, administrative and technical capabilities and manage its employee base while effectively managing both internal and external relationships. There can be no assurance that the Corporation will be able to manage its expanding operations effectively. Failure of the Corporation to implement cohesive management and operational systems, add resources on a cost-effective basis, or properly manage its growth could have an adverse effect on the Corporation's business and results of operations.

Competition

The market for network security products and services and semiconductor equipment and processes is intensely competitive, rapidly evolving and characterized by frequent technological change. The Corporation expects competition to persist and intensify in the future. The Corporation's current competitors in the single sign-on and access control markets include Computer Associates International, Inc. (including its subsidiary, Platinum Technology Inc., Evidian (formerly BullSoft - a Groupe Bull Company) and Axent Technologies Inc. The Corporation's Internet content management product faces competition from WebSense Inc, N2H2 Inc, and X-Stop. In addition, companies which are considered primary customers (such as Nortel Networks Inc., Lucent Technologies, Inc., Siemens Information and Communications Networks, Inc. and Alcatel Networks Corporation) could also emerge as competitors of the Corporation if they elect to internally develop integral security components rather than out-source.

Certain of the Corporation's competitors may determine, for strategic reasons, to consolidate, substantially lower the price of their network security products or "value-bundle" their products with other products, such as hardware products or other enterprise software products. In addition, current and potential competitors have established or may establish financial or strategic relationships among themselves or with existing or potential customers, resellers or other third parties. These circumstances may result in the ability of competitors to provide similar products or services at lower prices than the Corporation is able to offer.

The CVD Project also faces potential competition by manufacturers of sensing equipment, as well as OEMs and SEMs. Potential competitors include MKS Instruments Inc., On-Line Technologies Inc., ATMI Inc., INFICON, Chemical Detection Technology, Inc., and SVG Inc. Without exception, these companies have broader name recognition, larger installed customer bases and significantly greater financial, technical and marketing resources than the Corporation

Competition could also increase if new companies enter the market or if existing competitors expand their product lines. An increase in competition could result in price reductions and loss of market share for the Corporation. Such competition and any resulting reduction in pricing and gross margins could have a material adverse effect on the Corporation's business, financial condition and results of operations.

There can be no assurance that the Corporation's competitors will not develop network security products using approaches substantially similar to or different from the Corporation's. These products may be more effective market

solutions than the Corporation's current or future products or technologies, and the possibility exists that the Corporation's products could be rendered obsolete by such developments.

Risk Associated with Network Security Market

The market for the Corporation's products is constantly evolving. The rapid development of the Internet and enterprise-wide computing has increased the vulnerability of proprietary information to access by unauthorized persons and has, in recent years, increased demand for computer and network security products. However, there is no assurance that demand for network security products will either continue at current levels or increase. Moreover, because the market for network security products is young, relatively speaking, it is difficult to assess the size of this market and the product features and prices, the optimal distribution strategy and the competitive environment that will develop in this market. Declines in demand for network security products, whether as a result of technological change, the public's perception of the need for network security products, developments in the hardware and software environments in which these products operate, general economic conditions or other factors could have a material adverse effect on the Corporation's business, financial condition and results of operations.

Dependence on Telecommunications Infrastructure, the Internet and Intranets

The success of the Corporation's primary product, Passwerks® Privilege Server, and of the Corporation's other security and Internet products, including its Internet content management products, depends in large measure on the continued growth of telecommunications networks and the Internet and Intranets as communications mediums and commercial tools. Because the use of the Internet for commercial purposes is relatively new and is still evolving, there can be no assurances that it will achieve widespread acceptance as a commercial marketplace. The Corporation's business, financial condition and growth strategy may be materially adversely affected if telecommunications infrastructures fail to proliferate, or if the Internet does not become a viable commercial marketplace.

Need for Additional Financing

The Corporation believes that, subsequent to the offering, it has sufficient cash and borrowing capacity to pursue its activities. However, it is possible that the proceeds of the offering may prove insufficient for the Corporation's purposes. There can be no assurance that additional financing will be available to the Corporation on acceptable terms, or at all. Such financing, if available, might have the effect of diluting the holdings of the existing shareholders. If adequate funds are not available, the Corporation may need to eliminate certain planned expenditures.

Dependence on Key Personnel

The Corporation's success depends, in large measure, on its ability to attract and retain highly qualified scientific and technical management and marketing personnel. In particular, the availability of skilled scientific and technical personnel having expertise in UNIX TCP/IP networking and security is of importance and such expertise may be limited in certain geographic markets. As well, the principal scientist for the CVD Project possesses specific industry knowledge, the loss of which could have detrimental effects on the CVD Project. Although the Corporation maintains executive life insurance on its President, the loss of the services of the President or the Chief Technical Officer could have a material adverse effect on the Corporation. Competition for such personnel is intense and there is no assurance that the Corporation will be able to attract and retain all personnel necessary for the development and operation of its business.

Dependence on Resellers and Distributors

The Corporation distributes its products directly and, where appropriate, through a limited channel of resellers. The Corporation anticipates that it will continue to rely on relationships with various types of sales channels for sales of its products in the future. The success of the Corporation will therefore be dependent, in part, on its ability to maintain relationships with existing channel sales partners, as well as its ability to develop additional relationships. The loss of significant channel sales partners, or the inability to develop additional relationships with other resellers and distributors could have an adverse effect on the Corporation.

Limited Protection of Intellectual Property and Proprietary Rights

The Corporation relies on trademark, copyright and trade secret laws, employee and third-party non-disclosure agreements and other methods to protect its proprietary rights. There can be no assurance that any future patent applications will be granted in respect of the Corporation's technology or that any future patents will not be challenged, invalidated or circumvented or that the rights granted under such patents will provide competitive advantages to the Corporation. There can be no assurance that the Corporation's trade secrets or non-disclosure agreements will provide meaningful protection of the Corporation's proprietary information. Furthermore, there can be no assurance that others will not independently develop similar technologies or duplicate any technology developed by the Corporation or that the Corporation's technology will not infringe upon patents or other proprietary rights owned by others.

Effect of Government Regulation on Technology Exports

The Corporation's sales and operations outside of the United States and Canada may be subject to risks such as the imposition of governmental controls, export licence requirements, restrictions on the export of critical technology, trade restrictions and changes in tariffs. In particular, because of governmental controls on the export of Encryption technology, the Corporation is unable to export its most robust network security products. As a result, foreign competitors that face less stringent controls on their products may be able to compete more effectively than the Corporation in the global network security market. There can be no assurance that these factors will not have a material adverse effect on the Corporation's business, financial condition and results of operations.

Potential Acquisitions

In the normal course of its business, the Corporation evaluates potential acquisitions of businesses, products and technologies that could complement or expand the Corporation's network security business. To date, the Corporation has only acquired one business, Amdur & Associates Inc. If the Corporation were to identify other appropriate acquisition candidates, there is no assurance that the Corporation would be able to successfully negotiate the terms of any such acquisition, finance such acquisition and integrate such acquired business(es), products or technologies into the Corporation's existing business and operations. Furthermore, the integration of an acquired business could cause a diversion of management's time and resources. There can be no assurance that a given acquisition, when consummated, would not materially adversely affect the Corporation's business, financial condition and results of operations. If the Corporation proceeds with one or more significant acquisitions in which the consideration consists of cash, a substantial portion of the Corporation's available cash could be used to consummate the acquisition. If the Corporation consummates one or more significant acquisitions in which the consideration consists of Common Shares, or is financed with the proceeds of the issuance of additional Common Shares, shareholders of the Corporation could suffer a significant dilution of their interests in the Corporation. See "Use of Proceeds".

International Sales and Currency Exposure/Exchange Rate Risk

The Corporation currently markets and will continue to market its products for sale throughout the world. Sales of the Corporation's products outside of Canada are usually made in United States dollars. If a large portion of the Corporation's revenues are invoiced in United States dollars or other foreign currencies and a large portion of its expenses are incurred in Canadian dollars, increases in the value of the Canadian dollar relative to the United States dollar or other foreign currencies could adversely affect the Corporation's results of operations. The Corporation has not used currency-hedging strategies to date. However, the Corporation will take steps to hedge foreign currency risks in the future, if appropriate. There is no assurance that currency-hedging strategies, if implemented, will be successful in mitigating currency exchange risks.

Dilution

Based on the net tangible asset value of the Corporation as at December 31, 1999, assuming the exercise or deemed exercise of each Special Warrant into one Common Share but before giving effect to any other adjustments, investors will suffer an immediate dilution per Common Share of \$1.40 representing dilution of 93.3% of the purchase price.

LEGAL PROCEEDINGS

The Corporation is not a party to any material legal proceedings and, to the best of management's knowledge, no such proceedings or actions by or against the Corporation have been threatened or contemplated.

LEGAL MATTERS

Certain legal matters in connection with the issuance and sale of Special Warrants and the distribution of the Units upon the exercise or deemed exercise of the Special Warrants will be passed upon on behalf of the Corporation by Wildeboer Rand Thomson Apps & Dellelce, LLP, and on behalf of the Agent by Cassels Brock & Blackwell LLP. As of September 20, 2000, partners and associates of Wildeboer Rand Thomson Apps & Dellelce, LLP, and Cassels Brock & Blackwell LLP owned less than 5% of the outstanding Common Shares.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of the Corporation are Ernst & Young, LLP Suite 1209, One Brunswick Square, Saint John, New Brunswick, E2L 4V1. The transfer agent for the Corporation is CIBC Mellon Trust Company, 320 Bay Street, Toronto, Ontario, M5H 4A6.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL

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

CONTRACTUAL RIGHTS OF ACTION FOR RESCISSION FOR HOLDERS OF SPECIAL WARRANTS

In the event that a holder of Special Warrants who acquires Common Shares upon the exercise of the Special Warrants 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 thereto containing a misrepresentation, such holder shall be entitled to rescission not only of the holder's exercise of its Special Warrants but also of the private placement transaction pursuant to which the Special Warrants were initially acquired, and shall be entitled, in connection with such rescission, to a full refund of all consideration paid to the Corporation on the acquisition of the Special Warrants. In the event such holder is a permitted assignee of the interest of the original Special Warrant subscriber, such permitted assignee shall be entitled to exercise the rights of rescission and refund granted hereunder as if such permitted assignee was such original subscriber. The foregoing rights are in addition to any other right or remedy available to a holder of Special Warrant under section 130 of the *Securities Act* (Ontario) or otherwise at law.

AUDITORS' REPORT

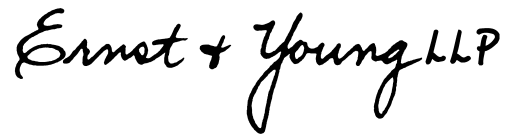
To the Directors of
Atlantic Systems Group Inc.

We have audited the amended consolidated balance sheets of Atlantic Systems Group Inc. as at December 31, 1999 and 1998 and the amended consolidated statements of income (loss) and retained earnings (deficit) and cash flows for the years ended December 31, 1999, 1998 and 1997. These amended consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these amended consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and cash flows for the years ended December 31, 1999, 1998 and 1997 in accordance with generally accepted accounting principles in Canada.

As discussed in note 14, the Corporation has amended the 1999 consolidated financial statements from those previously issued. Accordingly, our report dated February 11, 2000 on the previously issued consolidated financial statements has been withdrawn.



Chartered Accountants

Saint John, Canada,
February 11, 2000
(except as to note 14 which is as of September 21, 2000
and to note 15 which is as of October 17, 2000)

ATLANTIC SYSTEMS GROUP INC.

AMENDED CONSOLIDATED BALANCE SHEETS

	June 30		December 31	
	2000 \$ (unaudited)	1999 \$ (unaudited)	1999 \$	1998 \$
ASSETS				
Current				
Cash and short-term investments	1,453,030	60,096	36,234	290,805
Receivables [note 3]	322,322	491,246	366,816	239,531
Investment tax credits receivable	70,000	350,000	70,000	350,000
Inventory [note 4]	25,700	33,900	16,900	112,919
Prepays	9,550	15,554	2,771	12,133
	1,880,612	950,796	492,721	1,005,388
Capital assets, net of amortization [note 5]	166,874	221,896	191,716	260,839
Goodwill, net of amortization [note 13]	—	54,606	—	54,606
	2,047,486	1,227,298	684,437	1,320,833
LIABILITIES AND SHAREHOLDER'S EQUITY				
Current Liabilities				
Bank indebtedness	—	552,000	320,000	590,000
Accounts payable and accrued liabilities	194,790	631,249	296,341	675,186
Due to shareholder [note 6]	32,611	31,756	44,629	53,465
Unearned revenue	255,720	21,013	5,253	—
Current portion of long-term debt	48,397	99,778	85,497	95,233
	531,518	1,335,796	751,720	1,413,884
Long-term debt (note 7)	24,060	43,437	32,040	93,037
	555,578	1,379,233	783,760	1,506,921
Shareholders' equity				
Authorized				
Unlimited common shares				
Issued and outstanding				
Common shares [note 8]	2,663,782	2,350,510	2,281,745	2,350,510
Special warrants [note 8]	1,846,000	140,250	—	140,250
Contributed surplus [note 8]	209,015	---	209,015	---
Deficit	(3,226,889)	(2,642,695)	(2,837,468)	(2,676,848)
	1,491,908	(151,935)	(346,708)	(186,088)
	2,047,486	1,227,298	437,052	1,320,833

See accompanying notes

On behalf of the Board:

(signed) "Roy Nicholl"
Director

(signed) "Donald S. Reid"
Director

ATLANTIC SYSTEMS GROUP INC.

AMENDED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
AND RETAINED EARNINGS (DEFICIT)

	Six Months Ended June 30		Year Ended December 31		
	2000 \$ (unaudited)	1999 \$ (unaudited)	1999 \$	1998 \$	1997 \$
Revenue					
Consulting	131,070	261,823	372,998	783,717	714,508
Product sales	2,828	950,485	1,215,848	503,832	646,458
	133,898	1,212,308	1,588,846	1,287,549	1,360,966
Cost of Projects					
Consulting projects	13,016	217,765	331,660	700,784	430,454
Direct product costs	6,560	616,435	917,510	220,425	573,680
	19,576	834,200	1,249,170	921,209	1,004,134
Gross Profit	114,322	378,108	339,676	366,340	356,832
Expenses					
Advertising and promotion	11,011	1,220	398	72,320	122,994
Indirect salaries and benefits	165,739	93,309	346,483	557,701	831,935
General and administrative	44,277	115,270	139,356	602,106	488,600
Amortization	8,785	11,254	21,220	39,787	22,177
Write-off of goodwill [note 13]	—	—	54,606	—	—
	229,812	221,053	562,063	1,271,914	1,465,706
Research and development					
Research and development expenses	325,162	379,527	175,352	1,059,163	853,512
Research assistance [note 9]	(51,231)	(256,625)	(77,819)	(273,734)	(384,381)
Scientific research and development tax credits	—	—	(159,300)	(463,394)	(245,634)
	273,931	122,902	(61,767)	322,035	223,497
Income (Loss) from operations	(389,421)	34,153	(160,620)	(1,227,609)	(1,332,371)
Consulting and advisory services regarding equity restructuring	—	—	—	—	300,000
Income (Loss) before income taxes	(389,421)	34,153	(160,620)	(1,227,609)	(1,632,371)
Deferred income tax (recovery)	—	—	—	—	25,000
Net income (loss)	(389,421)	34,153	(160,620)	(1,227,609)	(1,657,371)
Deficit (retained earnings), beginning of period	(2,837,468)	(2,676,848)	(2,676,848)	(1,449,239)	208,132
Deficit, end of period	(3,226,889)	(2,642,695)	(2,837,468)	(2,676,848)	(1,449,239)
Net income (loss) per share	(.02)	⁽¹⁾	(.01)	(.07)	(.12)

See accompanying notes

⁽¹⁾ Amount is less than \$.01.

ATLANTIC SYSTEMS GROUP INC.

AMENDED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended		Year Ended		
	June 30		December 31		
	2000	1999	1999	1998	1997
	\$	\$	\$	\$	\$
	(unaudited)	(unaudited)			
Cash provided by (used in):					
Operating activities					
Net income (loss)	(389,421)	34,153	(160,620)	(1,227,609)	(1,657,371)
Add (deduct) non-cash items					
Amortization	26,222	35,356	65,536	103,615	64,716
Deferred income taxes	—	—	—	—	25,000
Write-off of goodwill [note 13]	—	—	54,606	—	—
Loss on sale of assets	—	1,897	1,897	—	—
Consulting and advisory services regarding equity restructuring [note 8]	—	—	—	—	300,000
	(363,199)	71,406	(38,581)	(1,123,994)	(1,267,655)
Net change in non-cash working capital items related to operations	(69,564)	(199,041)	(131,889)	(455,308)	439,846
	(432,763)	(127,635)	93,308	(668,686)	(827,809)
Investing activities					
Decrease in deferred development costs	—	—	—	—	41,363
Proceeds on disposal of capital assets	—	1,690	1,690	—	—
Purchase of capital assets	(1,380)	—	—	(12,100)	(385,076)
	(1,380)	1,690	1,690	(12,100)	(343,713)
Financing activities					
Advances (repayment) of bank indebtedness	—	(320,000)	(38,000)	(270,000)	590,000
Increase in investment tax credits recoverable	—	—	—	—	(74,313)
Issuance of long-term-debt	—	—	12,000	153,437	98,799
Repayment of long-term debt	(45,080)	(45,055)	(82,733)	(34,651)	(29,315)
Issuance of common shares (net of costs)	382,037	—	—	525,000	1,523,010
Issuance of special warrants (net of costs)	1,846,000	—	—	140,250	—
Increase (decrease) in due to shareholder	(12,018)	(21,709)	(8,836)	7,868	(39,666)
	1,850,939	(104,764)	(349,569)	856,904	1,478,515
Net change in cash and cash equivalents	1,416,796	(230,709)	(254,571)	176,118	306,993
Cash and cash equivalents, beginning of period	36,234	290,805	290,805	114,687	(192,306)
End of period	1,453,030	60,096	36,234	290,805	114,687

See accompanying notes

ATLANTIC SYSTEMS GROUP INC.

NOTES TO AMENDED CONSOLIDATED FINANCIAL STATEMENTS

(Balance sheet information as at June 30, 2000 and 1999 and statements of income (loss) and retained earnings (deficit) and cash flows for the six months ended June 30, 2000 and 1999 are unaudited)

1. BASIS OF PRESENTATION

Atlantic Systems Group Inc. is incorporated under the Business Corporations Act of New Brunswick. The Corporation's principal business activities consist of computer consulting and the development, sale and maintenance of security software and research and development activities relating to the semiconductor industry. The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, Amdur & Associates Inc. and Prosensys Inc. (formerly Xylaur Enterprises Limited).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, the more significant of which are outlined below.

Cash and cash equivalents

The Corporation's short-term investments are liquid money market mutual funds and, accordingly, are considered to be cash equivalents. Short term investments are recorded at cost plus accrued interest earned, which approximates current market values.

Inventory

Inventory is valued at the lower of cost and net realizable value.

Capital Assets

Capital assets are stated at cost. Amortization is calculated over the estimated useful life of the assets using the methods and rates as follows:

Office furniture and equipment	20% declining balance
Computer hardware and software	30% declining balance
Laboratory equipment	30% declining balance
Leasehold improvements	5 years straight-line

Investment Tax Credits

Investment tax credits are recognized when there is reasonable assurance the credits will be realized in the future using the cost reduction approach.

Revenue recognition

Revenue from consulting contracts is recognized using the percentage of completion method which recognizes revenue proportionately with the degree of completion of the services provided under a contract. Revenue related to direct reimbursable expenses is recorded at the actual cost incurred plus a mark up, if allowed under the terms of the contract. Revenue from the sales of security software is recognized at the time of shipment or at the time of installation if that is included in the terms of sale.

ATLANTIC SYSTEMS GROUP INC.

NOTES TO AMENDED CONSOLIDATED FINANCIAL STATEMENTS

(Balance sheet information as at June 30, 2000 and 1999 and statements of income (loss) and retained earnings (deficit) and cash flows for the six months ended June 30, 2000 and 1999 are unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research assistance

Grants and conditional grants received from government agencies or foundations in the year are recorded as a reduction of research and development expenses.

Stock-based compensation plan

The Corporation has a stock-based compensation plan as described in Note 8. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the amounts of revenues and expenses during the year. Actual results could differ from the estimates.

Income taxes

Effective January 1, 2000, the Corporation changed its policy regarding income taxes to use the liability method of income tax allocation. This change in policy was applied prospectively. There was no material effect on the financial statements due to this change in policy.

3. INVENTORY

	<u>June 30</u>		<u>December 31</u>	
	<u>2000</u>	<u>1999</u>	<u>1999</u>	<u>1998</u>
	<u>(unaudited)</u>			
	\$	\$	\$	\$
Equipment for resale	25,700	33,900	16,900	33,900
Work in process	—	—	—	79,019
	<u>25,700</u>	<u>33,900</u>	<u>16,900</u>	<u>112,919</u>

ATLANTIC SYSTEMS GROUP INC.

NOTES TO AMENDED CONSOLIDATED FINANCIAL STATEMENTS

(Balance sheet information as at June 30, 2000 and 1999 and statements of income (loss) and retained earnings (deficit) and cash flows for the six months ended June 30, 2000 and 1999 are unaudited)

4. CAPITAL ASSETS

	December 31 1999			December 31 1998		
	Cost \$	Accumulated amortization \$	Net book value \$	Cost \$	Accumulated amortization \$	Net book value \$
Office furniture and equipment	45,419	22,413	23,006	38,081	16,001	22,080
Computer hardware and software	162,598	119,423	43,175	164,198	104,531	59,667
Laboratory equipment	281,778	158,047	123,731	255,744	107,481	148,263
Leasehold improvements	3,608	1,804	1,804	3,608	1,083	2,525
Assets under capital lease	-	-	-	36,899	8,595	28,304
	493,403	301,687	191,716	498,530	237,691	260,839

	June 30, 2000 (Unaudited)			June 30, 1999 (Unaudited)		
	Cost \$	Accumulated amortization \$	Net book value \$	Cost \$	Accumulated amortization \$	Net book value \$
Office furniture and equipment	45,419	24,619	20,800	34,556	17,421	17,135
Computer hardware And software	163,978	125,640	38,338	162,598	112,940	49,658
Laboratory equipment	281,778	175,485	106,293	255,744	122,618	133,126
Lease	3,608	2,165	1,443	3,608	1,444	2,164
Capital Lease	—	—	—	36,899	17,086	19,813
	494,783	327,909	166,874	493,405	271,509	221,896

5. BANK INDEBTEDNESS

As at December 31, 1999, the Corporation had a line of credit of \$232,000 plus 75% of trade receivables to a maximum of \$90,000, bearing interest at prime plus 1.5% at year end being 8.25% (1998-8.5%). The Corporation has pledged inventory, including insurance coverage, and receivables as collateral against the indebtedness outstanding from time-to-time. As well, there is a postponement of repayment of the shareholder loans in the amount of \$30,000, life insurance on a shareholder, and a guarantee in the amount of \$232,000 from the Province of New Brunswick. As at December 31, 1999, the Corporation had not complied with certain debt covenants pertaining to the bank indebtedness as follows: working capital is to be maintained at \$200,000 and tangible net worth at \$350,000.

6. DUE TO SHAREHOLDER

Due to shareholder has no set terms of repayment. Interest is accrued at a rate of 1% per month on \$30,000 of the balance outstanding. The remainder is non-interest bearing.

ATLANTIC SYSTEMS GROUP INC.

NOTES TO AMENDED CONSOLIDATED FINANCIAL STATEMENTS

(Balance sheet information as at June 30, 2000 and 1999 and statements of income (loss) and retained earnings (deficit) and cash flows for the six months ended June 30, 2000 and 1999 are unaudited)

7. LONG-TERM DEBT

	June 30		December 31	
	2000 \$	1999 \$	1999 \$	1998 \$
	<u>(unaudited)</u>			
Province of New Brunswick, non-interest bearing loan repayable in quarterly instalments of \$12,500.	25,000	62,500	50,000	100,000
Atlantic Canada Opportunities Agency, non-interest bearing loan repayable in quarterly instalments of \$2,000.	1,900	9,900	5,900	13,900
Atlantic Canada Opportunities Agency, non-interest bearing loan repayable in quarterly instalments of \$1,875.	1,875	9,375	5,625	13,125
Atlantic Canada Opportunities Agency, non-interest bearing loan repayable in monthly instalments of \$725.	3,662	12,362	8,012	16,712
Atlantic Canada Opportunities Agency, non-interest bearing loan repayable in monthly instalments of \$1,330 beginning January 1, 2000.	40,002	48,000	48,000	36,000
Obligations under capital leases	—	1,078	—	8,533
	72,457	143,215	117,537	188,270
Current portion of long-term debt	48,397	99,778	85,497	95,233
	24,060	43,437	32,040	93,037

Estimated principal repayments over the next three years are as follows:

	\$
2001	48,397
2002	15,960
2003	8,100

Subsequent to June 30, 2000, the \$25,000 Province of New Brunswick debt was converted to 16,447 common shares.

ATLANTIC SYSTEMS GROUP INC.

NOTES TO AMENDED CONSOLIDATED FINANCIAL STATEMENTS

(Balance sheet information as at June 30, 2000 and 1999 and statements of income (loss) and retained earnings (deficit) and cash flows for the six months ended June 30, 2000 and 1999 are unaudited)

8. COMMON SHARES

Authorized
Unlimited common shares

Issued and Outstanding

	Year Ended December 31			
	1999		1998	
	Number of Shares	\$	Number of Shares	\$
Opening balance	17,500,000	2,350,510	14,000,000	1,825,510
Shares repurchased	(874,996)	(209,015)	—	—
Shares issued	375,000	140,250	3,500,000	525,000
Closing balance	17,000,004	2,281,745	17,500,000	2,350,510

(unaudited)

	Six months ended			
	June 30, 2000		June 30, 1999	
	Number of Shares	\$	Number of Shares	\$
Opening balance	17,000,004	2,281,745	17,500,000	2,350,510
Shares repurchased	(625,004)	—	—	—
Shares issued	1,000,000	237,500	—	—
Share options exercised	2,121,070	144,537	—	—
Closing balance	19,496,070	2,663,782	17,500,000	2,350,510

During the six month period ended June 30, 2000, the Corporation had the following activity relating to its capital stock:

- a) The Corporation advanced the vesting period relating to certain employee share options outstanding and granted additional options. Share options were exercised by employees and directors resulting in the issuance of 2,121,070 common shares for cash proceeds of \$144,537.
- b) The Corporation issued a private placement of 1,000,000 “units” consisting of 1,000,000 common shares and 500,000 common share purchase warrants for cash proceeds of \$250,000 less brokers commission of \$12,500. Each common share purchase warrant entitles the holder the right to purchase one common share for \$.50 per share exercisable on or before August 31, 2001.
- c) The Corporation issued 2 million special warrants under a private placement offering. Each special warrant is exercisable at no additional cost into one unit of the Corporation consisting of one common share and one common share purchase warrant. The common share purchase warrant entitles the holder the right to purchase one common share at \$2.00 per share and expires June 21, 2002.

The Corporation issued 1.4 million of the special warrants during the period for net cash proceeds of \$1,846,000.

ATLANTIC SYSTEMS GROUP INC.

NOTES TO AMENDED CONSOLIDATED FINANCIAL STATEMENTS

(Balance sheet information as at June 30, 2000 and 1999 and statements of income (loss) and retained earnings (deficit) and cash flows for the six months ended June 30, 2000 and 1999 are unaudited)

8. COMMON SHARES (continued)

During 1998 the Corporation issued 3,500,000 common shares, having a fair market value at the time of \$525,000, in exchange for 100% of the issued and outstanding shares of Amdur & Associates Inc. (see note 13). Of these shares, 1,500,000 were to be held in escrow and released to the shareholders in equal amounts in May, 1999, October, 1999 and May, 2000 subject to certain terms and conditions. In March, 1999, as a result of an internal reorganization, these shareholders were no longer employed and therefore did not meet the terms and conditions.

Effective June 24, 1999, the shares were released from escrow and the Corporation cancelled 874,996 common shares as part of a settlement agreement with former employees. An additional 625,004 shares were released from escrow and cancelled as part of the same agreement on June 24, 2000. An amount equal to the average cost of the entire 1,500,000 shares at the time (\$209,015) was charged to capital stock and credited to contributed surplus.

In 1998, the Corporation issued 375,000 special warrants at \$.40 per warrant. The special warrant provides the holder, when exercised, one "unit" of the Corporation. During 1999 all special warrants were exercised. The Corporation issued 375,000 common shares and 375,000 common share purchase warrants which entitle the holder to acquire an additional common share for a period of two years at a price of \$.55 per share. These warrants expired in January, 2000.

The Corporation has established a Stock Option Plan for its officers, directors, employees and key contributors. Under this plan 15% of the current issued and outstanding common shares (1999 – 1,700,000) have been reserved. Under the plan employees are granted options to a value equal to 10% of their previous year's salary. The exercise price of each option equals the price of the Corporation's stock on the date of the grant and an option's maximum term is 10 years. Options are normally granted on July 15 and vest equally over a three year period. In addition, the Corporation has granted options during the period to non-employee directors and new employees. The options were granted retroactive to the date of employment or election to the Board of Directors at various prices and vesting periods.

ATLANTIC SYSTEMS GROUP INC.

NOTES TO AMENDED CONSOLIDATED FINANCIAL STATEMENTS

(Balance sheet information as at June 30, 2000 and 1999 and statements of income (loss) and retained earnings (deficit) and cash flows for the six months ended June 30, 2000 and 1999 are unaudited)

8. COMMON SHARES (continued)

The Corporation has issued 1,302,606 (1999 - 1,747,676; 1998 - 1,171,350; 1997 - 830,298) options under this plan at exercise prices between \$.03 and \$2.20 per share as follows:

	December 31 1999		December 31 1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options issued and outstanding:				
Opening balance	1,171,350	\$.46	830,298	\$.50
Issued during the year	1,395,759	.03	657,874	.42
Exercised or Retracted during the year	(819,433)	.47	(316,822)	.49
Closing balance	1,747,676	.11	1,171,350	.46
Options exercisable	228,890		415,178	

(Unaudited)	June 30, 2000		June 30, 1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options issued and outstanding:				
Opening balance	1,741,676	\$.11	1,171,350	.46
Issued during the year	1,676,000	.82	—	—
Exercised or Retracted during the year	(2,121,070)	.07	(746,696)	.47
Closing balance	1,302,606	\$1.10	424,654	.43
Options exercisable	945,246		280,575	

The following table summarizes information about stock options outstanding at June 30, 2000:

Options Outstanding			Options Exercisable	
Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
350,000	9.5 years	\$.18	250,000	\$.15
128,358	7.3 years	.50	71,770	.50
100,000	7.9 years	.30	100,000	.30
78,248	8.0 years	.40	23,476	.40
646,000	9.8 years	1.92	500,000	1.90
1,302,606	9.2 years	1.10	945,246	\$1.12

Costs associated with the issuance of shares and warrants of \$308,900 (1999 - nil; 1998 - \$9,750) were charged directly against the common shares.

ATLANTIC SYSTEMS GROUP INC.

NOTES TO AMENDED CONSOLIDATED FINANCIAL STATEMENTS

(Balance sheet information as at June 30, 2000 and 1999 and statements of income (loss) and retained earnings (deficit) and cash flows for the six months ended June 30, 2000 and 1999 are unaudited)

9. RESEARCH ASSISTANCE

In February 1997, the Corporation entered into a joint agreement with Persys, a company based in Israel, and the Canada-Israel Industrial Research and Development Foundation to conduct research into technology to enable monitoring during the semiconductor fabrication process. The project required an investment of approximately \$1,460,000 to June 30, 2000 (unaudited). Assistance was provided to the Corporation by the National Research Council of \$380,000. A further \$600,000 conditional grant was provided by the Canada-Israel Industrial Research and Development Foundation shared by the Corporation (68%) and Persys (32%). The remaining \$480,000 was funded by the Corporation and Persys.

During 1999, the Corporation and Persys agreed that the Persys funding would be limited to approximately \$200,000 and any benefits derived from the sale, lease or other marketing or commercial exploration of a viable product would be the property of the Corporation.

During the period ended June 30, 2000, the Corporation received a grant from the National Research Council in the amount of \$51,231(1999 - \$35,844; 1998 - 173,709; 1997 - \$118,381) and a conditional grant from the Canada-Israel Industrial Research and Development Foundation in the amount of nil (1999 - \$41,975; 1998 - \$100,025; 1997 - \$266,000). The conditional grant is non-interest bearing and repayable at the rate of 2.5% of gross sales derived from the sale, lease or other marketing or commercial exploitation of a viable product. Any repayments of this conditional grant will be recorded against the related revenue in the year it is earned.

10. SEGMENTED INFORMATION

	June 30		December 31		
	2000 \$	1999 \$	1999 \$	1998 \$	1997 \$
Revenues	(unaudited)	(unaudited)			
ASG Product and Support	40,113	29,957	82,992	253,531	46,961
ASG Professional Services	91,517	228,783	296,840	749,965	547,316
Prosensys (Xylaur) Consulting & Sales	—	950,940	1,194,715	251,181	655,334
Prosensys (Xylaur) CVD R&D Administration	—	—	—	—	—
	2,268	2,268	14,299	32,871	11,355
	133,898	1,212,308	1,588,846	1,287,548	1,360,966
Net income (loss)					
ASG Product and Support	(139,080)	(165,897)	(36,348)	(772,954)	(566,135)
ASG Professional Services	(7,676)	(57,143)	(167,049)	(226,056)	(174,102)
Prosensys (Xylaur) Consulting & Sales	(58,476)	192,232	168,456	(138,500)	(81,201)
Prosensys (Xylaur) CVD R&D Administration	(189,180)	64,928	(69,288)	(99,540)	(142,211)
	(242,394)	33	(56,391)	9,443	(693,723)
	(636,806)	34,153	(160,620)	(1,227,607)	(1,657,372)
Identifiable Assets					
ASG Product and Support, Professional Services and Administration	1,938,11	586,636	411,240	762,820	479,342
Prosensys (Xylaur) Consulting, Sales & CVD R&D	109,368	640,662	273,197	558,013	620,301
	2,047,486	1,227,298	684,437	1,320,833	1,099,643
Capital Expenditures					
ASG Product and Support, Professional Services and Administration	1,380	109,368	—	12,100	100,339
Prosensys (Xylaur) Consulting, Sales & CVD R&D	—	—	—	—	284,737
	1,380	—	—	12,100	385,076

ATLANTIC SYSTEMS GROUP INC.

NOTES TO AMENDED CONSOLIDATED FINANCIAL STATEMENTS

(Balance sheet information as at June 30, 2000 and 1999 and statements of income (loss) and retained earnings (deficit) and cash flows for the six months ended June 30, 2000 and 1999 are unaudited)

10. SEGMENTED INFORMATION (continued)

The Corporation operates principally in four business segments previously in two divisions (ASG and Xylaur). Effective January 1, 2000 the Xylaur division assets and liabilities were transferred to the wholly owned subsidiary, Xylaur Enterprises Limited. The subsidiary name was then changed to Prosensys Inc. and operates as a separate entity. The segments are identified as follows: ASG Product and Support, ASG Professional Services, Prosensys Consulting & Sales and Prosensys CVD R&D. Sundry expenses and revenue such as interest have been classified as Administration. The ASG Product and Support segment produces and sells computer security software and provides related software support, ASG Professional Services provides computer system consulting, Prosensys Consulting and Sales provides consulting to the semiconductor industry including sales of semiconductor furnace equipment, and Prosensys CVD R&D conducts research and development of a semiconductor Chemical Vapour Deposition closed loop monitoring system.

Revenue from three customers represents \$133,898 (1999 - \$1,108,094; 1997 - \$1,063,464) (1998 - five customers represents \$1,063,464) of the Corporation's total revenues.

11. NON-CAPITAL LOSSES AND INVESTMENT TAX CREDITS (ITCs)

The Corporation earns ITCs at the rate of 35% of eligible Scientific Research and Experimental Development (SRED) expenditures. Unclaimed ITCs may be carried forward to apply against future years' federal and provincial income taxes. At December 31, 1999, the Corporation has non-refundable ITCs of approximately \$66,000 which expire beginning in 2003. The potential future tax benefit of these amounts in unclaimed ITC's have not been recognized in these financial statements.

In addition, at December 31, 1999, the Corporation has non-capital losses and Scientific Research and Experimental Development expenditures for income tax purposes of approximately \$3,490,000 available to reduce taxable income in future years. The Corporation's effective income tax rate is approximately 20% on the first \$200,000 of taxable income and 46% on any income in excess of \$200,000. The potential future tax benefits that may result from the application of these carry forward amounts have not been recognized in these financial statements. The non-capital losses, if not utilized, expire as follows:

	\$
2003	9,400
2004	1,376,900
2005	1,003,400
2006	290,000

No scientific research and development tax credits were accrued at June 30, 2000 as the Corporation's migration to the CDNX in October, 2000 may affect the Corporation's ability to recover these tax credits.

The Corporation's net investment in research and development was \$273,931 in 2000 and \$122,903 in 1999.

ATLANTIC SYSTEMS GROUP INC.

NOTES TO AMENDED CONSOLIDATED FINANCIAL STATEMENTS

(Balance sheet information as at June 30, 2000 and 1999 and statements of income (loss) and retained earnings (deficit) and cash flows for the six months ended June 30, 2000 and 1999 are unaudited)

12. FINANCIAL INSTRUMENTS

At December 31, 1999 and 1998, the Corporation's financial instruments included cash, accounts receivable, income taxes receivable and current liabilities. The Corporation has no investments in derivative financial instruments. While the Corporation sells its products to many customers, two customers represent 82% (1998 - 1 customer represents 32%) of the year end balance of accounts receivable.

Fair value of financial instruments

The carrying values of accounts receivable, income taxes receivable, income taxes recoverable and current liabilities approximate fair values because of their short-term maturity and normal credit terms. There is no market for the amounts due to shareholder, the conditional grant nor the ACOA loan and therefore it is not reasonably possible to determine a market value.

13. CORPORATE ACQUISITION

Effective October 20, 1998, the Corporation purchased all of the issued and outstanding shares of Amdur & Associates Inc., a corporation engaged in the computer system development and consulting industry. The acquisition has been accounted for by the purchase method, and the results of Amdur & Associates Inc. have been reflected in the Corporation's results from October 20, 1998. This transaction has been accounted for as follows:

	1998
	\$
Value of shares issued as consideration	525,000
Net assets acquired:	
Working capital	463,968
Computer equipment	6,426
Goodwill	54,606
	525,000

Effective June 24, 1999 the assets and liabilities associated with Amdur & Associates Inc. were sold in exchange for the cancellation of 1.5 million shares issued on its acquisition and other consideration (See note 8). The goodwill associated with Amdur & Associates Inc. was also written off as it was also determined to have no value. As part of the sale, the Corporation also received the rights to proceeds from the sale of one million common shares of the Corporation held by a shareholder, which at the time had a market value of three cents per share. Subsequent to December 31, 1999, application was made to the Ontario Securities Commission to cancel the one million common shares.

ATLANTIC SYSTEMS GROUP INC.

NOTES TO AMENDED CONSOLIDATED FINANCIAL STATEMENTS

(Balance sheet information as at June 30, 2000 and 1999 and statements of income (loss) and retained earnings (deficit) and cash flows for the six months ended June 30, 2000 and 1999 are unaudited)

14. ACCOUNTING ADJUSTMENTS

The sale of Amdur & Associates Inc. referred to in note 13 was originally recorded as a gain of \$247,385 in 1999 based on the estimated proceeds to be derived from the ultimate disposal of the underlying shares. After consultation with its external auditors, management has not determined that the gain should not have been recorded in 1999 due to the uncertainty related to the realization of the proceeds and the fact that a portion of the estimated gain arose from holding the rights to proceeds from the sale of one million of the Corporation's common shares. The Corporation had previously written off the \$247,385 in its June 30, 2000 interim financial statements. In addition, the Corporation has reclassified the credit to equity that arose on the cancellation of 1.5 million shares from deficit to contributed surplus.

The effect of these changes on the 1999 financial statements is to change income by \$247,385 from a net income of \$86,765 to a net loss of \$160,620, increase deficit by \$456,400 and increase contributed surplus by \$209,015. The effect on the June 30, 2000 interim financial statements is to decrease net loss by \$247,385, increase contributed surplus by \$290,015 and increase deficit by the same amount.

The presentation on the consolidated statements of cash flows has been amended to include changes in bank indebtedness as a financing activity rather than as a component of the net change in cash and cash equivalents. In addition, the Corporation has excluded non-cash investing and financing activities from the consolidated statements of cash flows resulting in a decrease of \$54,606 in cash used in investing activities, a decrease in non-cash working capital items related to operations of \$470,394 and a decrease of \$525,000 in cash provided by financing activities, all from the amounts previously presented in the 1998 consolidated financial statements.

15. SUBSEQUENT EVENTS

On October 17, 2000, the Corporation filed a prospectus to qualify the issuance of two million units consisting of two million common shares and two million common share purchase warrants. The Corporation issued 1.4 million special warrants in anticipation of this filing during the period for net cash proceeds of \$1,846,000. Subsequent to June 30, 2000, the remaining 600,000 special warrants were issued for net cash proceeds of \$846,000.

Subsequent to June 30, 2000, the Corporation issued 16,447 common shares on conversion of long-term debt payable to the Province of New Brunswick in the amount of \$25,000.

CERTIFICATE OF THE CORPORATION

Dated: October 17, 2000

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

(signed) "Pieter E. Natte"
Chairman, Chief Executive Officer
and President

(signed) "James G. Wilson"
Chief Financial Officer and Secretary-Treasurer

On behalf of the Board of Directors

(signed) "Roy Nicholl"
Director

(signed) "Donald S. Reid"
Director

CERTIFICATE OF THE AGENT

Dated: October 17, 2000

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

GOEPEL MCDERMID LTD.

(signed) "Geoffrey L. Goad"

The following includes the name of every person having an interest, either directly or indirectly, to the extent of not less than 5% of the capital of Goepel McDermid Inc.: K.A. Shields, D.E. Roberts, R.E.T. Goepel, N. Dargan, K.N. Aune, G.M. Medland, I.S. Brown, J.B. van Koll, R.L. Sakkal and T.A. Raidl.

GLOSSARY OF TECHNICAL TERMS

<u>TERM</u>	<u>DEFINITION</u>
Access Control	A security mechanism that restricts who and what is allowed access to a network, to a subportion of a network or transmission application.
Application Layer/Level	A layer is a network transmission at which an application, such as E-mail, Web or Gopher takes place.
ATM	Asynchronous transfer mode. A method for the dynamic allocation of bandwidth using a fixed-size Packet. Also known as a “fast Packet”.
Authentication	Verification of the claimed identity of a computer or computer network user.
Browser	A client program (software) that is used to look at (or browse) various kinds of Internet resources.
E-mail	An application that allows a user to send or receive text messages to or from any other user within the context of the Internet, an Internet address commonly termed an e-mail address.
Encryption	A method of protecting data so that if it is accessed, it cannot be understood without the use of a secret encryption key.
Firewall	A gateway between two networks that buffers and screens all information that passes between such networks.
Gopher	An Internet application allowing a user to browse Internet information.
GUI	Graphical user interface.
Home Page	A Web Site’s introduction page. Often used generically as a reference to all information from a specific organization made available through the introduction page.
Host	Any computer on a network that is a repository for services available to other computers on the network. It is common to have one host machine providing several services such as Web and E-mail.
IC	Integrated circuit.
Internet	An open global network of interconnected personal, commercial, educational and governmental computer networks which utilize a common communications protocol, TCP/IP.
ISDN	Integrated services digital network. An emerging telecommunications technology that combines voice and digital network services in a single medium making it possible to offer customers digital data services as well as voice connection through a single “wire”.
Intranet	An internal private network that allows people within an organization to access information and transmit documents in the same way, using the same applications and technologies that are used on the Internet.
IP	Internet Protocol. The network protocol that all machines on the Internet use to communicate with each other. It specifies how Internet computers should break down data into Packets for transmission and how those Packets should be addressed so that they arrive at their destination.

LAN	Local Area Network. A data communications network designed to interconnect personal computers, workstations, minicomputers, file Servers and other communications and computing devices within a localized environment.
non-repudiation	The inability to disclaim the occurrence of an event.
OEM	Original equipment manufacturer.
Packet	A unit of information used for transmission between systems. Each Packet has a header containing protocol information required for systems communication.
Packet Filter	A method by which the header of each Packet is checked to see whether the information should be allowed to enter the network or rejected.
Protocol	A formal description of message formats and the rules two or more machines must follow in order to exchange such messages.
Proxy	A software technique which accepts, reviews and either retransmits data if authorized or rejects the attempted data transmission if unauthorized.
Router	A device that receives and transmits Packets between segments in a network or different networks.
SEM	Semiconductor equipment manufacturer
Server	A hardware and software combination that provides a specific kind of service to other “client” computers. A single server machine could have several different server software packages running on it, thus providing many different services to clients on the network.
TCP/IP	Transmission Control Protocol/Internet Protocol. A compilation of network and transport level protocols that allow computers with different architectures and operating systems software to communicate with other computers on the Internet.
UNIX	A multi-user operating system used on a wide variety of computers from mainframes to personal computers and developed by AT&T/Bell Labs.
WAN	Wide Area Network. A network of computer Servers that uses a special communications protocol to link different Servers throughout the Internet and permits communication of graphics, video and sound.
Web	A graphical, global, interconnected system for accessing Web Sites and Home Pages on the Internet by jumping from one Web Site to the next by clicking on a highlighted word or icon.
Web Server	The computer system Server that runs Web software, used to create and Host Web Sites and Home Pages.
Web Sites	A site located on the Web, written in the HTML or SGML languages through which information from a specific organization is made available for access by anyone in the world through the Web.