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This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended, and subject to certain exceptions, may not be offered or sold within the United States or to United States persons.

PRELIMINARY PROSPECTUS

New Issue

June 12, 2002



TRIPLE G SYSTEMS GROUP, INC.

3,015,000 Common Shares issuable upon the exercise of 3,015,000 Special Warrants

Price: \$2.70 per Special Warrant

This prospectus (the “Prospectus”) qualifies the distribution of 3,015,000 common shares (“Common Shares”) of Triple G Systems Group, Inc. (“Triple G” or the “Corporation”) issuable upon the exercise or deemed exercise of 3,015,000 special warrants (the “Special Warrants”) of the Corporation. The Special Warrants were issued (the “Offering”) on May 22, 2002 at a price of \$2.70 per Special Warrant on a private placement basis pursuant to exemptions from the prospectus requirements of applicable securities laws and regulations to investors resident in the provinces of Ontario and British Columbia. Yorkton Securities Inc. and Research Capital Corporation (collectively, the “Underwriters”) acted as underwriters of the Offering pursuant to an underwriting agreement dated as of May 22, 2002 (the “Underwriting Agreement”). The price of the Special Warrants was determined by negotiation between the Corporation and the Underwriters.

Each Special Warrant entitles the holder thereof, upon due exercise, to acquire (without the payment of additional consideration) one Common Share, subject to adjustment in accordance with the terms and conditions contained in the Special Warrants, at any time on or before 5:00 p.m. (Toronto time) (the “Expiry Time”) on the date which is the earlier of: (i) the fifth business day after the date that receipts are issued by the securities regulatory authorities (the “Commissions”) in the provinces of Ontario and British Columbia for the (final) prospectus qualifying the Common Shares to be issued upon exercise of the Special Warrants; and (ii) September 23, 2002. Any Special Warrants not exercised prior to the Expiry Time shall be deemed to have been exercised by the holder immediately prior to such time, without any further action being taken by the holder. See “Plan of Distribution”.

The Special Warrants were issued pursuant to and are governed by the terms of a special warrant indenture dated May 22, 2002 (the “Special Warrant Indenture”) between the Corporation and Computershare Trust Company of Canada. Under the terms of the Special Warrant Indenture, in the event that receipts for the (final) prospectus are not issued by the Commissions on or before 5:00 p.m. (Toronto time) on August 6, 2002, the holders of the Special Warrants will be entitled (without the payment of additional consideration) to receive 1.1 Common Shares (in lieu of one Common Share) upon the exercise of each Special Warrant. See “Plan of Distribution”.

| | <u>Price to the Public</u> | <u>Underwriters’ Commissions</u> ⁽¹⁾ | <u>Net Proceeds to the Corporation</u> ⁽²⁾ |
|---------------------|--------------------------------|---|---|
| Per Special Warrant | \$2.70 | \$0.189 | \$2.511 |
| Total | \$8,140,500 | \$569,835 | \$7,570,665 |

Notes:

- (1) As additional consideration to the Underwriters in connection with the Offering, the Corporation issued to the Underwriters compensation options exercisable, for no additional consideration, into broker warrants (the “Broker Warrants”) entitling the holders to acquire 211,050 Common Shares at an exercise price of \$2.70 per Common Share. This prospectus also qualifies the distribution of the portion of the Broker Warrants (the “Qualified Broker Warrants”) entitling the holders thereof to acquire Common Shares in an amount equal to 5% of the aggregate number of Common Shares issuable from treasury upon the exercise or deemed exercise of the Special Warrants sold pursuant to the Offering. The Broker Warrants are exercisable until 5:00 p.m. (Toronto time) on May 22, 2004. No additional fee has or will be paid to the Underwriters in connection with the issue of the Common Shares upon the exercise or deemed exercise of the Special Warrants. See “Plan of Distribution”.
- (2) Before deducting expenses of the issue estimated at \$305,000, which were paid or are payable by the Corporation. The Corporation will receive no additional consideration in connection with the issue of the Common Shares upon the exercise or deemed exercise of the Special Warrants.

An investment in the securities issued on the exercise of the Special Warrants is speculative and subject to various risks. In addition to the factors disclosed elsewhere in this prospectus, investors should consider the risk factors and other factors described under “Risk Factors” in assessing the investment merit of such securities.

The outstanding Common Shares are listed on the TSX Venture Exchange (“TSXVE”) and trade under the stock symbol “TGG”. The closing price of the Common Shares on TSXVE on May 2, 2002 (the trading day prior to the determination of the price of the Special Warrants) was \$3.00 and on June 11, 2002 (the last day that the Common Shares traded prior to the date hereof) was \$2.75. TSXVE has approved the listing of the Common Shares issuable upon the exercise of each of the Special Warrants and Broker Warrants, subject to the Corporation fulfilling all of the listing requirements of TSXVE.

Certificates representing the Common Shares issuable upon exercise of the Special Warrants will be available for delivery upon the exercise or deemed exercise of the Special Warrants. Certain legal matters in respect of this offering have been passed upon for the Corporation by Gowling Lafleur Henderson LLP, Toronto, Ontario and for the Underwriters by Wildeboer Rand Thomson Apps & Dellelce, LLP, Toronto, Ontario.

TABLE OF CONTENTS

| | |
|---|----|
| SUMMARY..... | 1 |
| GLOSSARY..... | 6 |
| THE CORPORATION..... | 8 |
| BUSINESS OF THE CORPORATION..... | 8 |
| COMPETITION..... | 20 |
| ACQUISITIONS..... | 20 |
| DESCRIPTION OF PROPERTY..... | 22 |
| SELECTED CONSOLIDATED FINANCIAL INFORMATION..... | 22 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION OF THE CORPORATION..... | 24 |
| CONSOLIDATED CAPITALIZATION..... | 35 |
| DESCRIPTION OF SHARE CAPITAL..... | 36 |
| PLAN OF DISTRIBUTION..... | 36 |
| USE OF PROCEEDS..... | 38 |
| PRINCIPAL SHAREHOLDERS..... | 38 |
| DIRECTORS AND OFFICERS..... | 40 |
| EXECUTIVE COMPENSATION..... | 43 |
| OPTIONS TO PURCHASE SHARES..... | 47 |
| ESCROW ARRANGEMENTS..... | 52 |
| RISK FACTORS..... | 53 |
| DIVIDEND POLICY..... | 60 |
| PRIOR SALES..... | 60 |
| PRICE RANGE AND TRADING VOLUME OF COMMON SHARES..... | 62 |
| PROMOTERS..... | 62 |
| INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS..... | 62 |
| MATERIAL CONTRACTS..... | 64 |
| LEGAL MATTERS..... | 64 |
| LEGAL PROCEEDINGS..... | 64 |
| AUDITORS, REGISTRAR AND TRANSFER AGENT..... | 65 |
| PURCHASER'S STATUTORY RIGHTS..... | 65 |
| CONTRACTUAL RIGHT OF ACTION..... | 65 |
| CONSOLIDATED FINANCIAL STATEMENTS..... | 66 |
| AUDITORS' REPORT..... | 67 |
| CERTIFICATE OF THE CORPORATION AND THE PROMOTER..... | 94 |
| CERTIFICATE OF THE UNDERWRITERS..... | 95 |

SUMMARY

The following is a summary of the principal features of this distribution and should be read together with the more detailed information and the financial data and statements contained elsewhere in this prospectus.

THE CORPORATION

Triple G Systems Group, Inc. (“Triple G” or the “Corporation”) designs, develops, markets, installs and supports laboratory software solutions that enable hospitals, clinics and private reference laboratories to automate their complex laboratory processes and manage their large volumes of clinical data. The Corporation’s software solutions are designed to automate and streamline the operations of clinical laboratories and provide real-time access to such data for users of laboratory information.

ULTRA[®], the Corporation’s flagship laboratory solution, is designed to automate clinical and management information applications for hospital, reference, esoteric and hybrid (combination of these models) laboratories. ULTRA has been licensed to 44 licensees, representing approximately 300 laboratories located in several countries including the United States, the United Kingdom, Australia and Canada.

TriWin, the Corporation’s NT-based solution, automates small- to medium-sized laboratories, and has been licensed to 75 licensees, representing 133 laboratories, primarily located in Canada.

Management believes that the ability of the Corporation’s software to streamline the laboratory testing process within an individual laboratory and across multiple facilities leads to an improvement in both efficiency and productivity of a laboratory as well as an entire healthcare enterprise.

THE OFFERING

Issuer: Triple G Systems Group, Inc.

Offering: This prospectus qualifies the distribution of 3,015,000 common shares (“Common Shares”) of the Corporation issuable upon the exercise or deemed exercise of 3,015,000 special warrants (the “Special Warrants”) of the Corporation. The Special Warrants were issued by the Corporation on May 22, 2002 on a private placement basis pursuant to exemptions from the prospectus requirements of applicable securities laws and regulations in the provinces of Ontario and British Columbia.

This prospectus also qualifies the distribution of the portion of Broker Warrants (the “Qualified Broker Warrants”) entitling the holders thereof to acquire Common Shares in an amount equal to 5% of the aggregate number of Common Shares issuable from treasury upon the exercise or deemed exercise of the Special Warrants sold pursuant to the Offering.

Special Warrants: The Special Warrants were issued pursuant to and are governed by the terms of a special warrant indenture dated May 22, 2002 (the “Special Warrant Indenture”) between the Corporation and Computershare Trust Company of Canada. Each Special Warrant entitles the holder thereof to acquire, without the payment of additional consideration, one Common Share at any time on or before 5:00 p.m. (Toronto time) (the “Expiry Time”) on the date which is the earlier of: (i) the fifth business day after the date that receipts are issued by the securities regulatory authorities (the “Commissions”) in the provinces of Ontario and British Columbia for a (final) prospectus qualifying the Common Shares to be issued upon exercise of the Special Warrants; and (ii) September 23, 2002. Any Special Warrants not exercised prior to the Expiry Time shall be deemed to have been exercised by the holder immediately prior to such time, without any further action being taken by the holder.

Under the terms of the Special Warrant Indenture, in the event that receipts for the (final) prospectus are not issued by the Commissions on or before 5:00 p.m. (Toronto time) on

August 6, 2002, the holders of the Special Warrants will be entitled (without the payment of additional consideration) to receive 1.1 Common Shares (in lieu of one Common Share) upon the exercise of each Special Warrant.

See “Plan of Distribution”.

Compensation Options and Broker Warrants:

In addition to the Underwriters’ cash commission, the Underwriters were issued compensation options exercisable, for no additional consideration, into broker warrants (the “Broker Warrants”) at any time until, and will be deemed to have been exercised (without any further action on the part of the holder) immediately prior to, the Expiry Time. The Broker Warrants entitle the holders thereof to acquire 211,050 Common Shares at an exercise price of \$2.70 per Common Share, at any time up to 5:00 p.m. (Toronto Time) on May 22, 2004.

Use of Proceeds :

The net proceeds of the Offering, after deducting the Underwriters’ commissions and expenses thereof in the aggregate amount of approximately \$875,000, were approximately \$7,265,500. The Corporation has used or intends to use these proceeds to expand sales and marketing capabilities, advance research and development initiatives and for working capital and general corporate purposes as follows: (i) approximately \$1,200,000 for sales and marketing expansion; (ii) approximately \$1,300,000 to advance research and development initiatives; and (iii) approximately \$4,765,500 for working capital and general corporate purposes.

See “Business of the Corporation” and “Use of Proceeds”.

Risk Factors:

An investment in the Corporation’s securities is speculative due to the nature of the Corporation’s business and its present stage of development. Prospective investors should carefully consider certain risks involved in such an investment, including: competition; dependence on a limited number of products and customers; dependence on market growth for products; product development and technological change; risk of software defects; lengthy sales and implementation cycle and increasing size of orders; product liability; additional financing; reliance on third party licenses; international sales; industry growth; no prior profitability; limited liquidity and dilution; control of shares by management and directors; regulation; dependence on key personnel; dependence on proprietary technology; management of growth; risk of third party claims for infringement; currency risk; risks related to acquisitions; potential fluctuations in quarterly results; and need to enhance management systems.

See “Risk Factors”.

Dividend Policy:

The board of directors of the Corporation (the “Board of Directors”) intends to retain earnings of the Corporation for reinvestment in its business and has no current intention to pay cash dividends on Common Shares in the foreseeable future.

See “Dividend Policy”.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated financial information for the Corporation, for the periods indicated, have been derived from, should be read in conjunction with, and is qualified in its entirety by reference to the consolidated financial statements appearing elsewhere in this prospectus. See "Management's Discussion and Analysis of Operating Results and Financial Condition of the Corporation".

Statements of operations

| | Three months ended March 31 2002 (unaudited) | Three months ended March 31 2001 (unaudited) | Year ended December 31 2001 | Year ended December 31 2000 | Year ended December 31 1999 |
|--------------------------------------|--|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Revenue | \$ 5,067,530 | \$ 4,927,132 | \$ 19,635,726 | \$ 13,458,499 | \$ 11,587,201 |
| Cost of revenue | 1,900,777 | 1,734,910 | 7,250,929 | 4,987,061 | 4,151,839 |
| | 3,166,753 | 3,192,222 | 12,384,797 | 8,471,438 | 7,435,362 |
| Expenses: | | | | | |
| Sales and marketing | 893,073 | 885,672 | 3,214,001 | 3,436,292 | 1,939,179 |
| Research and development | 1,254,976 | 1,119,177 | 4,469,373 | 5,733,319 | 4,540,302 |
| General and administrative | 1,199,618 | 1,012,028 | 4,659,790 | 4,439,422 | 3,375,277 |
| | 3,347,667 | 3,016,877 | 12,343,164 | 13,609,033 | 9,854,758 |
| Earnings (loss) before the following | (180,914) | 175,345 | 41,633 | (5,137,595) | (2,419,396) |
| Interest expense | 22,812 | 139,786 | 329,139 | 433,408 | 148,052 |
| Depreciation | 69,890 | 75,840 | 406,366 | 330,261 | 346,315 |
| Amortization | - | 274,631 | 958,450 | 1,099,895 | 687,161 |
| Loss for the period | (273,616) | (314,912) | (1,652,322) | (7,001,159) | (3,600,924) |
| Deficit, beginning of period | (24,709,479) | (23,057,157) | (23,057,157) | (16,055,998) | (12,455,074) |
| Deficit, end of period | \$(24,983,095) | \$(23,372,069) | \$(24,709,479) | \$(23,057,157) | \$(16,055,998) |
| Loss per Common Share: | | | | | |
| Basic and diluted | \$ (0.01) | \$ (0.03) | \$ (0.11) | \$ (0.60) | \$ (0.40) |

Balance Sheets

| | March 31, 2002 (unaudited) | December 31, 2001 | December 31, 2000 | December 31, 1999 |
|-----------------------------------|----------------------------------|----------------------|----------------------|----------------------|
| Working capital (deficiency) | \$ 3,186,729 | \$ 3,480,097 | \$ (1,172,142) | \$ 630,409 |
| Total assets | \$ 12,008,687 | \$ 12,361,722 | \$ 10,015,833 | \$ 11,428,123 |
| Total liabilities | \$ 8,254,944 | \$ 8,351,228 | \$ 10,942,571 | \$ 6,087,025 |
| Shareholders' equity (deficiency) | \$ 3,753,743 | \$ 4,010,494 | \$ (926,738) | \$ 5,341,098 |

The following chart sets forth, for each of the quarters ended on the date indicated, information relating to the Corporation's revenue, loss and loss per Common Share:

| | March 31 2002 | Dec. 31 2001 | Sept. 30 2001 | June 30 2001 | March 31 2001 | Dec. 31 2000 | Sept. 30 2000 | June 30 2000 | March 31 2000 |
|-----------------------|---|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|
| | (unaudited and stated in thousands of dollars, except per share data) | | | | | | | | |
| Revenue | \$ 5,068 | \$ 4,809 | \$ 4,952 | \$ 4,948 | \$ 4,927 | \$ 3,702 | \$ 3,533 | \$ 3,191 | \$ 3,032 |
| Loss for the period | (274) | (302) | (553) | (482) | (315) | (2,108) | (1,788) | (1,700) | (1,405) |
| Loss per Common Share | | | | | | | | | |
| Basic and diluted | \$ (0.01) | \$ (0.01) | \$ (0.03) | \$ (0.04) | \$ (0.03) | \$ (0.18) | \$ (0.15) | \$ (0.15) | \$ (0.12) |

TRADEMARKS

TRIPLE G is a registered trademark of Triple G Corporation in Canada and in the United States and ULTRA is a registered trademark of Triple G Corporation in the United States. TRIPLE G and ULTRA are registered trademarks of Triple G Asia Pacific Pty. Ltd. in Australia. There are also references in this prospectus to certain other registered and unregistered trademarks and trade names which are the property of their respective owners.

See “Business of the Corporation – Intellectual Property and Other Proprietary Rights”.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus under the captions “Summary”, “Business of the Corporation”, “Management’s Discussion and Analysis of Operating Results and Financial Condition of the Corporation”, “Use of Proceeds”, “Risk Factors” and elsewhere in this prospectus may constitute “forward-looking statements”. When used in this prospectus, the words “may”, “would”, “could”, “will”, “intend”, “plan”, “anticipate”, “believe”, “estimate”, “expect” and similar expressions, as they relate to the Corporation or its management, are intended to identify forward-looking statements. Such statements reflect the Corporation’s current views with respect to future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, those which are discussed under the heading “Risk Factors”. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. The Corporation does not intend, and does not assume any obligation, to update these forward-looking statements.

BUSINESS OF THE CORPORATION

The Corporation designs, develops, markets, installs and supports laboratory software solutions that enable hospitals, clinics and private reference laboratories to automate their complex laboratory processes and manage their large volumes of clinical data. The Corporation's software solutions are designed to automate and streamline the operations of clinical laboratories and provide real-time access to such data for users of laboratory information.

The healthcare industry continues to undergo significant and rapid change in North America and worldwide. Healthcare delivery costs have increased dramatically in recent years, while the growing influence of managed care has resulted in increased pressure on healthcare providers to contain costs while improving the quality of care. To deliver care in a more cost-effective manner, providers are consolidating vertically into multi-entity, multi-site, integrated delivery networks. A cornerstone of success of these organizations is a laboratory solution, such as those provided by the Corporation, that provide effective management and delivery of information to caregivers and managers across multiple points of care.

ULTRA, the Corporation's flagship laboratory solution, is a laboratory software product designed for high volume, multi-site hospital, reference, esoteric and hybrid laboratories. ULTRA manages the workflow and reporting requirements of the laboratory. From test initiation and processing to management reporting and accounts receivable, ULTRA facilitates specimen management and testing while providing for flexible reporting and billing. ULTRA has been licensed to 44 licensees representing approximately 300 laboratories.

TriWin, the Corporation's NT-based solution, automates small- to medium-sized laboratories, and has been licensed to 75 licensees, representing 133 laboratories, primarily in Canada.

The Corporation also provides professional services to support its products, such as consulting, training and support related to the installation and ongoing maintenance of its systems.

The Corporation's software is licensed to 119 licensees operating more than 430 laboratories in several countries including the United States, the United Kingdom, Australia and Canada.

The Corporation's objective is to become a leading worldwide provider of scaleable laboratory solutions for the healthcare market to enable healthcare enterprises to reduce the cost of operating laboratories and improve the quality of real-time information. The Corporation has developed a multi-faceted strategy for accelerating its growth, leveraging its existing client base and expanding its operations. Key components of the Corporation's strategy include:

- provide superior, cost-effective laboratory solutions;
- increase penetration in core markets and selectively pursue international expansion opportunities;
- enhance value and revenue by providing related professional services and support;
- identify complementary technologies and firms through strategic acquisitions that enhance the Corporation's growth strategy; and
- continue to attract and retain leading professionals to execute the Corporation's growth and financial plan.

GLOSSARY

| | |
|----------------------|--|
| AIMCL | Automated Information Management in the Clinical Laboratory. An annual American Symposium specializing in the computerization of the laboratory. |
| ASP | Application Service Provider. A service firm that provides software applications to end-users over the Internet or a virtual private network. An ASP owns, hosts and manages these applications from a data centre and rents access to the end users. |
| Client Server | A network-based approach to designing computing and information systems which requires one or more dedicated servers and has PC or workstation clients relying on them for services. The approach is based on the division and relegation of processing to the most appropriate platform. For example, the user interface executes on the workstation. |
| CLMA | Clinical Laboratory Management Association, an American association of laboratory managers. |
| HIMSS | Healthcare Information and Management Systems Society, an American association of healthcare informatics. |
| IDN | Integrated delivery networks. |
| Internet | A generic term for a loose confederation of networks around the world connected through several backbone networks and specifically designed to have no central governing authority. |
| IT | Information Technology. |
| LIS | Laboratory Information System. A system comprised of test order requisitioning/entry, patient demographics, instrument/analyser interfacing and results reporting and viewing. |
| MICROSOFT NT | Microsoft Windows NT. A Client Server LAN operating system that is becoming widely adopted. Microsoft NT is also available in a desktop client version. Microsoft NT provides traditional LAN services such as printing and directory services, but is also being used as both application and RDBMS servers. |
| Novell | A Local Area Network ("LAN") operating system providing primarily directory, file sharing and printing services. |
| NT | New Technology. Usually used in reference to the Microsoft NT operating system. |
| Oracle | A scaleable robust RDBMS that operates across a wide spectrum of operating system platforms including most PC's. |

| | |
|--------------------------------------|--|
| PC | Personal Computer. |
| RDBMS | Relational Database Management System. A logical data store and support system for concurrent multiple user data access through a structured query language such as Unify, Microsoft SQL Server, Sybase, Oracle and Informix. |
| TCP/IP | Transmission Control Protocol/Internet Protocol. TCP/IP forms the basic program that all computers require to be part of the Internet. While IP handles who and where things are on the Internet, TCP monitors the individual data that files are grouped into when routed through the Internet. |
| TriWin | The Corporation's middle market network-based LIS. |
| ULTRA | The Corporation's high end UNIX-based LIS. |
| Unify | A high performance, UNIX-based RDBMS used as the database engine in ULTRA developed by Unify Corporation. |
| UNIX | A scalable multi-user computer operating system with the Internet protocol (TCP/IP) incorporated. Commonly used by Internet servers, UNIX is generally referred to as an "open system" because it runs on hardware supplied by multiple vendors and on multiple hardware architectures. |
| Virtual Private Network (VPN) | A set of nodes on a public network such as the Internet that communicate among themselves using encryption technology so that their messages are as safe from being received and understood by unauthorized users as if the nodes were connected by private lines. |
| Windows | Microsoft Windows. The most widely used PC operating system. |

THE CORPORATION

Triple G Systems Group, Inc. (“Triple G” or the “Corporation”) was formed pursuant to an amalgamation under the *Business Corporations Act* (Ontario) of Rose Systems Applications Ltd., Summit Solutions Corporation and Techno-Labs Canada Inc. on January 1, 1998 to form the resulting corporation called Techno-Labs Canada Inc. Pursuant to articles of amendment certified effective July 5, 1999, the Corporation amended its articles to change the name of the Corporation to Triple G Systems Group, Inc.

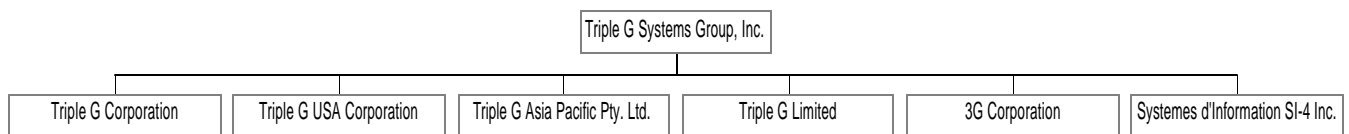
Pursuant to articles of amendment certified effective June 13, 2001, the Corporation amended its articles to consolidate all of the issued and outstanding common shares (the “Common Shares”) of the Corporation on the basis of one (1) post-consolidation Common Share for every five (5) pre-consolidation Common Shares. The Corporation’s head and principal office is located at 3100 Steeles Avenue East, Suite 600, Markham, Ontario, Canada, L3R 8T3.

The Corporation wholly owns each of the following subsidiaries (collectively, the “Subsidiaries”):

| <u>Subsidiaries</u> | <u>Jurisdiction of Incorporation or Organization</u> |
|---|--|
| Triple G Corporation | Ontario |
| Triple G USA Corporation | Delaware |
| Triple G Asia Pacific Pty. Ltd. (“Triple G Asia Pacific”) | Victoria, Australia |
| Triple G Limited | England and Wales |
| 3G Corporation | New Zealand |
| Systemes d’Information SI-4 Inc. | Ontario |

Unless otherwise indicated or unless the context otherwise requires, all references in this prospectus to the Corporation include the Subsidiaries.

The following chart sets forth the corporate structure of the Corporation:



BUSINESS OF THE CORPORATION

The Corporation designs, develops, markets, installs and supports laboratory software solutions that enable hospitals, clinics and private reference laboratories to automate their complex laboratory processes and manage their large volumes of clinical data. The Corporation’s software solutions are designed to automate and streamline the operations of clinical laboratories and provide real-time access to such data for users of laboratory information.

ULTRA, the Corporation's flagship laboratory solution, is designed to automate clinical and management information applications for hospital, reference, esoteric and hybrid (combination of these models) laboratories. ULTRA has been licensed to 44 licensees, representing approximately 300 laboratories.

TriWin, the Corporation's NT-based solution, automates small- to medium-sized laboratories, and has been licensed to 75 licensees, representing 133 laboratories, primarily in Canada.

Management believes that the ability of the Corporation's software to streamline the laboratory testing process within the individual laboratory and across multiple facilities leads to an improvement in both efficiency and productivity of the laboratory as well as the entire healthcare enterprise.

The Corporation's software automates the following laboratory processes:

- qualitative and quantitative analysis of a variety of body fluids, tissues and excretions in order to aid physicians in the diagnosis, treatment and resolution of disease;
- collection, dispatch, receipt and tracking of specimens for these analyses;
- reporting of the results of qualitative and quantitative analyses to physicians;
- long term storage of laboratory results; and
- billing, tracking of workload statistics, accounts receivable and management reporting functions of a laboratory.

The Corporation's software is licensed to 119 licensees operating more than 430 laboratories in several countries including the United States, the United Kingdom, Australia and Canada.

General Development of the Business

1999

On May 19, 1999, the Corporation acquired from Triple G Unit Trust, an unrelated Australian trust, the ULTRA software and other rights for the other territories not previously owned by Triple G Corporation and acquired certain assets and assumed certain liabilities that enabled the Corporation to have an established business in the Asia Pacific region. As a result of this acquisition, the Corporation gained control over technical resources knowledgeable in ULTRA and enabled the Corporation to expand its marketing efforts globally. See "Acquisition - Triple G Unit Trust".

2000

During 2000 the Corporation formed Triple G Limited and launched its marketing initiatives in Europe. The Corporation also started to implement an ASP strategy on a direct basis. During the latter part of the year the Corporation concluded that such a strategy was unlikely to derive immediate benefits and took steps to reduce the amount of funds being used in operating activities which included the termination of personnel hired to implement this ASP strategy.

2001

During 2001 the Corporation, through a series of financings, raised gross proceeds of approximately \$6,445,000 through the issuance of 4,832,533 Common Shares. The Corporation also effected the conversion of previously issued convertible debentures, having an aggregated principal and accrued interest balance of \$3,246,245, into 2,596,996 Common Shares. On July 10, 2001 the Corporation listed its Common Shares on The Canadian Venture Exchange, now known as the TSX Venture Exchange, trading under the stock symbol “TGG”.

Industry Background

Healthcare Industry

The healthcare industry continues to undergo significant and rapid change in North America and worldwide. Management has observed that healthcare delivery costs have increased dramatically in recent years compared to the overall rate of inflation that has resulted in increased pressure on healthcare providers to contain costs while improving the quality of care.

To deliver care in a more cost-effective manner, many providers have consolidated vertically into multi-entirety, multi-site, integrated delivery networks (“IDNs”) that include acute-care hospitals, physicians’ offices, outpatient clinics, homecare, long-term care facilities and payor entities, and horizontally into groups of physicians and of hospitals. These organizations require laboratory solutions that enable providers to manage important processes, such as: (i) patient care processes across multiple delivery sites; (ii) the determination of the appropriateness of diagnoses, treatments and resource utilization; (iii) laboratory performance; and (iv) laboratory processing and business practices. Management believes that one of the cornerstones for success of these comprehensive delivery networks is the effective management and delivery of information to caregivers and managers across multiple points of care and that market opportunities exist for laboratory solution vendors offering open systems architecture that allows interoperability with existing legacy healthcare applications and solutions.

Another major factor that management believes will drive change within the healthcare industry is legislation enacted by the United States Department of Health and Human Services. The legislation, pursuant to the Health Insurance Portability and Accountability Act (“HIPAA”), requires software and systems used in the healthcare industry to comply with certain standards relating to patient confidentiality and privacy. Management believes that as a result of the enactment of this legislation, many healthcare providers will be required to replace their software and upgrade systems to meet the requirements of the HIPAA legislation. Management believes that this represents an opportunity to attract new customers to the Corporation’s offerings as they work to meet these potential legislative requirements, resulting in revenue growth in its business.

The Leapfrog Group is a growing consortium of more than 100 Fortune 500 companies and other large private and public health care purchasers. Member companies of this group, representing 33 million enrollees, use their considerable combined buying power to encourage medical facilities to take measures that will improve patient safety and reduce the risk of preventable medical errors. Management believes

that the work of this group is having a significant effect on the entire healthcare industry's conversion to new technology such as that provided by the Corporation.

Breakthroughs in genetic science have begun to have a profound effect on gene-based testing, personalized medication and utilization of laboratory technologies. In conjunction with the growth of this industry, laboratories are undergoing expansion and evolution to accommodate the specialized demands of genomic sciences. Management believes that these laboratories will increasingly look to the Corporation's solutions to streamline and automate the processes of their state-of-the-art facilities.

The Laboratory Solutions Market

The U.S Healthcare IT Market is said to be growing from \$37 billion in 1999 to \$61 billion in 2004 according to a Gartner Dataquest survey published in February 2001. It is estimated that the U.S. represents approximately 50% of the worldwide spending. Of the \$61 billion estimated to be spent in 2004 more than \$6.3 billion will be spent on software alone. Surveys of laboratory IT buyers have supported these projections. In a study performed by PricewaterhouseCoopers, clinical information systems was given highest priority, with a 71% response ratio, among integrated delivery networks. According to respondents to a Laboratory Industry Report survey (November 2001), "Improve efficiencies through better use of technology" is the trend expected to most affect their labs in the coming year.

As published by Washington G-2 Reports (Lab Industry Strategic Outlook 2000 – "Market Trends and Analysis"), there were over 165,000 certified laboratories in the United States in 1998 and the total value of orders for laboratory testing in 1999 was estimated to be \$31.8 billion. Hospital laboratories account for 5% or approximately 9,000 of the number of facilities but account for 55% of the total lab test volume. Independent laboratories account for an additional 3% or approximately 4,900 of the number of facilities but account for 26% of the total lab test volume. The majority of the remaining laboratories are located at physician offices of which there are over 115,000 labs processing 16% of the lab test volume. Management estimates that the United States market currently represents approximately 50% of the worldwide market.

A research report released in October 2000 by U.S. Bancorp Piper Jaffray Equity entitled "Diagnostic Services Industry Outlook" stated that "clinical laboratories are an increasingly important component of the healthcare delivery system. As the genetic roots of disease, disease progression, and treatment effectiveness are uncovered, the demand for sophisticated prognostic, diagnostic and monitoring tests is increasing. Moreover, the role of the laboratory testing is expanding beyond diagnosis into virtually every facet of healthcare delivery, including detection of genetically based health risk factors, evaluation of treatment options and effectiveness, and monitoring of patient health status. We believe that industry growth will accelerate over the next decade". Management believes this anticipated growth will fuel demand for the Corporation's proven software solutions to manage these processes and clinical information.

Hospital laboratories are generally focused on providing laboratory services to inpatients and are typically physically resident in, as well as owned and operated by, a hospital. Reference or independent laboratories are typically commercial, for profit enterprises that receive work referred to it by physicians,

clinics, nursing homes and hospitals. Esoteric laboratories are focused on providing complex procedures such as DNA analysis, tumor markers and cancer profiles that require sophisticated equipment and personnel to perform. Hybrid laboratories are combinations of hospital, reference and esoteric laboratories that service inpatient and outpatient populations.

Market Position

Management believes that as a result of industry consolidation, hospital, multi-site reference, esoteric and hybrid laboratories will require software solutions which are fully integrated, reside on a single database and address the requirements of complex, multi-site facilities. Management believes the Corporation's ULTRA product is a proven solution that can satisfy the requirements of the North American healthcare market and around the world using modern laboratory technology. The Corporation's target ULTRA customers are hospitals, independent laboratories and large physician labs processing over 1,000 patient requisitions per day, while its TriWin product focuses on customers that tend to be smaller labs processing smaller volumes.

The Corporation has installed its software solutions in various combinations of laboratory operating models. As the laboratory industry market and technologies continue to evolve, management believes that the Corporation's deep vertical focus and domain expertise will allow it to rapidly respond to the changing needs of its customers and the various models of laboratory service delivery.

Target Market

ULTRA is marketed to larger, typically multi-site laboratory operations. Of the more than 165,000 laboratories identified by Washington G-2 Reports (Lab Industry Strategic Outlook 2000 – "Market Trends and Analysis"), management estimates that there are opportunities for ULTRA in approximately 1,500 larger laboratory operations and 3,000 laboratories for TriWin in the U.S. Management estimates that the United States currently represents approximately 50% of the worldwide market.

Management believes that it has been successful in attracting new customers as a result of the following competitive advantages:

- **Functionality** - ULTRA has been designed specifically to address the requirements of larger multi-site laboratories to streamline laboratory operations across the enterprise and within the specialized departments. TriWin offers flexibility for smaller laboratory operations and regions in a cost-effective manner.
- **Technology and Scaleability** - Management is not aware of any competitor in its primary market of the United States running larger operations on RDBMS technology.
- **References** – The Corporation enjoys strong support and references from its clients as a result of a customer service focus and direct senior management involvement in key customer accounts and quality of the software.

Stated Business Objectives and Milestones

The Corporation's business objective that it expects to accomplish using the net proceeds of the Offering, is to strengthen the Corporation's balance sheet for working capital and general corporate purposes. In addition, the Corporation plans to use \$1,200,000 of the net proceeds of the Offering to further expand sales and marketing initiatives principally in the United States and \$1,300,000 to advance research and development activities.

Corporation's Business Strategy

The Corporation's objective is to become a leading worldwide provider of scalable laboratory solutions enabling healthcare enterprises to reduce the cost of operating laboratories while improving the quality of real-time information and patient care. The Corporation has developed a multi-faceted domestic and international business growth strategy to build on the existing foundation, accelerate its growth, leverage its existing client base and expand its operations. The principal components of the Corporation's growth strategy are described below.

Provide superior, cost effective laboratory solutions

Healthcare providers must continually strive to improve the quality of and decrease the cost of care for the patient. Management believes that its ULTRA solution is a laboratory solution "engine" for the large volume, multi-site hospital, reference, esoteric and hybrid laboratories. Several of the Corporation's implementations are currently processing in excess of 9,000 patient requisitions (more than 25,000 lab tests) per day.

The Corporation has invested and plans to continue to invest existing human resources in ongoing development of its core ULTRA system to ensure the design of new products, and ongoing enhancements of existing products for competitive advantage. As of December 31, 2001, 33 of the Corporation's 129 full time staff were directly involved in product research and development. During the year ended December 31, 2001, the Corporation invested approximately \$4,469,000 or 23% of revenue in product research and development.

Increase penetration in core markets and selectively pursue international expansion opportunities

The Corporation has historically focused primarily on the strategic markets of the United States, Australia and Canada. Management believes that given the changes occurring in the industry and the Corporation's position as a provider of laboratory solutions, it will experience accelerated growth in these core geographic markets. The Corporation also plans to leverage its position in these core markets to further expand into additional selected international markets such as Europe.

Enhance value and revenue by providing related professional services and support

The Corporation maintains a staff of service and support personnel who have expertise in the healthcare and information technology industry and have backgrounds ranging from operational experience within hospitals and laboratories to software application implementation, training and development. Management believes that the breadth and depth of the Corporation's complementary expertise ensures resources are

available to handle all aspects of product development, deployment and delivery of its systems. Of the Corporation's 129 full time staff as of December 31, 2001, 79 are engaged in customer service, sales and support.

Identify complementary technologies and firms through strategic acquisitions that enhance the Corporation's growth strategy

To date, the Corporation has enhanced its product offering and broadened its customer base through strategic acquisitions. The Corporation is continuing to seek opportunities for growth through strategic acquisition. In addition, the Corporation may partner with selected organizations to leverage specific market and geographic opportunities. The Corporation currently has a distribution relationship with H.T. Consulting Limited in Malaysia and Artefact Informatique Inc. in Quebec, who locally distribute ULTRA and provide pre-sales, implementation and support services to customers.

Continue to attract and retain leading professionals to execute the Corporation's growth and financial plan

Management believes that a key to the Corporation's success to date has been its ability to recruit and retain industry leaders from competitors and the information technology industry. Management believes that given the quality of its product offering, the nature of its customer base and its growth prospects, it will continue to attract industry leading professionals in the future.

Corporation's Products

The ULTRA product is designed for distributed high volume, multi-site hospital, reference, esoteric and hybrid laboratories. The Corporation's product offering also includes an NT-based laboratory software product called TriWin that automates small- to medium-sized laboratories. The Corporation also provides professional services to support its products, such as consulting, training and support related to the installation and ongoing maintenance of its systems. During the year ended December 31, 2001, ULTRA product and service revenue accounted for 86% of consolidated revenue and TriWin accounted for the residual revenue.

ULTRA

The Corporation believes that the key components of ULTRA, its flagship laboratory solution software, are its user-friendliness, rich functionality, scaleable architecture and strong support levels. It is comprised of modules for the general laboratory, microbiology, anatomic pathology, cytology, transfusion medicine and blood bank (offered outside of the United States), billing and accounts receivable departments of healthcare enterprises.

ULTRA manages the workflow and reporting requirements of the laboratory. From test initiation and processing to management reporting and accounts receivable, ULTRA facilitates specimen management and testing while providing for flexible reporting and billing. All system modules are fully integrated, which provides for a central consolidated results database across all performing laboratories. ULTRA can be reconfigured through its table driven architecture to a laboratory's changing needs by multi-lab setup, testing and billing algorithms and report layout across all lab disciplines.

Management believes that ULTRA is ideally suited for high volume and multi-site environments in a traditional licensing arrangement supporting combinations of central laboratories with satellite laboratories, clinics, patient wards and multiple collection centres.

The price for ULTRA varies depending on the scale of the installation. In general, an initial license fee, ranging from \$130,000 to \$1,600,000, is paid as software implementation milestones are reached. The product also generates support fees, which are approximately 1.5% to 2% per month of the initial license fee. Additionally, the Corporation earns fees for professional services, either on a project or a time and materials basis. Finally, the Corporation earns revenue on third party software, charging clients a license fee on a per user basis and an annual support fee.

Reseller Arrangements with Unify Corporation

The Corporation currently relies exclusively on Unify Corporation (“Unify”) to supply the Corporation with database products necessary to operate the Corporation’s ULTRA product. See “Risk Factors – Reliance on Third Party Licenses.” On January 18, 2002, the Corporation updated its continuing relationship with Unify and entered into a new two year value-added reseller agreement with Unify. Under the terms of the agreement, the Corporation has been granted a non-exclusive, non-transferable license for the purposes of, among other things, sublicensing and distributing Unify’s database products to the Corporation’s end users.

TriWin

The TriWin product is an integrated network-based laboratory information solution focused on small-to medium-sized laboratories. It is comprised of modules for the general laboratory including: microbiology, anatomic pathology, cytology, blood bank and billing. TriWin manages the workflow and reporting requirements of a smaller laboratory, typically processing 1,000 or less patient requisitions per day. The Corporation’s TriWin product is supported on both Novell and Microsoft NT platforms. Flexibility within the system allows users to work in a multi-user, networked environment.

The price for TriWin varies depending on the scale of the installation. In general, an initial license fee, ranging from \$20,000 to \$400,000, is paid as software implementation milestones are reached. The product also generates support fees, which are approximately 1.25% per month of the initial license fee. Additionally, the Corporation earns fees for professional services, either on a project or a time and materials basis. The target market for the TriWin product has historically been hospitals in Canada.

Research and Development

Management believes that the Corporation's future success and growth will depend, in part, on its ability to:

- continue to offer new releases of ULTRA;
- extend functionality of ULTRA through new product modules;
- port ULTRA to other RDBMS such as Oracle™; and
- provide value-added enhancements and services to existing laboratory product lines.

Triple G Corporation Pty. Ltd., an unrelated company located in Ballarat, Australia (now Three Gorges Pty. Ltd.) originally developed ULTRA. Currently a team of 14 employees of Triple G Asia Pacific work on specific product enhancements in conjunction with the development team in North America. The North American research and development team is located in the Corporation's headquarters in Markham, Ontario and in Richmond, British Columbia, where collectively 19 employees are dedicated to the ongoing research and development effort.

In 2001, the Corporation released version 3.1 of ULTRA. The added functionality included a new Anatomic Pathology and Cytology module as well as a new Microbiology module. In 2002, Triple G will continue to focus on the ongoing enhancement of the ULTRA and TriWin products. Within the ULTRA family, Triple G expects to release version 3.2 to beta in the second quarter of 2002 for wide distribution and commence beta testing of ULTRA 3.3 in the third quarter of 2002. Further, the Corporation expects to deliver TriWin 7.3 release to beta in the third quarter of 2002. These 2002 releases will include new features and functionality including those required for ULTRA to support client implementation of HIPAA regulations and the Oracle™ Relational Database Management System.

The Corporation continues to focus its research and development on enhancing its LIS solutions. Triple G has had the opportunity to learn from some of what management believes to be the world's best hospital, reference, esoteric and hybrid laboratories. It is the Corporation's commitment to engineering the functionally richest and most scaleable software applications available to labs that has positioned Triple G to capitalize on expansion opportunities in its markets.

Sales and Marketing

As of December 31, 2001, the Corporation employed a total of 13 individuals for its sales activities, including 4 account executives for the ULTRA product line covering Canada and the United States, 2 ULTRA account executives covering Australia, Europe and the rest of the world, 3 account executives for the TriWin product line covering North America and 4 specialists supporting these account executives. The Corporation plans to add other account executives in the United States focusing exclusively on ULTRA. Marketing the Corporation's products requires a skill set that includes knowledge of the healthcare industry, laboratory systems and consulting services.

The product is currently sold through the Corporation's direct sales force with the exception of a distribution agreement in Malaysia and another for Quebec and certain European French speaking countries. The sales process typically takes six to eighteen months to complete and usually requires the

Corporation to submit a response to a request for proposal and a series of detailed presentations and product demonstrations to a potential client. Because of the replacement costs and substantial initial capital investment, a large multi-site laboratory will usually consider four to five different systems before choosing its vendor.

The Corporation conducts marketing programs including direct mail, media relations, partnership relations, advertising, trade shows such as HIMSS, AIMCL and CLMA, and ongoing customer communications programs including annual user conferences. Customer needs are channeled to the Corporation’s new product development team through pre-sales product specialists, professional services representatives, user group meetings and dialogues with key customers, strategic partners and industry consultants.

The Corporation has established strategic partnerships and has targeted other alliances to establish market awareness. For example, the Corporation has built a partnership with the State University of New York at Stony Brook that has established a laboratory testing classroom that provides courses for laboratory professionals who wish to upgrade IT skills.

Customers

The Corporation has licensed ULTRA to 44 licensees - 21 in each of North America and the Asia Pacific regions and 2 in the United Kingdom - including reference laboratories, hospitals and hybrid facilities. In addition, the Corporation has 75 TriWin licensees, comprised of small- to medium-sized laboratories. The following is a partial list of some of the Corporation’s customers:

| Customer | Description | Sites |
|--|------------------------------------|-------|
| <u>Reference Labs</u> | | |
| Specialty Labs Santa Monica, CA | Reference Lab | 1 |
| Queensland Medical Laboratories Brisbane, Australia | Reference Lab | 27 |
| BC Biomedical Laboratories Vancouver, BC | Reference Lab | 1 |
| Gribbles Pathology Melbourne, Australia | Reference Lab | 28 |
| Mayne Group (formerly known as Mayne Nickless Limited) Sydney, Australia | Reference Lab | 45 |
| <u>Hospitals</u> | | |
| Oregon Health Sciences University Portland, OR | Teaching Hospital | 1 |
| Vanderbilt Medical Center Nashville, TN | Teaching Hospital | 2 |
| St. Joseph’s Hospital of Atlanta Atlanta, GA | Community Hospital | 1 |
| St. Luke’s Episcopal Health System Houston, TX | Primary and Tertiary Care Hospital | 1 |

| Customer | Description | Sites |
|--|---------------------------------|----------------------------|
| Royal Perth Pathology Center (Queen Elizabeth II Medical Center), Women's & Children's Hospital Fremantle, Australia | Teaching/ Acute Care Hospital | 2 |
| <u>Hybrid Facilities</u> | | |
| Allina Health System Minneapolis, MN | Large IDN | 18 hospitals 60 clinics |
| Toronto Medical Laboratories Toronto, ON | Reference Lab/Teaching Facility | 5 |
| Institute of Medical and Veterinary Science Adelaide, Australia | Reference/ Veterinary Lab | 16 |
| Kaiser Permanente Portland, OR | Large HMO / Clinics Hospital | 17 |

Intellectual Property and Other Proprietary Rights

The Corporation relies primarily upon the combination of copyright, trade secret laws and license agreements to establish and protect the proprietary rights of its products. The source code for the Corporation's products is protected as a trade secret and as unpublished copyrighted works. It is the Corporation's policy to require employees, consultants, clients and, in some circumstances, suppliers to execute non-disclosure agreements upon commencement of a relationship with the Corporation. The Corporation does not currently have any patents for its products. It may be possible for a third party to copy or obtain the use of the Corporation's products without authorization. It is also possible that third parties may develop similar products independently. In some cases, copyright and trade secret protection may be limited or unavailable in certain foreign countries.

The Corporation acquired all the intellectual property rights to the ULTRA technology in North America (including Hawaii, Alaska, Puerto Rico and Bermuda), South America, the Caribbean and Central America, but excluding the possessions of the United States in the Pacific, other than Hawaii, pursuant to a software purchase agreement dated October 17, 1997, from Triple G Corporation Pty. Ltd., an unrelated Australian corporation, through the acquisition of Triple G Corporation on October 17, 1997. The Corporation acquired all the intellectual property rights to the ULTRA technology for the rest of the world from Triple G Corporation Pty. Ltd., pursuant to a software purchase agreement dated May 19, 1999. Triple G Corporation Pty. Ltd. was the developer of the original ULTRA technology and has since been renamed Three Gorges Pty. Ltd.

TRIPLE G is a registered trademark of Triple G Corporation in Canada and in the United States and ULTRA is a registered trademark of Triple G Corporation in the United States. TRIPLE G and ULTRA are registered trademarks of Triple G Asia Pacific in Australia.

The Corporation also utilizes certain technologies that it licenses from third parties on a non-exclusive basis, including software that is integrated with internally developed software. These third party product

license agreements generally require the payment of royalties based on sales in which the technologies are used, and are of a long-term nature with limited termination provisions.

Employees

As of December 31, 2001, the Corporation employed 129 staff, including 51 in professional services and customer support, 15 in technical services, 13 in sales and marketing, 33 in research and development, 4 in IT operations and 13 in management and administration. 58 of these employees are located in Canada, 23 in the United States, 39 in Australia, 8 in Europe and 1 in New Zealand.

No employee of the Corporation is a party to, or covered by, any collective bargaining agreement relating to their employment with the Corporation. All employees, including executive officers of the Corporation, are required to sign a standard form of non-disclosure and release of interest in intellectual property agreement. As part of its strategy, management monitors its ongoing staffing requirements to ensure maximum operating efficiency.

Investor Relations Representative

In April, 2001, the Corporation retained Matthew Bogart to provide investor relations services to the Corporation on a full-time employment basis. Specific services performed by Mr. Bogart on behalf of the Corporation include establishing and implementing an investor relations plan which ensures that investors understand the business of the Corporation, its markets and products, and developing relationships with the investment community, analysts and shareholders of the Corporation. Mr. Bogart receives an annual salary from the Corporation of \$65,000 plus bonus and benefits, and is a participant in the Corporation's stock option plan. As of the date hereof, the Corporation has granted to Mr. Bogart 12,000 and 5,000 options to purchase Common Shares at an exercise price of \$3.00 and \$1.25 per Common Share respectively and Mr. Bogart personally holds 3,000 Common Shares. Mr. Bogart was Investor Relations Manager at Janna Systems Inc. for the period from May 1999 to April 2001. Prior to this Mr. Bogart was Assistant Account Executive with Fleishman-Hillard Inc. from January 1999 to April 1999, corporate communications specialist with the Greater Toronto Airport Authority from May 1998 to September 1998 and Executive Assistant with Health Care Products Incorporated from May 1997 to January 1998.

COMPETITION

The primary competitive factors in the laboratory software market are technology, scalability, features, reliability, functionality, price, customer support, ease of use, credibility and brand awareness. The Corporation faces two principal types of competitors: (i) multi-product organizations which offer an integrated clinical and/or hospital information system solution including laboratory software, consisting of approximately 8 larger competitors known to management in North America, the most successful of which are US-based Cerner Corporation, McKesson HBOC, Misys Healthcare Systems, Shared Medical Systems Corporation and Meditech Information Technology, Inc.; and (ii) specialized organizations focusing on specific applications for departments such as the laboratory. This market consists of approximately 25 competitors known to the Corporation in North America primarily from the United States and approximately 10 competitors in Europe and Asia Pacific. Management believes that Cerner Corporation, Misys Healthcare Systems, and SCC Clinical Information Systems are the Corporation's most significant competitors. The Corporation has successfully competed for new business in the past with each of these competitors.

ACQUISITIONS

To enable the Corporation to establish a presence in the Asia Pacific region and to gain control over technical resources knowledgeable in ULTRA, the Corporation acquired certain assets and assumed certain liabilities of Triple G Corporation Pty. Ltd. on May 19, 1999. See "Triple G Unit Trust" below.

In order to enable the Corporation to offer a software solution to high volume, multi-site laboratories within healthcare enterprises and establish a presence throughout North America, the Corporation acquired all of the issued and outstanding shares of Triple G Corporation on October 17, 1997. This acquisition has allowed the Corporation to provide laboratory software, which is scaleable from the small to the large-volume laboratory, and to expand its product line to include complementary products within the healthcare enterprise. See "Triple G Corporation" below.

Triple G Unit Trust

On May 19, 1999, the Corporation entered into an option purchase agreement with United Hi-Tech Ltd., providing for the purchase from United Hi-Tech Ltd. of option rights under a call option agreement between United Hi-Tech Ltd. and Triple G Corporation Pty. Ltd., an unrelated Australian corporation (now Three Gorges Pty. Ltd.), as trustee for the Triple G Unit Trust, an Australian trust ("Ausco"). Pursuant to the exercise of the rights so acquired, the Corporation entered into a software purchase agreement with Ausco dated May 19, 1999 providing for the purchase from Ausco of the rights to the ULTRA software in the territories not owned by the Corporation. In connection with this transaction, the Corporation formed Triple G Asia Pacific, which acquired certain assets and assumed certain liabilities of Ausco pursuant to an asset purchase agreement dated May 19, 1999. The aggregate purchase price for the option rights, software and certain net assets of Ausco was \$2,351,019 (A\$2,403,659), which was paid on closing in cash.

In addition, Triple G Asia Pacific entered into a services agreement with Ausco dated May 19, 1999, as amended on December 22, 2000, whereby the latter agreed to provide the services of three individuals for a thirty-month period. In connection with this agreement, Triple G Asia Pacific and the Corporation entered into an escrow agreement with Ausco which was amended on December 22, 2000, providing for the deposit in escrow of \$1,462,500 (A\$1,500,000) (the "Trust Fund") in respect of payments to be made under the services agreement between Triple G Asia Pacific and Ausco, and granting to Ausco a security interest in the Trust Fund. The Corporation has made the scheduled payments from escrow totalling \$388,680 (A\$450,000) during 2000 and \$141,450 (A\$150,000) during 1999. On December 22, 2000, pursuant to an amendment to the escrow agreement, the residual Trust Fund was converted into Australian dollars and \$163,000, which is net of \$18,230 in fees, was released to the Corporation. The Corporation paid the residual amount of \$751,140 (A\$900,000) in May 2001. The Corporation terminated the services agreement with Ausco in May 2001.

The rationale for the acquisition was to enable the Corporation to gain control over the technical employees in Australia who have significant and valuable expertise in the ULTRA software. This control would enable the Corporation to better direct product development efforts and to efficiently utilize technical staff in providing professional services to North American and Asia Pacific region customers. In addition, the acquisition increased the Corporation's ULTRA customer base at the time of the acquisition from 13 to 38 worldwide. Moreover, the acquisition removed geographic restrictions on the Corporation, thereby enabling it to market the ULTRA laboratory solution outside the North American market.

The integration of Ausco's assets and business with the Corporation is complete and management's intention is to continue to have Triple G Asia Pacific focus on the Asia Pacific market. An office has been opened in Melbourne, Australia to augment the existing office in Ballarat, Australia, to increase the Corporation's profile and better attract qualified personnel.

Triple G Corporation

On October 17, 1997, the Corporation acquired all of the issued and outstanding shares of Triple G Corporation, a corporation then carrying on the business of developing and marketing laboratory information software in the Provinces of British Columbia and Ontario and in the United States. The aggregate purchase price for the shares was \$11,356,174, which was satisfied on closing by the payment of \$1,500,000 and the issuance of 3,881,507 Common Shares. In addition, the Corporation subscribed for shares in the capital of Triple G Corporation for an aggregate purchase price of \$3,364,814, in order to fund the acquisition of the ULTRA software and other rights from Ausco primarily for the North American market in the amount of \$2,749,795 and to reduce related liabilities in the amount of \$615,019. See "Intellectual Property and Other Rights".

As a result of the transaction, F. Lee Green, the President of Triple G Corporation became the largest single shareholder of the Corporation and was appointed the Chief Executive Officer and the Chair of the board of directors of the Corporation (the "Board of Directors"). The transaction was accounted for as a reverse take-over of the Corporation by Triple G Corporation as a result of the President of Triple G Corporation being identified as the dominant shareholder of the resulting entity.

DESCRIPTION OF PROPERTY

The Corporation's head office is a leased facility of approximately 10,500 sq. ft., comprising approximately 7% of a 149,000 sq. ft building located at 3100 Steeles Avenue East, Markham, Ontario. The monthly base rental, including taxes, common expenses and maintenance is approximately \$25,100. The lease term expires on October 31, 2006.

Triple G Corporation's western development office is a leased facility of approximately 2,535 sq. ft. comprising 2.5% of a 100,000 sq. ft. building located at 4611 Viking Way, Richmond, British Columbia. The monthly rental, including taxes, common expenses and maintenance, is approximately \$3,350. The lease term expires on January 31, 2003.

Triple G Asia Pacific's Ballarat office is a leased facility of approximately 2,370 square meters comprising the entire building located at 302 Sebastopol Street, Ballarat, Victoria, Australia. The monthly base rental, including taxes, common expenses and maintenance, is A\$3,650 (C\$2,975). The lease term expires on May 14, 2004.

Triple G Asia Pacific's Melbourne office is a leased facility of approximately 237 square meters comprising 1.1% of a 22,008 square meter building located at Level 3 – Suite 6, 499 St. Kilda Road, Melbourne, Victoria, Australia. The monthly base rental, including taxes, common expenses and maintenance, is approximately A\$4,900 (C\$3,995). The Corporation currently leases the office on a month to month basis.

3G Corporation's New Zealand office is a leased facility of approximately 49 square meters comprising 1.0% of a 4,764 square meter building located at Level 2, Tower Building, Christchurch, New Zealand. The monthly base rental, including taxes, common expenses and maintenance, is approximately NZ\$800 (C\$530). The Corporation currently leases the office on a month to month basis.

Triple G Limited's office in England is a leased facility of approximately 1,745 square feet comprising 24% of a 7,317 square foot building located at Second Floor, Cambridge House, 26 Tombland, Norwich, Norfolk, United Kingdom. The monthly base rental, including taxes, common expenses and maintenance, is approximately £1,500 (C\$3,475). The lease term expires on June 21, 2012.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated financial information for the Corporation, for the periods indicated, have been derived from, should be read in conjunction with, and is qualified in its entirety by reference to the consolidated financial statements appearing elsewhere in this prospectus. See "Management's Discussion and Analysis of Operating Results and Financial Condition of the Corporation".

Statements of operations

| | Three months ended March 31 2002 (unaudited) | Three months ended March 31 2001 (unaudited) | Year ended December 31 2001 | Year ended December 31 2000 | Year ended December 31 1999 |
|--------------------------------------|--|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Revenue | \$ 5,067,530 | \$ 4,927,132 | \$ 19,635,726 | \$ 13,458,499 | \$ 11,587,201 |
| Cost of revenue | 1,900,777 | 1,734,910 | 7,250,929 | 4,987,061 | 4,151,839 |
| | 3,166,753 | 3,192,222 | 12,384,797 | 8,471,438 | 7,435,362 |
| Expenses: | | | | | |
| Sales and marketing | 893,073 | 885,672 | 3,214,001 | 3,436,292 | 1,939,179 |
| Research and development | 1,254,976 | 1,119,177 | 4,469,373 | 5,733,319 | 4,540,302 |
| General and administrative | 1,199,618 | 1,012,028 | 4,659,790 | 4,439,422 | 3,375,277 |
| | 3,347,667 | 3,016,877 | 12,343,164 | 13,609,033 | 9,854,758 |
| Earnings (loss) before the following | (180,914) | 175,345 | 41,633 | (5,137,595) | (2,419,396) |
| Interest expense | 22,812 | 139,786 | 329,139 | 433,408 | 148,052 |
| Depreciation | 69,890 | 75,840 | 406,366 | 330,261 | 346,315 |
| Amortization | – | 274,631 | 958,450 | 1,099,895 | 687,161 |
| Loss for the period | (273,616) | (314,912) | (1,652,322) | (7,001,159) | (3,600,924) |
| Deficit, beginning of period | (24,709,479) | (23,057,157) | (23,057,157) | (16,055,998) | (12,455,074) |
| Deficit, end of period | \$(24,983,095) | \$(23,372,069) | \$(24,709,479) | \$(23,057,157) | \$(16,055,998) |
| Loss per Common Share: | | | | | |
| Basic and diluted | \$ (0.01) | \$ (0.03) | \$ (0.11) | \$ (0.60) | \$ (0.40) |

Balance Sheets

| | March 31, 2002 (unaudited) | December 31, 2001 | December 31, 2000 | December 31, 1999 |
|-----------------------------------|----------------------------------|-------------------|-------------------|-------------------|
| Working capital (deficiency) | \$ 3,186,729 | \$ 3,480,097 | \$ (1,172,142) | \$ 630,409 |
| Total assets | \$ 12,008,687 | \$ 12,361,722 | \$ 10,015,833 | \$ 11,428,123 |
| Total liabilities | \$ 8,254,944 | \$ 8,351,228 | \$ 10,942,571 | \$ 6,087,025 |
| Shareholders' equity (deficiency) | \$ 3,753,743 | \$ 4,010,494 | \$ (926,738) | \$ 5,341,098 |

The following chart sets forth, for each of the quarters ended on the date indicated, information relating to the Corporation's revenue, loss and loss per Common Share:

| | March 31 2002 | Dec. 31 2001 | Sept. 30 2001 | June 30 2001 | March 31 2001 | Dec. 31 2000 | Sept. 30 2000 | June 30 2000 | March 31 2000 |
|-----------------------|---|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|
| | (unaudited and stated in thousands of dollars, except per share data) | | | | | | | | |
| Revenue | \$ 5,068 | \$ 4,809 | \$ 4,952 | \$ 4,948 | \$ 4,927 | \$ 3,702 | \$ 3,533 | \$ 3,191 | \$ 3,032 |
| Loss for the period | (274) | (302) | (553) | (482) | (315) | (2,108) | (1,788) | (1,700) | (1,405) |
| Loss per Common Share | | | | | | | | | |
| Basic and diluted | \$ (0.01) | \$ (0.01) | \$ (0.03) | \$ (0.04) | \$ (0.03) | \$ (0.18) | \$ (0.15) | \$ (0.15) | \$ (0.12) |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION OF THE CORPORATION

The following discussion and analysis compares the Corporation's financial results for the three months ended March 31, 2002 to the three months ended March 31, 2001, the year ended December 31, 2001 to the year ended December 31, 2000, and the year ended December 31, 2000 to the year ended December 31, 1999. The following discussion and analysis should be read in conjunction with the consolidated financial statements of Triple G Systems Group, Inc., the notes thereto and the financial information appearing elsewhere in this prospectus. See "Consolidated Financial Statements". Historical results of operations, percentage relationships and any trends that may be inferred from the following discussion and analysis are not necessarily indicative of the operating results for any future period.

The following discussion and analysis and comments elsewhere in this prospectus may contain statements of the Corporation's or management's intentions, hopes, beliefs, expectations or predictions of the future, which may constitute forward-looking statements and involve risks and uncertainties. It is important to note that any actual performance, financial results, financial condition or business could differ materially from those expressed in such forward-looking statements. Factors that could cause or contribute to such difficulties include but are not limited to those discussed in this prospectus. See "Risk Factors". The Corporation undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results, financial condition or business over time.

Results of Operations

The Corporation designs, develops, markets, installs and supports laboratory solutions that enable hospitals, clinics and private reference laboratories to automate their complex laboratory processes and manage their large volumes of clinical data. The Corporation derives revenue primarily from license fees for computer-based information systems, third party software, and associated professional services. Professional services consist of a variety of services related to the Corporation's information processing systems such as system installation and support, information systems planning and integration, project management and training.

The market for application software in the laboratory and hospital information systems software industry is highly competitive. The Corporation has successfully competed in many cases against organizations with more established and larger sales and marketing structures, larger technical staff, and significantly greater financial resources and market capitalization.

Substantially all of the Corporation's revenue is currently derived from a limited number of customers, products and services all related to laboratory software products. Accordingly, the Corporation's future results of operations will depend, in part, on maintaining and increasing market acceptance of these products and services, as well as on the Corporation's ability to continue to enhance performance and functionality of these products and services in light of rapid technological change.

The overall market for application software in laboratory and hospital information systems software industries has experienced significant growth in recent years. During this period the Corporation has

spent, and intends to continue to spend, considerable resources educating potential customers generally about laboratory software solutions and specifically about the Corporation's products, in order to achieve an additional degree of market acceptance. If the market for laboratory software fails to grow or grows more slowly than the Corporation currently anticipates, the Corporation's business, results of operations and financial condition could be adversely affected.

The Corporation has two business segments, ULTRA and TriWin, both involved in the development, marketing, licensing and support of laboratory information systems. ULTRA operates under the Open Systems Architecture of UNIX and is ideally suited for large high volume, multi-facility laboratory environments. The sales cycle for the ULTRA software solution is typically six to eighteen months from initial contact to contract execution, and depending upon the customer's installation schedule, installation typically takes from nine to eighteen months. TriWin is the Corporation's NT-based laboratory solution that automates small- to medium-sized laboratories primarily in Canada. The sales cycle for the TriWin product is typically three to nine months, and installation generally takes from three to six months.

The sale and implementation of the Corporation's products generally involves a significant commitment of resources by prospective customers. The Corporation expects that license fees will continue to increase in size and the implementation of the Corporation's products will become more complex as its laboratory solution is used to manage larger and more geographically dispersed installations. As a result, the Corporation's sales process is often subject to delays associated with lengthy approval processes attendant to significant capital expenditures. For these and other reasons, the sales cycle associated with the license of the Corporation's products varies substantially from customer to customer during which time the Corporation may devote significant time and resources to a prospective customer, including costs associated with multiple site visits, product demonstrations and feasibility studies, and experience a number of significant delays over which the Corporation has no control. In addition, following license sales, the implementation period involves customer training and integration with the customer's other existing systems. A successful implementation program requires a close working relationship between the Corporation, the customer and, generally, third party consultants and system integrators who assist in the process.

The Corporation recognizes revenue from software license fees and sale of product and services using the percentage-of-completion method of contract accounting based on the ratio of total labour hours incurred to date to estimated labour hours. Delays or difficulties in the implementation process for any given customer will have a direct impact on revenue recognition, results of operations and financial condition. Support revenue is recognized ratably over the life of the maintenance agreements.

Three Months Ended March 31, 2002 and March 31, 2001 (unaudited)

Revenue During the first quarter of 2002, revenue increased by \$141,000, or 3%, to \$5,068,000 from \$4,927,000 for the same period of 2001. The increase in revenue can be attributed to a 17% increase in professional services revenue and a 12% increase in support fees, offset by a reduction of 15% in software license fees. In the first quarter of 2001, an Australian-based customer was aggressively growing its business and required an expansion of their license to use ULTRA. Such a sale did not recur in 2002 resulting in a reduction in license fees during the first quarter of 2002, as compared to the same period a year ago. A breakdown of revenue by revenue type is presented below:

| (stated in \$ thousands) | 2002 | 2001 | \$ Change | % Change | % of total | |
|--------------------------|--------------|--------------|------------|----------|------------|------|
| | | | | | 2002 | 2001 |
| Software license fees | 1,870 | 2,210 | (340) | (15) | 37 | 45 |
| Professional services | 1,522 | 1,300 | 222 | 17 | 30 | 26 |
| Support | 1,536 | 1,376 | 160 | 12 | 30 | 28 |
| Other | 140 | 41 | 99 | 241 | 3 | 1 |
| | 5,068 | 4,927 | 141 | 3 | | |

On a business segment basis, 83% of revenue, or \$4,199,000 was recorded by the ULTRA segment, which represents a 3% decline from the \$4,333,000 recorded during the prior period. During the first quarter of 2002, the TriWin business segment recorded a 46% increase in revenue to \$869,000 from \$594,000 reflecting an increase in the number of concurrent TriWin implementations in progress during the period. A breakdown of revenue by business segment is presented below:

| (stated in \$ thousands) | Quarter ended March 31, 2002 | | | Quarter ended March 31, 2001 | | | ULTRA | |
|--------------------------|------------------------------|------------|--------------|------------------------------|------------|--------------|--------------|------------|
| | ULTRA | TriWin | Total | ULTRA | TriWin | Total | \$ Change | % Change |
| Software license fees | 1,518 | 352 | 1,870 | 2,016 | 194 | 2,210 | (498) | (25) |
| Professional services | 1,385 | 137 | 1,522 | 1,190 | 110 | 1,300 | 195 | 16 |
| Support | 1,259 | 277 | 1,536 | 1,118 | 258 | 1,376 | 141 | 13 |
| Other | 37 | 103 | 140 | 9 | 32 | 41 | 28 | 311 |
| | 4,199 | 869 | 5,068 | 4,333 | 594 | 4,927 | (134) | (3) |
| Percentage of total | 83 | 17 | | 88 | 12 | | | |

On a geographic basis, during the three-month period ended March 31, 2002, 54% of revenue was derived from customers in the United States, which represents an increase from the 39% of total revenue during the first quarter of 2001. Asia Pacific's contribution during the first quarter of 2002 decreased to 23% from 40% during the same period in 2001 due to the license expansion sale recorded in March 2001 referred to above. The Canadian and European markets accounted for the residual revenue.

Cost of revenue Total cost of revenue as a percentage of revenue during the first quarter of 2002 was 38%, which is slightly higher than 2001 levels of 35%. The increase is due to lower software license fees recorded in 2002, which generally has lower costs of revenue.

Sales and marketing expenses Sales and marketing expenses remained consistent during the first quarter of 2002 as compared to 2001 at approximately \$890,000, which represents 18% of total revenue.

Research and development expenses Research and development expenses increased by 12% to \$1,255,000 during the first quarter of 2002 from \$1,119,000 during 2001. The Corporation is committed to dedicating a significant portion of its revenue to research and development, as management

believes that product innovation and enhancement are essential to long-term growth. The increase in expenditures during 2002 was due to higher compensation costs over the first quarter of 2001 levels, but remained consistent to expense levels incurred during the fourth quarter of 2001. During the first quarter of 2002, research and development expenses represented 25% of revenue, which is slightly higher than the 23% of revenue recorded in 2001.

General and administrative expenses General and administrative expenses increased 19% to \$1,200,000 during the first quarter of 2002 from \$1,012,000 during 2001. The increase is due primarily to higher compensation and communication costs, and increased management travel.

Interest expense During the first quarter of 2002, interest expense declined from \$140,000 to \$23,000. This decline is mostly due to an increase in cash available for investment, albeit at lower interest rates. Pursuant to a monthly repayment schedule, long-term debt principal has steadily declined, resulting in a lower interest expense. On June 30, 2000, the Corporation obtained \$3,000,000 in bridge financing comprised of convertible debentures. On July 10, 2001 these debentures, including accrued interest, were converted into Common Shares. Until the time these debentures were converted, interest was expensed using an effective interest rate of 18% per annum.

Amortization Amortization expense represents the amortization of acquired software rights associated with the May 1999 acquisition of the ULTRA business and intellectual property in Asia Pacific. These costs were fully amortized by November 2001, which accounts for there being no amortization during 2002.

Income taxes The Corporation has significant accumulated losses for income tax purposes, which can be used to reduce taxable income in future periods.

Years Ended December 31, 2001 and December 31, 2000

Revenue Total revenue increased by \$6,178,000, or 46%, to \$19,636,000 during the year ended December 31, 2001 from \$13,458,000 for the same period in 2000. The increase in revenue can be attributed to a 60% increase in software license fees, a 75% increase in professional services and a 15% and 21% increase in support and other revenue respectively. Revenue can be broken down as follows:

| (stated in \$ thousands) | 2001 | 2000 | \$ Change % Change | | % of total | |
|--------------------------|---------------|---------------|--------------------|-----------|------------|------|
| | | | | | 2001 | 2000 |
| Software license fees | 7,590 | 4,735 | 2,855 | 60 | 38 | 35 |
| Professional services | 5,857 | 3,347 | 2,510 | 75 | 30 | 25 |
| Support | 5,821 | 5,073 | 748 | 15 | 30 | 38 |
| Other | 368 | 303 | 65 | 21 | 2 | 2 |
| | 19,636 | 13,458 | 6,178 | 46 | | |

The increase in software license fees and professional services revenue is due to an increase in the number of concurrent ULTRA implementations in progress. Support revenue is higher in 2001 due to an increase in the number of customers using the Corporation's software.

On a business segment basis, 86% of revenue was recorded by the ULTRA segment, which represents an increase over the 80% registered the prior year. During 2001, revenue from the ULTRA segment increased \$6,229,000, or 58% over 2000 levels mostly due to more implementations in progress referred to above. A breakdown of revenue by business segment is presented below:

| (stated in \$ thousands) | Year ended December 31, 2001 | | | Year ended December 31, 2000 | | | ULTRA | |
|--------------------------|------------------------------|--------------|---------------|------------------------------|--------------|---------------|--------------|-----------|
| | ULTRA | TriWin | Total | ULTRA | TriWin | Total | \$ Change | % Change |
| Software license fees | 6,689 | 901 | 7,590 | 3,680 | 1,055 | 4,735 | 3,009 | 82 |
| Professional services | 5,347 | 510 | 5,857 | 2,833 | 514 | 3,347 | 2,514 | 89 |
| Support | 4,766 | 1,055 | 5,821 | 4,138 | 935 | 5,073 | 628 | 15 |
| Other | 164 | 204 | 368 | 86 | 217 | 303 | 78 | 91 |
| | 16,966 | 2,670 | 19,636 | 10,737 | 2,721 | 13,458 | 6,229 | 58 |
| Percentage of total | 86 | 14 | | 80 | 20 | | | |

On a geographic basis, during the period ended December 31, 2001, 46% of revenue was derived from customers in the United States, which represents an increase from the 42% of total revenue during 2000. Asia Pacific's contribution remained the same at 27%, while the Canadian market declined in percentage terms as the Corporation successfully expanded its international focus. During 2001, the Corporation launched its ULTRA product into Europe and generated \$1.5 million in revenue or 8% of its revenue from this initiative. The Corporation's strategy is to continue to expand its customer base primarily in Europe and in the United States while maintaining its current customer base through delivering a high quality laboratory solution and high level of service to its customers.

Cost of revenue Total cost of revenue as a percentage of revenue during the year ended December 31, 2001 was 37%, which is consistent with 2000 levels. Cost of revenue includes the salaries and expenses of staff providing professional services, and the cost of hardware and third party software and supplies sold during the periods.

Sales and marketing expenses Sales and marketing expenses consist primarily of salaries and expenses of the Corporation's sales and marketing staff, commissions and promotional costs. These expenses declined 6% to \$3,214,000 during the year ended December 31, 2001 from \$3,436,000 during 2000 and decreased as a percentage of total revenue from 26% to 16%. During 2000, the Corporation's European initiative was focused on sales and marketing activities, while in 2001 the Corporation deployed resources to implementing its first two contracts in the region.

Research and development expenses Research and development expenses consist mainly of salaries and benefits for programming and technical staff and consulting fees. These expenses decreased by 22% to \$4,469,000 during the year ended December 31, 2001 from \$5,733,000 during 2000. The decrease in expenditures during 2001 was due to the planned termination of a services agreement with Three Gorges Pty Ltd during 2001. As a result of this termination, expenses allocated to research and development declined by approximately \$650,000 in 2001. Also during 2000, the Corporation incurred approximately \$510,000 in research and development costs associated with its discontinued application service provider initiative. During 2001 research and development expenses represented 23% of revenue, which is more reflective of levels the Corporation should incur in the future than the 43% of revenue incurred during 2000.

General and administrative expenses General and administrative expenses primarily consist of administrative and management salaries and benefits, interest costs, professional fees, communication, rent, leasing, bad debt and general office expenses. These expenses increased 5% to \$4,660,000 during the year ended December 31, 2001 from \$4,439,000 during 2000. The increase is due primarily to higher management and administrative salaries, and increased management travel.

Interest expense During the year ended December 31, 2001, interest declined from \$433,000 to \$329,000. This decline is mostly due to an increase in cash available for investment, albeit at lower interest rates. Also interest expense was lower since long-term debt principal has steadily declined, as scheduled repayments are made monthly. On June 30, 2000, the Corporation obtained \$3,000,000 in bridge financing comprised of convertible debentures. On July 10, 2001 these debentures, including accrued interest were converted into Common Shares. Until the time these debentures were converted, interest was expensed using an effective interest rate of 18% per annum.

Amortization Amortization expense represents the amortization of acquired software rights associated with the May 1999 acquisition of the ULTRA business and intellectual property in Asia Pacific. These costs were fully amortized by November 2001, which accounts for the decline in the expense in 2001 from 2000 levels.

Income taxes The Corporation has significant accumulated losses for income tax purposes, which can be used to reduce taxable income in future periods.

Years Ended December 31, 2000 and December 31, 1999

Revenue Total revenue increased by \$1,871,000 to \$13,458,000 during the year ended December 31, 2000 from \$11,587,000 for the same period in 1999. The increase in revenue can be attributed to a \$1,250,000 or 36% increase in license fees and a \$1,392,000 or 38% increase in support revenue offset by a \$655,000 and \$116,000 decline in professional services and hardware revenue respectively. The increase in license fees is attributable to a \$942,000 increase in ULTRA software revenue and a \$308,000 increase in TriWin software revenue. Support revenue is higher in 2000 due to an increase in the number of customers using the Corporation's software and a full twelve months of support revenue being earned from the Corporation's Asia Pacific customers during 2000. Professional service fees declined during 2000 due to the extensive services provided in the latter half of 1999 getting customers live with the Corporation's software in advance of Y2K.

On a geographic basis, during the period ended December 31, 2000, 42% of revenue was derived from customers in the United States, which represents a slight decline from the 43% of total revenue during 1999. Asia Pacific contributed 27% of revenue which compares to the 26% during 1999. The remainder of revenue is from the Canadian market, which remained relatively constant as a percentage of total revenue between the two periods.

Revenue can be broken down as follows:

| (stated in \$ thousands) | Year ended December 31, 2000 | | | Year ended December 31, 1999 | | |
|-----------------------------------|------------------------------|--------|--------|------------------------------|--------|--------|
| | ULTRA | TriWin | Total | ULTRA | TriWin | Total |
| License fees | 3,680 | 1,055 | 4,735 | 2,738 | 747 | 3,485 |
| Professional services and support | 6,971 | 1,449 | 8,420 | 6,452 | 1,231 | 7,683 |
| Hardware and other | 86 | 217 | 303 | 168 | 251 | 419 |
| | 10,737 | 2,721 | 13,458 | 9,358 | 2,229 | 11,587 |

Cost of revenue Total cost of revenue as a percentage of revenue during the year ended December 31, 2000 was 37% which represents a slight increase over 1999. The primary reason for the increase is higher costs of providing professional services and support in the Asia Pacific market. Cost of revenue includes the salaries and expenses of staff providing professional services, and the cost of hardware and third party software and supplies sold during the periods.

Sales and marketing expenses Sales and marketing expenses consist primarily of salaries and expenses of the Corporation's sales and marketing staff, commissions and promotional costs. These expenses increased 77% to \$3,436,000 during the year ended December 31, 2000 from \$1,939,000 during 1999 and increased as a percentage of total revenue from 17% to 26%. The increase is due to the effort of the Corporation to increase its USA sales personnel and opening the European market. As of December 31, 2000, the Corporation employed a total of 11 individuals for its sales activities which is 5 greater than the 6 employees that the Corporation had focused on sales activities as of January 1, 2000.

Research and development expenses Research and development expenses consist mainly of salaries and benefits for programming staff and consulting fees. Research and development expenses increased by 26% to \$5,733,000 during the year ended December 31, 2000 from \$4,540,000 during 1999. The

increase in expenditures during 2000 was attributable to the growth in research and development staff and increases in salaries necessary to retain and motivate this skilled staff. In addition the Corporation incurred additional consulting fees pursuant to a services agreement with Triple G Corporation Pty. Ltd. (“Ausco”) and fees and salaries associated with the Corporation’s launch of its application service provider strategy. Research and development expenses as a percentage of revenue were 43% for the year ended December 31, 2000, which compares to 39% during 1999. Management believes that these expenditures will reduce as a percentage of revenue to a level that more appropriately reflects the Corporation’s stage of growth going forward.

General and administrative expenses General and administrative expenses consist primarily of administrative and management salaries and benefits, professional fees, communication, rent, leasing, bad debt and general office expenses. These expenses increased 32% to \$4,439,000 during the year ended December 31, 2000 from \$3,375,000 during 1999 and increased as a percentage of revenue to 33% from 29%. The increase is due primarily to higher management and administrative salaries and professional fees during 2000. In addition, the Corporation incurred a full year of general and administrative expenses associated with the Corporation’s Asia Pacific business during 2000, which commenced operations on May 19, 1999 after the Corporation’s acquisition of assets from Ausco.

Interest expense On June 30, 2000, the Corporation obtained \$3,000,000 in bridge financing comprised of convertible debentures. Interest has been expensed using an effective interest rate of 18% per annum. As a result of this financing, interest expense increased to \$433,000 during the year ended December 31, 2000 from \$148,000 during 1999.

Amortization Amortization expense during the year ended December 31, 2000 represents a full year amortization of acquired software rights from Ausco, whereas the amortization expense for the year ended December 31, 1999 represents amortization for the 7.5 month period subsequent to the May 19, 1999 acquisition of such rights from Ausco.

Income taxes The Corporation has significant accumulated losses for income tax purposes, which can be used to reduce taxable income in future periods.

Years Ended December 31, 1999 and December 31, 1998

Revenue Total revenue increased by \$2,396,000 or 26% to \$11,587,000 during the year ended December 31, 1999 from \$9,191,000 during 1998. The increase in revenue can be attributed to a \$700,000 or 25% increase in license fees, a \$2,358,000 or 44% increase in professional services and support revenue, offset by a \$662,000 or 61% decrease in hardware and other revenue during 1999. The increase in license fees and professional services and support revenue is primarily attributable to \$2,951,000 in revenue being generated from the Asia Pacific market, which had no revenue during 1998.

On a geographic basis, 43% of revenue was derived from customers in the United States during 1999, which represents a decline from the 66% of total revenue in 1998. This decline is because 26% of revenue in 1999 was derived from the new Asia Pacific market which had no sales during 1998. The remaining revenue is from the Canadian market, which remained relatively constant as a percentage of total revenue between the two periods. Revenue can be broken down as follows:

| (stated in \$ thousands) | Year ended December 31, 1999 | | | Year ended December 31, 1998 | | |
|-----------------------------------|------------------------------|--------|--------|------------------------------|--------|-------|
| | ULTRA | TriWin | Total | ULTRA | TriWin | Total |
| License fees | 2,738 | 747 | 3,485 | 2,145 | 640 | 2,786 |
| Professional services and support | 6,452 | 1,231 | 7,683 | 4,565 | 760 | 5,324 |
| Hardware and other | 168 | 251 | 419 | 895 | 186 | 1,081 |
| | 9,358 | 2,229 | 11,587 | 7,605 | 1,586 | 9,191 |

Cost of revenue Total cost of revenue as a percentage of revenue during the year ended December 31, 1999 was 36%, which represents an increase of 3% over 1998 levels. The increase is primarily related to higher costs of providing professional services and support in the Asia Pacific market. Cost of revenue include the salaries, benefits and expenses of staff providing professional services, and the cost of hardware and third party software and supplies sold during the periods.

Sales and marketing expenses Sales and marketing expenses consist principally of salaries, benefits, and expenses relating to the Corporation's sales and marketing staff, as well as commissions and promotional materials. These expenses increased 18% to \$1,939,000 during 1999 from \$1,649,000 during 1998 and decreased as a percentage of total revenue to 17% from 18%. The increase, in absolute dollars of sales and marketing expenses, is due to the effort to enhance the Corporation's exposure in all markets through trade shows and new marketing endeavors.

Research and development expenses Research and development expenses consist generally of salaries and benefits of programming staff and consulting fees. Research and development expenses increased by 63% to \$4,540,000 during the year ended December 31, 1999 from \$2,780,000 during 1998. The increase in expenditures during 1999 was attributable to the growth in research and development staff, increases in salaries necessary to retain and motivate this skilled staff, and consulting fees incurred in the development of a new module for the ULTRA product. Research and development expenses as a percentage of revenue were 39% for the year ended December 31, 1999, which compares to 30% during the 1998 period.

General and administrative expenses General and administrative expenses consist mostly of administrative and management salaries and benefits, professional fees, communication, rent, bad debt and general office expenses. These expenses increased 51% to \$3,375,000 during 1999 from \$2,240,000 during 1998 and increased as a percentage of revenue to 29% from 24%. The increase is due mainly to an increase in compensation costs and legal fees related to customer contract negotiations.

Amortization and write-down of intangible assets Amortization expense during the year ended December 31, 1999 represents the amortization of acquired software rights from Ausco. For the year ended December 31, 1998, the expense relates to the amortization of the intangible assets related to various 1997 acquisitions. During 1998, it was concluded that there was a permanent impairment in the value of the intangible assets based on a decrease in estimated future cash flows and wrote-down the residual \$3,960,000 of intangible assets.

Income taxes The Corporation has significant accumulated losses for income tax purposes, which can be used to reduce taxable income in future periods. As a result, there is no income tax expense for the 1999 period and the income tax expense during 1998 represents the recovery of previously recorded deferred taxes amounting to \$61,000.

Discontinued operations In December 1998, the Corporation decided to abandon a business which was developing a suite of products designed to order and report clinical tests, act as a data repository, and provide patient movement and practice management functionality. The results of this business unit for the year ended December 31, 1998 are disclosed as a loss from discontinued operations totalling \$1,901,000.

Liquidity and Capital Resources

| (stated in \$ thousands) | March 31, 2002 (unaudited) | December 31, 2001 | December 31, 2000 |
|-----------------------------------|-------------------------------|-------------------|-------------------|
| Cash and cash equivalents | 2,800 | 4,763 | 1,221 |
| Working capital | 3,187 | 3,480 | (1,172) |
| Total assets | 12,009 | 12,362 | 10,016 |
| Shareholders' equity (deficiency) | 3,754 | 4,010 | (927) |

At March 31, 2002, the Corporation's cash holdings were \$2,800,000, which represents a decrease of \$1,963,000 over December 31, 2001 levels. The decrease in cash is due to a loss before depreciation of \$204,000 incurred during the period and a use of cash through changes in non-cash working capital aggregating \$1,478,000. In addition, the Corporation used \$107,000 to acquire capital assets and \$191,000 to reduce long-term debt during the period ended March 31, 2002.

At March 31, 2002, the Corporation increased accounts receivable by \$637,000 to \$4,919,000 commensurate with the increase in revenue and billing of milestones achieved during the period. At the end of March 2002, the Corporation had more installations in progress but fewer of them where work in progress exceeded milestone billings rendered to customers, resulting in unbilled work in progress decreasing by \$85,000 to \$1,908,000.

As is customary, the Corporation prepays certain technical support fees to a supplier at the beginning of each year, which are expensed ratably over the calendar term of the support agreement. As a result, prepaid technical support fees at the end of March 2002 have increased to \$704,000. Prepaid software licenses increased \$255,000 during the current period to \$754,000 reflecting an increase in the license fees paid to suppliers for software resold to customers. The cost of this software will be expensed over the period of the related implementation using the percentage-of-completion method.

Accounts payable and accrued liabilities at March 31, 2002 increased by \$119,000 to \$2,999,000 from \$2,880,000. Deferred revenue represents milestone billings in advance of revenue recognized on a percentage-of-completion basis of contract accounting. During the current period, deferred revenue declined slightly by \$23,000 to \$4,991,000 from \$5,014,000.

The Corporation expects to repay the residual long-term debt, amounting to \$265,000 as at March 31, 2002, referred to in note 7 to the consolidated financial statements, in equal monthly installments ending July 2002. See “Consolidated Financial Statements”.

At December 31, 2001, the Corporation’s cash holdings were \$4,763,000 which represents a \$3,542,000 increase over December 31, 2000 levels. During the year ended December 31, 2001, the Corporation used \$1,589,000 in operating activities, a further \$250,000 to acquire capital assets and \$731,000 to reduce long-term debt.

During 2001, the Corporation completed a series of equity financings that greatly improved the Corporation’s financial position. On July 10, 2001, the Corporation completed a \$3.5 million initial public offering (“IPO”) and issued 2,800,000 Common Shares. Coincident with this financing, and pursuant to their terms, the convertible debentures issued on June 30, 2000, having a principal and accrued interest balance aggregating \$3,246,245, were converted into 2,596,996 Common Shares. The Corporation later raised \$212,500 through the exercise of an over-allotment option granted to the agents of the IPO financing and on November 30, 2001, completed a private placement of 1,782,000 Common Shares for gross proceeds of \$2,673,000. As a result of these and other financings during 2001, the Corporation generated net proceeds of \$5,294,000 from common share issuances and converted \$3,246,245 of its debt into equity.

At December 31, 2001, the Corporation increased accounts receivable by \$1,094,000 to \$4,282,000 commensurate with the increase in revenue and activity of the Corporation during the year. At the end of 2001, the Corporation had more implementations nearing completion where work in progress exceeded milestone billings rendered to customers, resulting in unbilled work in progress increasing \$1,562,000 to \$1,993,000.

In May 2001, the Corporation made the scheduled payment of cash held in escrow pursuant to a services agreement with Three Gorges Pty Ltd. As a result, the residual \$751,000 was paid upon the termination of this agreement.

The deferred expense balance recorded as a long-term asset at December 31, 2000 related to a transaction with Unify Corporation referred to in note 3 to the consolidated financial statements. See “Consolidated Financial Statements”. Pursuant to an agreement with Unify Corporation, the deferred expense balance recorded by the Corporation as a long-term asset was reduced to \$NIL on October 31, 2001.

The intangible assets recorded by the Corporation, related to software rights acquired in May 1999, which were being amortized over the thirty-month period which ended in November 2001.

At December 31, 2000, the Corporation’s cash holdings were \$1,221,000 which represents a \$309,000 increase over December 31, 1999 levels of \$912,000. During the year ended December 31, 2000, the Corporation used \$2,568,000 in operating activities. In addition the Corporation used \$401,000 to acquire capital assets and \$665,000 to reduce long-term debt.

During the latter part of 2000, the Corporation took steps to reduce the amount of funds used in operating activities, which included the termination of personnel to implement the ASP strategy on a direct basis and curtail certain development and marketing plans.

On June 30, 2000, the Corporation obtained \$3,000,000 in bridge financing comprised of \$2,000,000 in a secured convertible debenture being issued to J.L. Albright II Venture Fund and \$1,000,000 in a secured convertible debenture being issued to Working Ventures Canadian Fund Inc., both shareholders of the Corporation with representation on the Board of Directors. Each of the Convertible Debentures bore interest at a rate of 8% per annum and, pursuant to an amendment agreement dated June 28, 2001, were automatically convertible into Common Shares on the same terms as any equity financing (“Qualifying Financing”) of the Corporation of at least \$2,000,000 during the period ending September 28, 2001 and thereafter in an amount of not less than \$6,000,000, exclusive of any subscriptions by the existing holders of Convertible Debentures. The Convertible Debentures were secured by a floating charge on all assets and undertakings of the Corporation subordinate to the interests of the Corporation’s banker and long-term debt financier. Under the terms of an extension agreement dated November 27, 2000, as amended on February 22, 2001, the principal amount of the Convertible Debentures and all interest accrued thereon would have become due and payable unless a Qualifying Financing was completed on or before April 1, 2002. The Convertible Debenture holders received, in aggregate, \$30,000 in fees to secure the bridge financing. The Convertible Debenture holders also received warrants (“Shareholder Warrants”) to acquire up to 270,000 Common Shares. The exercise price of the Shareholder Warrants was determined as being equal to the lesser of \$3.00 or the share price of the Qualifying Financing. The Shareholder Warrants expire as to 90,000 warrants on June 30, 2005, 90,000 warrants on November 27, 2005, and 90,000 warrants on February 22, 2006. The Corporation completed a Qualifying Financing on July 10, 2001 and the Convertible Debentures and accrued interest thereon aggregating to \$3,246,245 were converted into 2,596,996 Common Shares on that date and the exercise price of the Shareholder Warrants became \$1.25 each.

In addition to the Convertible Debenture financing described above, the Corporation generated cash due to a \$570,000 reduction of cash held in escrow and \$334,000 representing the net proceeds from the issuance of Common Shares during the year ended December 31, 2000.

Management believes that the cash generated from the Offering and cash available under its line of credit will be sufficient to meet operating requirements for at least the next twelve months.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Corporation as at March 31, 2002 and May 31, 2002, as well as the pro forma capitalization of the Corporation as at May 31, 2002 after giving effect to the exercise of the Special Warrants. This table should be read in conjunction with the consolidated financial statements of the Corporation and the accompanying notes thereto, contained elsewhere in this prospectus. See “Consolidated Financial Statements”.

| | Authorized | Outstanding as at March 31, 2002 ⁽¹⁾ (unaudited) | Outstanding as at May 31, 2002 after giving effect to the Offering ^{(2) (4)} (unaudited) | Outstanding as at May 31, 2002 after giving effect to the exercise of the Special Warrants ^{(2) (4)} (unaudited) |
|---------------------------------|-------------------|--|--|--|
| Long-term debt ⁽³⁾ | | \$265,467 | \$134,268 | \$134,268 |
| Common Shares | Unlimited | \$28,736,838 19,132,880 shares | \$28,770,523 19,158,828 shares | \$36,036,023 22,173,828 shares ⁽⁶⁾ |
| Special Warrants ⁽⁵⁾ | 3,015,000 | \$NIL NIL Special Warrants | \$7,265,500 3,015,000 Special Warrants | \$NIL NIL Special Warrants |
| Deficit ⁽⁷⁾ | | \$(24,983,095) | \$(24,983,095) | \$(24,983,095) |
| Total Shareholders' Equity | | \$3,753,743 | \$11,052,928 | \$11,052,928 |
| Total Capitalization | | \$4,019,210 | \$11,187,196 | \$11,187,196 |

Notes:

- (1) Before the Offering.
- (2) Excludes Common Shares issuable upon the exercise of the Broker Warrants. See "Plan of Distribution".
- (3) See note 7 to the consolidated financial statements of the Corporation for details of long-term debt.
- (4) Excludes Common Shares issuable upon the exercise of the Financing Warrants, Shareholder Warrants, Prior Financing Compensation Options and stock options outstanding as of March 31, 2002 to acquire 1,585,200 Common Shares. See "Management Discussion and Analysis of Operating Results and Financial Condition of the Corporation – Liquidity and Capital Resources" and "Options to Purchase Shares".
- (5) See "Plan of Distribution".
- (6) Gives effect to the exercise of the Special Warrants into 3,015,000 Common Shares. See "Plan of Distribution".
- (7) As at March 31, 2002.

DESCRIPTION OF SHARE CAPITAL

The authorized share capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of Class A preference shares (the "Preference Shares"). As at the date hereof, 19,158,828 Common Shares and no Preference Shares are issued and outstanding. See "Consolidated Capitalization". Each Common Share entitles the holder thereof to one vote at all meetings of the shareholders of the Corporation and to receive dividends if, as and when declared by the Board of Directors and subject to the prior rights of the holders of the Preference Shares. Holders of Common Shares will participate on a pro-rata basis in any distribution of the assets of the Corporation upon its liquidation, dissolution or winding-up.

PLAN OF DISTRIBUTION

On May 22, 2002, the Corporation issued a total of 3,015,000 special warrants (the "Special Warrants") of the Corporation at a price of \$2.70 per Special Warrant (the "Offering") on a private placement basis pursuant to exemptions from the prospectus requirements of applicable securities laws and regulations in

the provinces of Ontario and British Columbia. Yorkton Securities Inc. and Research Capital Corporation (collectively, the “Underwriters”) acted as underwriters of the Offering pursuant to an underwriting agreement dated as of May 22, 2002 (the “Underwriting Agreement”). The price of the Special Warrants was determined by negotiation between the Corporation and the Underwriters.

The Special Warrants were issued pursuant to and are governed by the terms of a special warrant indenture (the “Special Warrant Indenture”) dated as of May 22, 2002, made between the Corporation and Computershare Trust Company of Canada.

Each Special Warrant entitles the holder thereof to acquire, without payment of additional consideration, one Common Share at any time until, and will be deemed to have been exercised (without any further act on the part of the holder) immediately prior to 5:00 p.m. (Toronto time), on the date (the “Expiry Time”) which is the earlier of: (i) the fifth business day after the date of the issuance of receipts (the “Prospectus Receipt”) by the securities regulatory authorities (the “Commissions”) in the provinces of Ontario and British Columbia for a (final) prospectus of the Corporation relating to the distribution of the Common Shares to be issued upon the exercise of the Special Warrants, and (ii) September 23, 2002. If the Corporation does not obtain a Prospectus Receipt on or before August 6, 2002, the holders of Special Warrants then outstanding will be entitled, without the payment of additional consideration, to receive, upon exercise, 1.1 Common Shares (in lieu of one Common Share) for each Special Warrant.

The Special Warrant Indenture also provides, among other things, that the number of Common Shares issuable upon the exercise of the Special Warrants and the price at which such Special Warrants may be exercised, may be subject to adjustment upon the occurrence of certain stated events, including the subdivision or consolidation of Common Shares, distributions of Common Shares or securities convertible into or exchangeable to Common Shares or other property or assets of the Corporation, reclassifications of the Common Shares, changes of the Common Shares into other shares or other capital reorganization, the sale, lease or transfer of all or substantially all of the undertaking or assets of the Corporation, and the offering of rights, options or warrants.

In consideration of the services rendered by the Underwriters in connection with the Offering, the Corporation paid to the Underwriters an aggregate cash commission of \$569,835, being 7% of the gross proceeds received by the Corporation from the sale of the Special Warrants (the “Underwriters’ Commissions”). As additional consideration to the Underwriters in connection with the Offering, the Corporation issued to the Underwriters compensation options (the “Compensation Options”) exercisable, for no additional consideration, into broker warrants (the “Broker Warrants”) entitling the holders thereof to acquire 211,050 Common Shares at an exercise price of \$2.70 per Common Share, at any time up to 5:00 p.m. (Toronto time) on May 22, 2004.

No additional fee has been or will be paid to the Underwriters in connection with the issue of Common Shares upon the exercise or deemed exercise of the Special Warrants.

This prospectus qualifies the distribution of 3,015,000 Common Shares issuable upon exercise of 3,015,000 Special Warrants. This prospectus also qualifies the distribution of the portion of the Broker Warrants (the “Qualified Broker Warrants”) entitling the holders thereof to acquire Common Shares in an

amount equal to 5% of the aggregate number of Common Shares issuable from treasury upon the exercise or deemed exercise of the Special Warrants sold pursuant to the Offering.

The TSX Venture Exchange (“TSXVE”) has approved the listing of the Common Shares issuable upon the exercise of each of the Special Warrants and Broker Warrants, subject to the Corporation fulfilling all of the listing requirements of TSXVE.

The Common Shares have not been and will not be registered under the *United States Securities Act of 1933*, as amended, and subject to certain exceptions, the Common Shares may not be offered, sold or delivered in the United States or to United States persons.

Certificates representing the Common Shares issuable upon exercise of the Special Warrants will be available for delivery upon exercise or deemed exercise of the Special Warrants.

USE OF PROCEEDS

The Corporation has or intends to spend the funds available to it as stated in this prospectus. There may be circumstances, however, where, for sound business reasons, a reallocation may be necessary.

The net proceeds to the Corporation from the Offering (the “Net Proceeds”), after deducting the Commissions Fees and the expenses of the Offering in the aggregate amount of \$875,000, were approximately \$7,265,500. The Net Proceeds have been or are anticipated to be used as follows: (i) approximately \$1,200,000 for sales and marketing expansion; (ii) approximately \$1,300,000 to advance research and development activities; and (iii) approximately \$4,765,500 for working capital and general corporate purposes.

PRINCIPAL SHAREHOLDERS

To the knowledge of management of the Corporation, the only persons who beneficially own, directly or indirectly, or exercise control or direction over, 10% or more of the voting securities of the Corporation as at the date hereof and upon completion of the Offering hereunder are as set forth below:

| Name and address of Securityholder | Class of Security | Type of ownership | Number and Percentage of Common Shares prior to giving effect to the exercise of Special Warrants ⁽¹⁾ | Number and Percentage of Common Shares after giving effect to the exercise of Special Warrants ⁽²⁾ |
|--|--------------------------|--------------------------|---|--|
| J. L. Albright II Venture Fund ⁽³⁾ Toronto, Ontario | Common Shares | Of Record and Beneficial | 3,905,124/20.4% | 3,905,124/17.6% |
| F. Lee Green ⁽⁴⁾⁽⁵⁾ Markham, Ontario | Common Shares | Of Record and Beneficial | 3,881,507/20.3% | 3,881,507/17.5% |
| Working Ventures Canadian Fund Inc. ⁽⁶⁾ Toronto, Ontario | Common Shares | Of Record and Beneficial | 1,756,999/9.1% | 2,238,999/10.1% |

Notes:

- (1) Based on 19,158,828 Common Shares issued and outstanding as at the date hereof prior to giving effect to the exercise of Special Warrants or the Broker Warrants into Common Shares. See “Consolidated Capitalization”.
- (2) Based on 22,173,828 Common Shares issued and outstanding after giving effect to the exercise of Special Warrants into Common Shares. Excludes the exercise of the Broker Warrants.
- (3) John L. Albright, a director of the Corporation, is the sole shareholder, director and President of JLA Ultimate Management Inc., which is the general partner of J.L. Albright and Associates, L.P. In addition, Mr. Albright owns 57.15% of J.L. Albright and Associates, L.P., which is the general partner of J.L. Albright II Venture Fund.
- (4) Caryn Green, the spouse of F. Lee Green, entered into a voting trust agreement with F. Lee Green dated October 17, 1997 pursuant to which F. Lee Green is entitled to exercise all of the voting rights attaching to her Common Shares.
- (5) Includes 1,951,483 Common Shares held by 989362 Ontario Inc., a personal holding company of F. Lee Green and 458,592 Common Shares held by Caryn Green, the spouse of F. Lee Green. An aggregate of 1,668,573 Common Shares are held in escrow pursuant to an escrow agreement entered into under Ontario Securities Commission Policy 5.9 as follows: F. Lee Green, 1,471,435 Common shares and Caryn Green, 197,138 Common Shares. See “Escrow Arrangements”.
- (6) Working Ventures Canadian Fund Inc. is represented on the Board of Directors by Michael Graham, a director of the Corporation and Vice President, Investments with Working Ventures Canadian Fund Inc.

As of the date hereof, the directors and officers of the Corporation, as a group, beneficially own or control, directly or indirectly, 9,639,122 Common Shares, representing 50.3% of the issued and outstanding Common Shares prior to giving effect to the exercise of Special Warrants into Common Shares. After giving effect to the exercise of Special Warrants into Common Shares, the directors and officers of the Corporation, as a group, own or control, directly or indirectly, 10,306,122 Common Shares, representing 46.5% of the issued and outstanding Common Shares.

DIRECTORS AND OFFICERS

The name, municipality of residence and principal occupation during the last five years of each of the directors and officers of the Corporation, as well as the number of Common Shares to which such directors and officers beneficially own, directly or indirectly, or exercise control or direction over, are as follows:

| Name and Municipality of Residence | Office Held | Principal Occupation | Year Elected ⁽¹⁾ | Number and Percentage of Common Shares |
|---|---|---|-----------------------------|--|
| John Albright ⁽³⁾ Toronto, Ontario | Director | Partner, J.L. Albright Venture Partners | 1996 | 3,905,124/ ⁽⁴⁾ 20.4% |
| F. Lee Green ⁽²⁾ Markham, Ontario | Chairman, Chief Executive Officer and Director | Chief Executive Officer of the Corporation | 1997 | 3,881,507/ 20.3% |
| Michael Graham ^{(2) (3)} Toronto, Ontario | Director | Vice President, Investments Working Ventures Canadian Fund Inc. | 2001 | 1,756,999/ ⁽⁵⁾ 9.1% |
| Dr. Craig Lehmann Aquebogue, New York | Director | Dean, School of Health Technology and Management, State University of New York at Stony Brook | 1999 | 10,162/ <1% |
| Peter Schwartz Waterloo, Ontario | Director | Co-Chief Executive Officer, Descartes Systems Group Inc. | 2000 | Nil/Nil |
| Ralph Soberano ⁽³⁾ Toronto, Ontario | Director | Vice-President, Finance, Wycliffe International | 1997 | 55,420/ <1% |
| William Tatham ⁽²⁾ Toronto, Ontario | Director | Chief Executive Officer, XJ Partners Inc. | 2000 | Nil/Nil |
| Paula Hucko Toronto, Ontario | President – Americas | President – Americas, of the Corporation | 1996 | 20,000/ <1% |
| Robert Macmillan Tucson, Arizona | Executive Vice President Research and Development | Executive Vice President Research and Development of the Corporation | 1999 | Nil/Nil |
| Robert McQuade Markham, Ontario | Secretary and Chief Financial Officer | Secretary and Chief Financial Officer of the Corporation | 1998 | 9,910/<1% |
| Chris Spence Ostbevern, Germany | Managing Director, Asia Pacific and Europe | Managing Director, Asia Pacific and Europe, of the Corporation | 2000 | Nil/Nil |

Notes:

- (1) All directors are elected for a term expiring immediately prior to the next annual meeting of shareholders or until their successors are elected or appointed.
- (2) Member of the Compensation Committee.
- (3) Member of the Audit Committee.
- (4) Held by J.L. Albright II Venture Fund. John L. Albright is the sole shareholder, director and President of JLA Ultimate Management Inc., which is the general partner of J.L. Albright and Associates, L.P. In addition, Mr. Albright owns 57.15% of J.L. Albright and Associates, L.P. which is the general partner of J.L. Albright II Venture Fund.
- (5) Held by Working Venture Canadian Fund Inc., in which Mr. Graham is a Vice President, Investments.

Pursuant to Canadian securities laws, the Corporation is required to have an audit committee.

The principal occupation of the directors and officers of the Corporation during the past five years, as well as certain biographical information is summarized below:

John Albright has been an outside member of the Board of Directors since July 1996. Since May 1996, Mr. Albright has been a Partner of J.L. Albright Venture Partners Inc., a venture capital fund which specializes in making investments in emerging private IT companies.

F. Lee Green has been Chief Executive Officer of the Corporation and Chairman of the Board of Directors since Triple G Corporation was acquired on October 17, 1997. Before that date, he was and continues to be President of Triple G Corporation which position he has held since he founded Triple G Corporation in North America in 1992.

Michael Graham has been an outside member of the Board of Directors since May 2001. Mr. Graham is a Vice President, Investments with Working Ventures Canadian Fund Inc., a Canadian labour sponsored investment fund since June 1996. Mr. Graham earned a Master of Business Administration from the Schulich School of Business at the York University in Toronto, Ontario in 1996 and a Bachelor of Commerce degree from Queen's University in Kingston, Ontario in 1989.

Dr. Craig Lehmann has been an outside member of the Board of Directors since June 21, 1999. Dr. Lehmann is the Dean of the School of Health Technology and Management where he has been since 1974, and Professor and Chair of the Division of Diagnostic and Therapeutic Sciences, at the State University of New York at Stony Brook. Dr. Lehmann has a Ph.D. from the Union Institute which he obtained in 1990 and has a Masters of Science from Long Island University and a Bachelor of Science from the Empire State College.

Ralph Soberano has been an outside member of the Board of Directors since November 1997. Mr. Soberano has been Vice-President Finance of Wycliffe International, a privately held investment company specializing in real estate across Canada and the United States, since October 1984. Mr. Soberano has a Masters of Business Administration and a Bachelor of Commerce, which he earned from the University of Windsor in 1982 and earned a Bachelor of Business Administration from the University of Western Ontario in 1980.

Peter Schwartz has been an outside member of the Board of Directors since May 2000 and is presently Chairman and Co-Chief Executive Officer of The Descartes Systems Group Inc. since February 1996. Prior to that appointment, Mr. Schwartz held several positions with The Descartes Systems Group, Inc., a company listed on The Toronto Stock Exchange and NASDAQ including President and Chief Executive Officer from 1995 and as Chief Executive Officer and Vice-President, Sales and Marketing from 1993. Mr. Schwartz earned a Honours degree in Business Administration from the Richard Ivey School of Business at the University of Western Ontario.

William Tatham has been an outside member of the Board of Directors since May 2000 and is presently Chief Executive Officer of XJ Partners Inc. since September 2001. Mr. Tatham retired in 2001 as Vice President and General Manager Institutional Finance of Siebel Systems Canada, Ltd. a position he held since November 2000. Prior to the acquisition of Janna Systems Inc. by Siebel Systems Canada, Ltd., Mr. Tatham was President, Chief Executive Officer, Chairman and Secretary of Janna Systems Inc., a public company that was listed on The Toronto Stock Exchange, which he founded in 1990. Mr. Tatham holds a Bachelor of Applied Science in System Design Engineering with options in socio-economic systems and management science from the University of Waterloo.

Paula Hucko is President-Americas of the Corporation. Ms. Hucko joined the Corporation in September 1996 as Vice-President, Business Development and became President on December 1, 1996. Ms. Hucko earned a Masters of Business Administration in 1979 and a Bachelor of Science in 1977 from McMaster University.

Robert Macmillan has been Executive Vice President, Research and Development of the Corporation since June 1999. Prior to joining the Corporation, Mr. Macmillan was Vice President, Research and Development with Prologic Corporation from June 1998 to May 1999 and during the period from March 1996 to June 1998 he was Vice President, Software Engineering of Sunquest Information Systems. Mr. Macmillan earned a Master of Science from the University of Manitoba in 1972 and a Diploma of Numerical Analysis and Computing in 1967 and a Bachelor of Science in 1966 both from the University of Western Australia.

Robert McQuade has held the office of Secretary and Chief Financial Officer of the Corporation since July 1998. Between December 1996 and May 1998, Mr. McQuade was Vice President, Finance of Isolation Systems Limited. a computer network security provider. Mr. McQuade has been a Chartered Accountant since 1980 and earned a Bachelor of Commerce degree from Concordia University in 1977.

Chris Spence assumed the role of Managing Director – Europe in March of 2000 and expanded his duties to include Asia Pacific in October 2001. Prior to joining the Corporation, Mr. Spence was European Business Development Manager for Sunquest Information Systems from 1998 to early 2000 where he was responsible for developing and implementing European expansion strategies and during the period from 1995 to 1998 he was self-employed as a Management Consultant advising American software companies on market development strategies for Germany and Scandinavia. Mr. Spence has a Masters in Business Administration from The Open University Business School in Europe.

Corporate Bankruptcies

Michael Graham was a director of CD Plus.com Inc., a former Toronto Stock Exchange listed company that filed an assignment in bankruptcy under the *Bankruptcy and Insolvency Act* (Canada) in March 2001.

EXECUTIVE COMPENSATION

The following table provides a summary of all compensation earned during each of the Corporation's three most recently completed financial years by the Chair and Chief Executive Officer of the Corporation and each of the other executive officers of the Corporation who earned in excess of \$100,000 (collectively, the "Named Executive Officers").

| | Annual Compensation | | | | Long Term Compensation | | | |
|---|---------------------|-------------|------------|--------------------------------|--------------------------|--|------------------|--|
| | | | | | Awards | | Payouts | |
| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Other Annual Compensation (\$) | Options/SARs Granted (#) | Restricted Shares or Restricted Share Units (\$) | LTIP Payout (\$) | All Other Compensation (\$) ⁽⁶⁾ |
| F. Lee Green Chairman and Chief Executive Officer ⁽¹⁾ | 2001 | 265,000 | 50,000 | NIL | 250,000 | NIL | NIL | 7,800 |
| | 2000 | 254,599 | NIL | NIL | NIL | NIL | NIL | 4,550 |
| | 1999 | 240,000 | NIL | NIL | NIL | NIL | NIL | 328 |
| Paula Hucko President – Americas ⁽²⁾ | 2001 | 229,513 | 34,000 | 43,002 | 50,000 | NIL | NIL | 15,399 |
| | 2000 | 225,000 | NIL | NIL | 16,500 | NIL | NIL | 7,862 |
| | 1999 | 225,000 | 20,000 | NIL | 50,000 | NIL | NIL | 52,692 |

| | Annual Compensation | | | | Long Term Compensation | | | |
|--|---------------------|-------------|------------|--------------------------------|--------------------------|--|------------------|--|
| | | | | | Awards | | Payouts | |
| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Other Annual Compensation (\$) | Options/SARs Granted (#) | Restricted Shares or Restricted Share Units (\$) | LTIP Payout (\$) | All Other Compensation (\$) ⁽⁶⁾ |
| Robert Macmillan Executive Vice President – Research and Development ⁽³⁾ | 2001 | 213,263 | 32,500 | NIL | 40,000 | NIL | NIL | NIL |
| | 2000 | 200,000 | 15,000 | NIL | 13,000 | NIL | NIL | NIL |
| | 1999 | 102,308 | NIL | NIL | 80,000 | NIL | NIL | NIL |
| Robert McQuade Secretary and Chief Financial Officer ⁽⁴⁾ | 2001 | 119,930 | 32,500 | NIL | 40,000 | NIL | NIL | 2,399 |
| | 2000 | 110,000 | 4,165 | NIL | 15,300 | NIL | NIL | 3,054 |
| | 1999 | 107,500 | 15,835 | NIL | 20,000 | NIL | NIL | 2,150 |
| Chris Spence Managing Director – Asia Pacific and Europe ⁽⁵⁾ | 2001 | 185,686 | NIL | NIL | 40,000 | NIL | NIL | 31,773 |
| | 2000 | 111,390 | NIL | NIL | 30,000 | NIL | NIL | 25,397 |

Notes:

- (1) Mr. Green commenced employment with the Corporation on October 17, 1997.
- (2) Ms. Hucko commenced employment with the Corporation on September 16, 1996.
- (3) Mr. Macmillan commenced employment with the Corporation on June 28, 1999.
- (4) Mr. McQuade commenced employment with the Corporation on July 6, 1998.
- (5) Mr. Spence commenced employment with the Corporation on January 21, 2000.
- (6) Represents vehicle allowances paid, superannuation and taxable benefits including interest free loans and use of vehicle.

Option/SAR Grants During the Year Ended December 31, 2001 to Named Executive Officers

| Name | Securities Under Options/SARs Granted (#) | % of Total Options/SARs Granted to Employees in Financial Year | Exercise or Base Price (\$/Security) | Market Value of Securities Underlying Options/SARs on the Date of Grant (\$/Security) | Expiration Date |
|------------------|---|--|--------------------------------------|---|-----------------|
| F. Lee Green | 150,000 | 29 | 3.00 | 3.00 | Feb. 21, 2006 |
| | 100,000 | | 1.25 | 1.25 | Aug. 15, 2006 |
| Paula Hucko | 40,000 | 6 | 1.25 | 1.25 | Aug. 15, 2006 |
| | 10,000 | | 3.00 | 3.00 | Feb. 21, 2006 |
| Robert Macmillan | 40,000 | 5 | 1.25 | 1.25 | Aug. 15, 2006 |
| Robert McQuade | 40,000 | 5 | 1.25 | 1.25 | Aug. 15, 2006 |
| Chris Spence | 40,000 | 5 | 1.25 | 1.25 | Aug. 15, 2006 |

Aggregated Option/SAR Exercises During the Year Ended December 31, 2001

| Name | Securities acquired on Exercise (#) | Aggregate Value Realized (\$) | Unexercised Options/ SARs at December 31, 2001 (#) Exercisable/Unexercisable | Value of Unexercised in the money Options/SARs at December 31, 2001 ⁽¹⁾ (\$) Exercisable/Unexercisable |
|------------------|-------------------------------------|-------------------------------|---|--|
| F. Lee Green | NIL | N/A | 45,833/204,167 | 10,416/114,584 |
| Paula Hucko | NIL | N/A | 108,166/48,334 | 4,166/45,834 |
| Robert Macmillan | NIL | N/A | 83,000/50,000 | 4,166/45,834 |
| Robert McQuade | NIL | N/A | 51,966/38,334 | 4,166/45,834 |
| Chris Spence | NIL | N/A | 20,833/49,167 | 4,166/45,834 |

Notes:

- (1) Based on the closing price of \$2.50 per Common Share as at December 28, 2001 as reported by TSX Venture Exchange, being the last trading day of the Common Shares in 2001, less the exercise price of in-the-money options.

Compensation of Directors

Each independent director of the Corporation is provided with 5,000 stock options, an additional 2,500 to act as a Committee member, and an option to either: (i) receive an annual fee of \$5,000 and a fee of \$500 for each meeting of the Board of Directors that he or she attends in person or a fee of \$250 for each meeting of the Board of Directors in which he or she participates by telephone conference call; or (ii) receive 5,000 stock options to act as a director of the Corporation. The Corporation reimburses the directors' expenses incurred in attending meetings of the Board of Directors. The directors who are also employees of the Corporation do not receive any fee for attending or participating in meetings of the Board of Directors. During the fiscal year ended December 31, 2001, the directors of the Corporation received \$21,750 in aggregate compensation.

Directors' and Officers' Liability Insurance

The Corporation maintains directors and officers liability insurance coverage with a \$2,000,000 per occurrence limit and a \$5,000,000 limit in aggregate. The worldwide coverage includes derivative shareholder action suits, wrongful acts including libel, slander or defamation, securities claims, and claims relating to employment and fiduciary practices.

Employment Contracts

F. Lee Green entered into an employment contract with the Corporation dated May 31, 2000 for an indefinite term, subject to early termination. Pursuant to such agreement, Mr. Green is entitled to a base gross annual salary in the amount of Two Hundred and Sixty-Five Thousand Dollars (\$265,000). Mr. Green is also eligible for a bonus in the amount of up to One Hundred Thousand Dollars (\$100,000) based on attaining financial growth targets. Such agreement contains customary non-competition, non-disclosure and release of interest in intellectual property provisions. If the agreement is terminated other than for cause, Mr. Green is entitled to compensation of two years base salary. Mr. Green has also been granted stock options under the Corporation's stock option plans.

Paula Hucko entered into an employment contract with the Corporation dated January 1, 1998 for an indefinite term, subject to early termination. Pursuant to such agreement, Ms. Hucko is entitled to a base gross annual salary in the amount of Two Hundred and Thirty-Four Thousand Dollars (\$234,000). Ms. Hucko is also eligible for a bonus scaling up to One Hundred and Sixty-Six Thousand Dollars (\$166,000) based on attaining financial growth targets. Such agreement contains customary non-competition, non-disclosure and release of interest in intellectual property provisions. If the agreement is terminated other than for cause, Ms. Hucko is entitled to compensation of \$234,000. Ms. Hucko has also been granted stock options under the Corporation's stock option plans.

Robert Macmillan entered into an employment contract with the Corporation effective June 28, 1999 for an indefinite term, subject to early termination. Pursuant to such agreement, Mr. Macmillan is entitled to a base annual salary in the amount of One Hundred and Fifty Thousand United States Dollars (US\$150,000). Mr. Macmillan is also eligible for a bonus scaling up to Seventy-Five Thousand United States Dollars (US\$75,000) based on attaining financial growth targets and other objectives. Such agreement contains customary non-competition, non-disclosure and release of interest in intellectual

property provisions. If the agreement is terminated other than for cause, Mr. Macmillan is entitled to compensation of 3 month's base salary plus 2 weeks for each additional year of service beyond 2 years. Mr. Macmillan has also been granted stock options under the Corporation's stock option plans.

Chris Spence entered into an employment contract with the Corporation effective January 21, 2000 for an indefinite term, subject to early termination. Pursuant to such agreement, Mr. Spence is entitled to a base gross annual salary in the amount of One Hundred and Fifty Thousand United States Dollars (US\$150,000). Mr. Spence is also eligible for a bonus scaling up to One Hundred and Eleven Thousand United States Dollars (US\$111,000) based on attaining financial growth targets. Such agreement contains customary non-competition, non-disclosure and release of interest in intellectual property provisions. If the agreement is terminated other than for cause, Mr. Spence is entitled to compensation of 3 month's base salary plus 2 weeks for each additional year of service beyond 2 years. Mr. Spence has also been granted stock options under the Corporation's stock option plans.

Pension Plan

The Corporation does not maintain a pension plan for its employees, officers and directors.

Key Person Insurance

The Corporation has "key" person life insurance on the lives of each of F. Lee Green in the amount of \$5,000,000 and Paula Hucko in the amount of \$1,000,000. All premiums for such insurance have been and will continue to be paid by the Corporation. In the event of death, the proceeds of such insurance will be paid to the Corporation.

Indebtedness of Directors and Senior Officers

No director or senior officer or any associate of any such director or senior officer of the Corporation is or has been indebted to the Corporation during the most recently completed fiscal year other than routine indebtedness.

OPTIONS TO PURCHASE SHARES

New Stock Option Plan

The Board of Directors established a new stock option plan (the "New Option Plan") dated April 26, 2000 which was ratified, confirmed and approved by the shareholders of the Corporation on June 21, 2000. The purpose of the New Option Plan is to afford directors, officers, employees and other service providers of the Corporation, an opportunity to obtain a proprietary interest in the Corporation by permitting them to purchase Common Shares and to aid in attracting, as well as retaining and encouraging the continued involvement of such persons.

Pursuant to the New Option Plan, Common Shares may be reserved for issuance to the Corporation's directors, officers, employees and other service providers as designated by the Board of Directors from

time to time. Options may be granted to purchase a maximum of 1,000,000 Common Shares under the New Option Plan.

At the annual and special meetings of shareholders to be held on June 20, 2002, the shareholders of the Corporation will be asked to consider and, if thought appropriate, approve an ordinary resolution of disinterested shareholders approving an amendment to the New Option Plan to increase the maximum number of Common Shares available for issuance pursuant to options granted under the Plan from 1,000,000 Common Shares to 2,500,000 Common Shares.

If an option holder ceases to be an employee of the Corporation by reason of termination other than cause, retirement, disability or death, or by reason of voluntary resignation, or if an option holder who is one of the directors ceases to be a director, vesting of options automatically ceases on the date of such termination or voluntary resignation or in the event a director is not re-elected, each option granted to the holder that has not yet vested shall immediately terminate and options granted to such holders that have vested may be exercised by the holder at any time within three months of the date of termination, resignation or non re-election. If an option holder who is an employee is terminated for cause or a director is removed from the Board of Directors prior to the end of his/her term, each option granted to that holder that has vested and each option granted to that holder that has not then vested shall, subject to the discretion of the Board of Directors, immediately terminate. If an option holder who is an employee retires or is unable to continue employment with the Corporation due to a disability, options granted to that holder will continue to vest in the manner stipulated by the Board of Directors. Where a holder who is an individual dies, each option granted to that holder that has not vested at the date of death shall be deemed to have terminated, provided that any options that have vested may be exercised by the person or persons to whom the holders rights under the option passed by will or applicable law, or if no person has such right, by the holders executors or administrators, provided that such options are exercised by the holders estate at any time within three months following the date of death.

Options granted under the New Option Plan are generally non-assignable, except for certain specified transfers permitted under the New Option Plan. The exercise price of the options shall be determined by the Board of the Directors at the time the options are granted but shall not be less than the "market price" as defined in the New Option Plan.

The following table provides a summary of the options to purchase Common Shares granted under the New Option Plan as of December 31, 2001.

Options to Purchase Common Shares

| Optionees | Aggregate Number of Options to Purchase Common Shares (#) | Exercise Price of Options (\$/Common Share) ⁽¹⁾ | Market Value of the of the Common Shares on the Date of the Grant (\$/Common Share) ⁽²⁾ |
|---|---|--|--|
| Executive Officers (5 Persons) | 260,000 | 1.25 | 1.25 |
| | 190,000 | 3.00 | 3.00 |
| Independent Directors (6 Persons) | 145,000 | 1.25 | 1.25 |
| | 7,500 | 3.00 | 3.00 |
| Other Employees (76 Persons) | 189,500 | 1.25 | 1.25 |
| | 47,500 | 1.50 | 1.50 |
| | 5,000 | 2.00 | 2.00 |
| | 35,800 | 3.00 | 3.00 |
| Consultants and Former Employees (2 Persons) | 5,833 | 1.25 | 1.25 |
| Total | 886,133 | | |

Notes:

- (1) The exercise price of the options granted was determined by the Board of Directors based on the fair market value of the Common Shares on the date of grant.
- (2) The market value was determined by the Board of Directors.

On April 22, 2002, the Corporation granted stock options under the New Option Plan to XJ Partners Inc., a company controlled by a trust that is an associate of William Tatham, a director of the Corporation. The options enable XJ Partners Inc. to acquire 180,000 Common Shares at an exercise price of \$2.55 per Common Share for a two year term, of which options to acquire 135,000 Common Shares are subject to the Corporation receiving shareholder approval to increase the maximum number of Common Shares available for issuance pursuant to options granted under the New Option Plan.

Old Stock Option Plan

The Board of Directors adopted a stock option plan on July 29, 1996 (the “Old Option Plan”) as amended on June 21, 1999 for certain key employees of the Corporation and such other key persons as the Board of Directors may designate from time to time. The purpose of the Old Option Plan is to secure for the Corporation and its shareholders the benefits of incentives inherent in share ownership by key employees of the Corporation and other key persons.

The aggregate number of Common Shares authorized for issuance to any one person under the Old Option Plan shall not exceed 1,050,000. Effective June 21, 2000, a new stock option plan was adopted and no further options can be granted from the Old Option Plan. The exercise price of options granted under the Old Option Plan is established at the discretion of the Board of Directors at the time the option is granted, but in any event cannot be less than \$3.00 unless all third part consents required for such issuance are obtained. Generally, options expire five years from the date of grant and may be exercised in

whole or in part any time after the first anniversary of the date of grant subject to vesting. All options granted vest quarterly in arrears, commencing with the first calendar quarter after the granting of the options.

If an option holder ceases to be an employee of the Corporation by reason of termination other than cause, retirement, disability or death, or by reason of voluntary resignation, or if an option holder who is a director ceases to be a director of the Corporation, vesting of options automatically ceases on the date of such termination or voluntary resignation or in the event a director is not re-elected, each option granted to the holder that has not yet vested shall immediately terminate and options granted to such holders that have vested may be exercised by the holder at any time within two months of the date of termination, resignation or non re-election. If an option holder who is an employee is terminated for cause or a director who is removed from the Board of Directors prior to the end of his/her term, each option granted to that holder that has vested and each option granted to that holder that has not then vested shall, subject to the discretion of the Board of Directors, immediately terminate. If an option holder who is an employee retires or is unable to continue employment with the Corporation due to a disability, options granted to that holder will continue to vest in the manner stipulated by the Board of Directors. Where a holder who is an individual dies, each option granted to that holder that has not vested at the date of death shall be deemed to have terminated, provided that any options that have vested may be exercised by the person or persons to whom the holders rights under the option passed by will or applicable law, or if no person has such right, by the holders executors or administrators, provided that such options are exercised by the holder's estate at any time within six months following the date of death.

The following table provides a summary of the options to purchase Common Shares granted under the Old Option Plan as of December 31, 2001.

Options to Purchase Common Shares

| Optionees | Aggregate Number of Options to Purchase Common Shares (#) | Exercise Price of Options (\$/Common Share) ⁽¹⁾ | Market Value of the of the Common Shares on the Date of the Grant (\$/Common Share) ⁽²⁾ |
|--|---|--|--|
| Executive Officers (3 Persons) | 55,000 194,800 | \$2.50 \$3.00 | \$2.50 \$3.00 |
| Independent Directors (6 Persons) | 50,000 | \$3.00 | \$3.00 |
| Other Employees (87 Persons) | 75,200 301,300 | \$2.50 \$3.00 | \$2.50 \$3.00 |
| Consultants and Former Employees (3 Persons) | 4,000 41,333 | \$2.50 \$3.00 | \$2.50 \$3.00 |
| Total | 721,633 | | |

Notes:

- (1) The exercise price of the options granted was determined by the Board of Directors based on the fair market value of the Common Shares on the date of grant. Subsequent to the reverse takeover of the Corporation by Triple G Corporation on October 17, 1997, the Board of Directors re-priced all options outstanding at that time to \$2.50 per share.
- (2) The market value was determined by the Board of Directors.

Employee Stock Purchase Plan

On June 21, 1999, the Corporation established an employee stock purchase plan (the “Employee Plan”). The purpose of the Employee Plan is to further the best interests of the Corporation by encouraging full-time employees, directors and officers (the “Participants”) of the Corporation to participate in the growth and development of the Corporation by providing financial assistance by way of loans to Participants to purchase Common Shares and acquire an increased proprietary interest in the Corporation. Such loans under the Employee Plan may be made by the Corporation from time to time on such terms as the Board of Directors may determine. Participation in the Employee Plan is limited to Participants or personal holding corporations or trusts controlled by Participants as designated from time to time by the Board of Directors, or such other persons designated by the Board of Directors from time to time. The number of shares reserved for issuance under the Employee Plan will be limited to 150,000 Common Shares, provided that the directors have the right, from time to time, to increase such number subject to the approval of the shareholders of the Corporation. The price at which Common Shares may be issued under the Employee Plan shall be determined by the Board of Directors but shall not be less than the fair market value of the Common Shares at the time of the purchase. Notwithstanding the foregoing, the subscription price for the Common Shares shall not be less than \$3.00 per Common Share unless any and all third party consents required are obtained. If a Participant is terminated for any reason other than death while any loan under the Employee Plan is outstanding, such loan shall mature and be payable 30 days from date of such termination. If a Participant dies while in the employ of the Corporation, or a Subsidiary while any loan under the Employee Plan is outstanding, such loan shall mature and be payable one year from such date.

In April 2000, the Corporation received subscriptions to purchase all 150,000 Common Shares available under the Employee Plan. Subsequent to this date, the Corporation cancelled a subscription for 1,694 Common Shares. The Corporation provided loans in the aggregate of \$241,598 relating to the subscription of 80,533 Common Shares. These loans have since been repaid and the 80,533 Common Shares have been issued pursuant to the Employee Plan.

Other Options, Warrants and Convertible Securities

On July 13, 1999, the Corporation granted 153,333 Financing Warrants to GATX/MM Venture Finance Partnership which entitles the holder thereof to purchase up to 153,333 Common Shares at a price of \$3.00 per Common Share. The Financing Warrants expire the later of: (i) two years from the date the Common Shares are listed on The Toronto Stock Exchange or on NASDAQ, but in any event not later than July 13, 2009; or (ii) July 13, 2004. See “Management Discussion and Analysis of Financial Condition and Results of Operations of the Corporation – Liquidity and Capital Resources”.

On June 30, 2000, and pursuant to an extension agreement dated November 27, 2000, as amended on February 22, 2001 and June 28, 2001 the Corporation issued Shareholder Warrants to the holders of the Convertible Debentures which entitle the holder to acquire up to 270,000 Common Shares. The Shareholder Warrants expire as to 90,000 Common Shares on or before June 30, 2005, 90,000 Common Shares on or before November 27, 2005 and 90,000 Common Shares on February 22, 2006. Each Shareholder Warrant entitles the holder thereof to purchase one Common Share at a price of \$1.25 per Common Share. See “Plan of Distribution” and “Management Discussion and Analysis of Operating Results and Financial Conditions of the Corporation – Liquidity and Capital Resources”.

In conjunction with the initial public offering completed on July 10, 2001, the exercise of an over-allotment option on September 7, 2001, and the private placement financing on November 30, 2001, the Corporation granted compensation options to the agents of these financings to acquire up to 498,960 Common Shares (the “Prior Financing Compensation Options”). See “Prior Sales”. Each Prior Financing Compensation Option has an exercise price and expiry date as follows:

| Prior Financing Compensation Options granted in connection with | Number of options granted | Number of options exercised | Number of options outstanding as of the date hereof | Exercise price | Expiry date |
|---|---------------------------|-----------------------------|---|-----------------|---------------|
| Initial public offering | 336,000 | 33,600 | 302,400 | \$1.25 - \$1.45 | July 10, 2003 |
| Over-allotment option | 20,400 | 2,040 | 18,360 | \$1.25 - \$1.45 | Sept. 7, 2003 |
| Private placement | 142,560 | – | 142,560 | \$1.50 | Nov. 30, 2003 |
| | 498,960 | 35,640 | 463,320 | | |

As additional consideration for the Underwriters’ obligations under the Underwriting Agreement, the Corporation granted to the Underwriters Compensation Options exercisable, for no additional consideration, into Broker Warrants entitling the holders to acquire up to 211,050 Common Shares at an exercise price of \$2.70 per Common Share. The Broker Warrants are exercisable at any time until 5:00 pm (Toronto time) on May 22, 2004.

ESCROW ARRANGEMENTS

Pursuant to Ontario Securities Commission Policy 5.9 and in accordance with an escrow agreement dated February 25, 1998 (the “Policy 5.9 Escrow Agreement”), F. Lee Green and Caryn Green (the “Escrow Shareholders”) deposited 3,337,148 Common Shares (the “Escrow Shares”) in escrow with Montreal Trust Company of Canada (now known as Computershare Trust Company of Canada), as escrow agent. The Escrow Shares will be released to the Escrow Shareholders in accordance with the release schedule of the Policy 5.9 Escrow Agreement, which may be summarized as follows:

1. 333,715 Escrow Shares were released on November 25, 1998;
2. 667,430 Escrow Shares were released on each of November 25, 1999 and November 27, 2000;
3. 667,429 Escrow Shares were released on November 25, 2001; and
4. the remaining 1,001,144 Escrow Shares will be released on November 25, 2002.

As at the date hereof, 2,336,004 Escrow Shares were released pursuant to the Policy 5.9 Escrow Agreement and 1,001,144 Escrow Shares remain in escrow. None of the Escrow Shares may be released from escrow or transferred within escrow without the prior written consent of the Ontario Securities Commission except for the purposes of entering into a bona fide take-over bid where the offeror otherwise agrees to hold the Escrow Shares upon the same terms and conditions as the Policy 5.9 Escrow Agreement. See also "Principal Shareholders".

RISK FACTORS

An investment in the Common Shares involves the following potential investment risks and should therefore be regarded as speculative and 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.

Competition

The market for application software in the laboratory and hospital information systems software industry is highly competitive. The Corporation competes in many cases against organizations with more established and larger sales and marketing structures, larger technical staff, and significantly greater financial resources and market capitalization. As the market for the Corporation's products continues to develop, additional competitors may enter the market and competition may intensify. Additionally, there can be no assurance that competitors will not develop products superior to the Corporation's products or achieve greater market acceptance due to pricing, sales channels or other factors.

Dependence on a Limited Number of Products and Customers

Substantially all of the Corporation's revenue is currently derived from a limited number of customers, products and services. Accordingly, the Corporation's future results of operations will depend, in part, on maintaining and increasing market acceptance of these products and services, as well as on the Corporation's ability to continue to enhance these products and services to meet the evolving needs of its customers. A reduction in demand, increase in competition, or a decline in sales of such products and related services could have a material adverse effect on the Corporation's business, results of operations and financial condition.

Dependence on Market Growth for Products

The Corporation currently derives, and expects to continue to derive, substantially all of its revenue from licenses and services related to laboratory software products. There can be no assurance that this market will continue to grow or, even if it does grow, that customers will purchase the Corporation's products. The Corporation has spent, and intends to continue to spend, considerable resources educating potential customers generally about laboratory software solutions and specifically about the Corporation's products. There can be no assurance, however, that such expenditures will enable the Corporation to achieve any additional degree of market acceptance. If the market for laboratory software fails to grow or grows more slowly than the Corporation currently anticipates, the Corporation's business, results of operations and financial condition could be materially and adversely affected.

Product Development and Technological Change

The software industry is characterized by rapid technological change and frequent new product introductions. Accordingly, management believes that the future success of the Corporation depends upon its ability to enhance current products or develop and introduce new products offering enhanced performance and functionality at competitive prices. The Corporation's inability, for technological or other reasons, to develop and introduce products in a timely manner in response to changing market conditions or customer requirements could have a material adverse effect on the Corporation's business, results of operations and financial condition. The ability of the Corporation to compete successfully will depend in large measure on its ability to maintain a technically competent research and development staff and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of its software products with evolving computer hardware and software platforms and operating environments. There can be no assurance that the Corporation will be successful in these efforts.

Risk of Software Defects

Software products as complex as those offered by the Corporation frequently contain errors or defects, especially when first introduced or when new versions or enhancements are released. Despite product testing, the Corporation has in the past released products with defects, discovered software errors in certain of its new versions after introduction and experienced delays or lost revenue during the period required to correct these errors. The Corporation regularly introduces new releases and periodically introduces new versions of its software. There can be no assurance that, despite testing by the Corporation and by its customers, defects and errors will not be found in existing products or in new products, releases, versions or enhancements after commencement of commercial shipments. Any such defects and errors could result in litigation, adverse customer reactions, negative publicity regarding the Corporation and its products, harm to the Corporation's reputation, loss of or delay in market acceptance or required product changes, any of which could have a material adverse effect upon the Corporation's business, results of operations and financial condition.

Lengthy Sales and Implementation Cycle and Increasing Size of Orders

The sale and implementation of the Corporation's products generally involves a significant commitment of

resources by prospective customers. The Corporation expects that the implementation of the Corporation's products will become more complex as its laboratory solution is used to manage larger and more geographically dispersed installations. As a result, the Corporation's sales process is often subject to delays associated with lengthy approval processes attendant to significant capital expenditures. For these and other reasons, the sales cycle associated with the license of the Corporation's products varies substantially from customer to customer and typically lasts from six to eighteen months during which time the Corporation may devote significant time and resources to a prospective customer, including costs associated with multiple site visits, product demonstrations and feasibility studies, and experience a number of significant delays over which the Corporation has no control. Any significant or ongoing failure by the Corporation to ultimately achieve such sales could have a material adverse effect on the Corporation's business, results of operations and financial condition. In addition, following license sales, the implementation period involves approximately eight to fourteen months for customer training and integration with the customer's other existing systems. A successful implementation program requires a close working relationship between the Corporation, the customer and, generally, third party consultants and system integrators who assist in the process. There can be no assurance that delays or difficulties in the implementation process for any given customer will not have a material adverse effect on the Corporation's business, results of operations and financial condition.

Product Liability

The Corporation's systems include information that may relate to confidential patient laboratory results information and portions of medical histories and treatment plans. Improper disclosure of this information or any failure by the Corporation's systems to provide accurate and timely information could result in claims against the Corporation by its clients or their patients. A successful claim brought against the Corporation could have a material adverse effect on the Corporation's business or results of operations, and even unsuccessful claims could result in the expenditure of substantial funds in litigation and the diversion of management time and resources. There can be no assurance that the Corporation will not be subject to such claims in the future, that such claims will not result in liability in excess of any insurance coverage maintained by the Corporation with respect to such claims, that insurance will cover such claims or that appropriate insurance will continue to be available to the Corporation at commercially reasonable rates.

Additional Financing

Additional financing may be required to fund the Corporation's working capital requirements and future growth through additional acquisitions. There can be no assurance that such financing will be available on reasonable terms, or at all, to meet future requirements. If any such additional financing is obtained, it could entail dilution of the net tangible book value of the Common Shares. If additional financing is not available, the Corporation may be required to curtail its activities.

Reliance on Third Party Licenses

The Corporation relies on certain software that it licenses from third parties, including software that is integrated with internally developed software and used in the Corporation's products to perform key functions. In particular, the Corporation currently relies exclusively on Unify Corporation to supply the

Corporation with database products and certain development tools necessary to operate the Corporation's ULTRA solution. There can be no assurance that these third-party software licenses will continue to be available to the Corporation on commercially reasonable terms. The loss of, or inability to maintain, any of these software licenses, in particular with Unify Corporation, could result in delays or reductions in product shipments until equivalent software can be developed, identified, licensed and integrated, which could materially adversely affect the Corporation's business, results of operations and financial condition.

International Sales

Management of the Corporation believes that its continued growth and profitability will require additional expansion of its sales in foreign markets. This expansion has required, and will continue to require, significant management attention and financial resources and could adversely affect the Corporation's operating margins. In order to increase international sales in subsequent periods, the Corporation may establish additional foreign operations, hire additional personnel and recruit international resellers. To the extent that the Corporation is unable to expand international sales in a timely and cost-effective manner, the Corporation's business, results of operations and financial condition could be materially adversely affected. In addition, even with the possible recruitment of additional personnel and international resellers, there can be no assurance that the Corporation will be successful in maintaining or increasing international market demand for the Corporation's products.

Industry Growth

The overall market for application software in laboratory and hospital information systems software industries has experienced significant growth in recent years. There can be no assurance that the market for the Corporation's existing products will continue to grow, that industries will adopt the Corporation's products or that the Corporation will be successful in establishing markets for its new products. If the various markets in which the Corporation's products compete fail to grow, or grow more slowly than the Corporation currently anticipates, or if the Corporation is unable to establish markets for its new products, the Corporation's business, operating results and financial condition could be materially adversely affected.

No Prior Profitability

The Corporation has experienced revenue growth in recent years, but profit and loss performance has varied widely on a quarterly and annual basis. The Corporation was not profitable during the years ended December 31, 2001, 2000 and 1999. During the year ended December 31, 2001, the Corporation had positive earnings before interest, depreciation and amortization of approximately \$42,000 but used substantial cash in its operations during the years ended December 31, 2001, 2000 and 1999. There can be no assurance that the Corporation will establish a positive cash flow from operations in future periods. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Corporation".

Limited Liquidity and Dilution

The Offering Price was negotiated between the Corporation and the Underwriters and purchasers are

cautioned that there may be limited liquidity for the Common Shares issuable upon the exercise of the Special Warrants issued pursuant to the Offering. Purchasers of the Special Warrants will suffer immediate dilution after giving effect to the Offering.

Control of Shares by Management and Directors

F. Lee Green and Caryn Green have voting control over approximately 17.5% of the outstanding Common Shares after giving effect to the exercise of Special Warrants issued pursuant to the Offering. Caryn Green has entered into a voting trust agreement with F. Lee Green dated October 17, 1997 pursuant to which F. Lee Green is entitled to exercise all of the voting rights attached to her Common Shares. In addition, John Albright is deemed to control approximately 17.6% of the outstanding Common Shares, after giving effect to the exercise of Special Warrants issued pursuant to the Offering, which are registered to J.L. Albright II Venture Fund. Michael Graham, a director of the Corporation, is Vice-President, Investments with Working Ventures Canadian Fund Inc. which owns approximately 10.1% of the issued and outstanding Common Shares, after giving effect to the exercise of Special Warrants issued pursuant to the Offering. Such concentration of ownership may have the effect of delaying or preventing a change in control of the Corporation. See “Principal Shareholders” and “Director and Officers”.

Regulation

The Corporation expects that the United States Food and Drug Administration (the “FDA”) is likely to become increasingly active in regulating computer software that is intended for use in healthcare settings. In March 1994, the FDA issued a letter advising that the FDA considers medical devices to include software products intended to maintain data used to assist personnel in making decisions concerning the suitability of blood donors and the release of blood or blood components for transfusion or further manufacture. As such, the FDA determined that manufacturers and distributors of these products, such as the Corporation, are subject to FDA regulation. The FDA can impose extensive requirements governing labelling and manufacturing. Appropriate applications need to be filed with the FDA should the Corporation elect to distribute its blood bank product in the United States. There can be no assurance that the FDA will approve these applications once filed. The Corporation has registered with the FDA as a device manufacturer. The Corporation is required to comply with quality systems regulations and medical device reporting. There can be no assurance that the Corporation’s development processes are in compliance with these regulations.

In addition, the healthcare industry is subject to changing political, economic and regulatory influences that may affect the procurement practices and operation of healthcare providers. Many lawmakers have announced that they intend to propose programs to reform the United States healthcare system. These programs may contain proposals to increase governmental involvement in healthcare, lower reimbursement rates and otherwise change the regulatory environment in which the Corporation’s clients operate. Healthcare providers may react to these proposals and the uncertainty surrounding such proposals by curtailing or deferring investments, including those for the Corporation’s systems. Even if healthcare providers do not curtail or defer investments, they may institute cost containment measures in anticipation of regulatory reform or for other reasons. These measures may result in greater selectivity in the allocation of capital funds, which could have a material adverse effect on the Corporation’s ability to sell its systems and services. The Corporation cannot predict with any certainty what impact, if any, such

legislative or market-driven reforms might have on its business and results of operations. There can be no assurance that such proposed changes, if adopted, would not have a material adverse effect on the Corporation's business, results of operations and financial condition.

Dependence on Key Personnel

The success of the Corporation is largely dependent on the performance of its key employees and directors. Failure to retain key employees and directors and to attract and retain additional key employees with necessary skills could have a material adverse impact upon the Corporation's growth and profitability. Competition for highly skilled management, technical and other employees is intense in the software industry. The Corporation's progress to date has been dependent to a significant extent on the skills of the executive team, including F. Lee Green and Paula Hucko. The departure or death of any of the members of the Corporation's executive team and key directors could have a material adverse effect on the Corporation's business, results of operations and financial condition.

Dependence on Proprietary Technology

The Corporation relies on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary rights. Despite the Corporation's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Corporation's products or to obtain and use information that the Corporation regards as proprietary. Policing unauthorized use of the Corporation's products is difficult, time-consuming and costly. Although the Corporation is unable to determine the extent to which piracy of its software products exists, software piracy is a possibility. In addition, the laws of certain countries in which the Corporation's products are sold or licensed do not protect its products and intellectual property rights to the same extent as the laws do in Canada, Australia, or the United States. There is no assurance that the Corporation's means of protecting its proprietary rights will be adequate or that the Corporation's competitors will not independently develop similar technology, the effect of either of which may be materially adverse to the Corporation's business, results of operations and financial condition.

Management of Growth

The Corporation's business has grown rapidly in the last several years. The growth of the Corporation's business and expansion of the Corporation's customer base has placed a significant strain on the Corporation's management and operations. The Corporation's recent expansion has resulted in substantial growth in the number of its employees, the scope of its operating and financial systems and the geographic area of its operations, resulting in increased responsibility for both existing and new management personnel. The Corporation's ability to support the growth of its business will be dependent upon having in place highly trained internal and third party resources to conduct pre-sales activity, product implementation, training and other customer support services. Accordingly, the Corporation's future operating results will depend on the ability of its officers and other key employees to continue to implement and improve its operational, customer support and financial control systems, to expand, train and manage its employee base and to work effectively with third party implementation providers. There can be no assurance that the Corporation will be able to manage its recent or any future expansion successfully, and any inability to do so could have a material adverse effect on the Corporation's business,

results of operations and financial condition.

Risk of Third Party Claims for Infringement

The Corporation is not aware that any of its products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by the Corporation or its licensees with respect to current or future products. The Corporation expects that software product developers will increasingly be subject to such claims as the number of products and competitors in the Corporation's industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Corporation to enter into royalty or licensing agreements which, if required, may not be available on terms acceptable to the Corporation. Any of the foregoing could have a materially adverse effect on the Corporation's business, results of operations and financial condition.

Currency Risk

A significant portion of the Corporation's revenue is realized in United States dollars, with the majority of the balance realized in United Kingdom pound sterling, Australian and Canadian dollars. Fluctuations in the exchange rate between the United States dollar and other currencies may have a material adverse effect on the Corporation's results of operations and financial condition.

Risks Related to Acquisitions

The Corporation may continue to expand its operations or product offerings through the acquisition of additional businesses, products or technologies. There can be no assurance that the Corporation will be able to identify, acquire or profitably manage additional businesses or successfully integrate any acquired businesses, products or technologies into the Corporation without substantial expenses, delays or other operational or financial problems. Furthermore, acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key personnel, unanticipated events or circumstances and legal liabilities, some or all of which could have a material adverse effect on the Corporation's business, results of operations and financial condition. In addition, there can be no assurance that acquired businesses, products or technologies, if any, will achieve anticipated revenue and income. Acquisitions could also result in potentially dilutive issuances of equity securities. The failure of the Corporation to manage its acquisition strategy successfully could have a material adverse effect on the Corporation's business, results of operations and financial condition.

Potential Fluctuations in Quarterly Results

The Corporation's quarterly operating results have in the past and may in the future fluctuate significantly, depending on factors such as the demand for the Corporation's products, the size and timing of orders, the number, timing and significance of new product announcements by the Corporation and its competitors, the ability of the Corporation to develop, introduce and market new and enhanced versions of the Corporation's products on a timely basis, the level of product and price competition, changes in operating expenses, changes in average selling prices and product mix, sales personnel changes, product

returns and general economic factors among others. Accordingly, estimates of the Corporation's results prior to the end of a quarter may be uncertain. In particular, the Corporation's quarterly results are affected by the timing of new releases of its products and upgrades and revenue recognition tied to contracts. The Corporation's operating expenses are based on anticipated revenue levels in the short term and are relatively fixed and incurred throughout the quarter. As a result, if the revenue is not realized in the expected quarter, the Corporation's operating results could be materially adversely affected. Quarterly results in the future may be influenced by these or other factors, including possible delays in the shipment of new products, implementation delays, and purchasing delays of current products as customers anticipate new product releases. Accordingly, there may be significant variations in the Corporation's quarterly operating results.

Need to Enhance Management Systems

The Corporation has experienced a period of growth in sales and personnel that has placed strain upon its management systems and resources. In the future, the Corporation will be required to continue to improve its financial and management controls, reporting systems and procedures on a timely basis. There can be no assurance that the Corporation will be able to effectively enhance its management systems. The Corporation's failure to do so could have a material adverse effect upon the Corporation's business, results of operations and financial condition.

DIVIDEND POLICY

The Corporation has not declared nor paid any dividends on its Common Shares during the last five fiscal years and the Board of Directors has no current intention to pay dividends in the foreseeable future.

PRIOR SALES

The following sets forth the date and consideration per share of all Common Shares issued by the Corporation within the twelve months prior to the date hereof:

1. On July 10, 2001, the Corporation issued and sold 2,800,000 Common Shares for gross proceeds of \$3,500,000 (the "IPO Financing"). The Common Shares were issued as an initial public offering of securities pursuant to a (final) prospectus dated June 28, 2001, a receipt for which was issued on June 29, 2001, under the Mutual Reliance Review System from the securities commissions in the provinces of Ontario, British Columbia and Alberta. On July 10, 2001 the Corporation's Common Shares were listed on the Canadian Venture Exchange, now known as TSX Venture Exchange, trading under the stock symbol "TGG". The Common Shares were sold pursuant to an agency agreement (the "IPO Agency Agreement") dated June 28, 2001 made between Yorkton Securities Inc., BayStreetDirect Inc. (collectively the "IPO Agents") and the Corporation. The price of the Common Shares was determined by negotiation between the Corporation and the IPO Agents. The Corporation paid the IPO Agents a fee equal to 10% of the gross proceeds of the IPO Financing, being an aggregate fee of \$350,000, to act as agent in connection with the IPO Financing. In addition, the Corporation issued compensation options to

the IPO Agents to purchase up to 336,000 Common Shares at a price of \$1.25 during the first year of their term and at a price of \$1.45 in the second year of their term expiring on July 10, 2003. As of the date hereof, 33,600 compensation options have been exercised.

2. On September 7, 2001, the Corporation issued and sold 170,000 Common Shares for gross proceeds of \$212,500 (the "Over-Allotment Financing"). Pursuant to the terms of the IPO Agency Agreement, the Corporation granted to the IPO Agents an over-allotment option (the "Over-Allotment Option") to acquire up to an aggregate of 420,000 additional Common Shares. The Over-Allotment Option was to be exercised by the IPO Agents, at their discretion, at any time until September 10, 2001. The per share exercise price of the Over-Allotment Option was equal to \$1.25. On September 7, 2001, the IPO Agents exercised a portion of the Over-Allotment Option for 170,000 Common Shares. The residual Over-Allotment Options expired on September 10, 2001. The Corporation paid the IPO Agents a fee equal to 10% of the gross proceeds of the Over-Allotment Financing being an aggregate fee of \$21,250, in connection with the Over-Allotment Financing. In addition, the Corporation issued compensation options to the IPO Agents to purchase up to 20,400 Common Shares at a price of \$1.25 during the first year of their term and at a price of \$1.45 in the second year of their term expiring on September 7, 2003. As of the date hereof, 2,040 compensation options have been exercised.
3. On November 30, 2001, the Corporation issued and sold 1,782,000 Common Shares for gross proceeds of \$2,673,000 (the "2001 Private Placement"). The Common Shares were issued pursuant to prospectus exemptions under applicable securities legislation in the provinces of Ontario and Alberta. The Common Shares were sold pursuant to an underwriting agreement dated November 30, 2001 (the "2001 Private Placement Underwriting Agreement") made between the Corporation and Yorkton Securities Inc. (the "Private Placement Underwriter"). The price of the Common Shares was determined jointly by negotiation between the Corporation and the Private Placement Underwriter. The Corporation paid the Private Placement Underwriter a fee equal to 8% of the gross proceeds of the 2001 Private Placement, being an aggregate fee of \$213,840, to act as underwriter in connection with the 2001 Private Placement. In addition, the Corporation issued a compensation option to the Private Placement Underwriter to purchase 142,560 Common Shares at a price of \$1.50 per Common Share until November 30, 2003. As of the date hereof, no compensation options have been exercised.
4. Pursuant to the Employee Plan, the Corporation provided loans in the aggregate amount of \$241,598 relating to the subscription of 80,533 Common Shares in 2000. These loans were repaid in 2001. See "Options to Purchase Shares – Employee Stock Purchase Plan".

PRICE RANGE AND TRADING VOLUME OF COMMON SHARES

The Common Shares are listed on the TSX Venture Exchange, where they began trading on July 10, 2001. The following table sets out the high and low sale prices and the volume of trading of such shares for the periods indicated.

| Period | High ⁽¹⁾ | Low | Volume ⁽²⁾ |
|----------------|---------------------|--------|-----------------------|
| 2002 | | | |
| June 1 – 11 | \$2.80 | \$2.60 | 15,500 |
| May | \$3.30 | \$2.60 | 1,007,098 |
| April | \$3.00 | \$2.39 | 368,716 |
| March | \$2.65 | \$2.30 | 116,352 |
| February | \$2.70 | \$2.49 | 69,851 |
| January | \$3.00 | \$2.25 | 273,642 |
| 2001 | | | |
| Fourth Quarter | \$2.75 | \$1.00 | 530,173 |
| Third Quarter | \$1.35 | \$0.95 | 3,522,151 |

Notes:

- (1) The high/low price includes intraday prices for the specific period.
- (2) Total volume is shown for the specific period.

PROMOTERS

F. Lee Green, by virtue of his ongoing role in the operation of the Corporation, is considered to be a promoter of the Corporation. Any benefits received by Mr. Green have been in accordance with his role as an executive officer of the Corporation. See “Executive Compensation”.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

On January 25, 1999 and May 11, 1999, J. L. Albright II Venture Fund advanced an aggregate of \$3,500,000 to the Corporation. \$2,000,000 of the advance was supported by a convertible promissory note bearing interest at a rate of 8% per annum. In addition to the interest paid to J. L. Albright II Venture Fund totalling approximately \$20,000, a fee of \$25,000 was paid by the Corporation to secure the \$2,000,000 advance. On March 11, 1999, the principal amount of the note was converted into 3,333,333 special warrants which were subsequently converted into 666,667 Common Shares. The remaining \$1,500,000 of the advance was supported by a convertible non-interest bearing promissory note. A fee of \$50,000 was paid by the Corporation to J.L. Albright II Venture Fund to secure the

\$1,500,000 advance. On July 13, 1999, the principal amount of the note was repaid to J. L. Albright II Venture Fund. John L. Albright, a director of the Corporation, is the sole shareholder, director and President of JLA Ultimate Management Inc., which is the general partner of J.L. Albright and Associates, L.P. In addition, Mr. Albright owns 57.15% of J.L. Albright and Associates, L.P. which is the general partner of J.L. Albright II Venture Fund. J.L. Albright II Venture Fund is a principal shareholder of the Corporation. See “Principal Shareholders”.

On June 30, 2000, the Corporation concluded a \$3,000,000 convertible debenture financing (the “Debenture Offering”) with two of its shareholders, J.L. Albright II Venture Fund and Working Ventures Canadian Fund Inc. J. L. Albright II Venture Fund is represented on the Board of Directors by John L. Albright. Working Ventures Canadian Fund Inc. is represented on the Board of Directors by Michael Graham, a Vice President, Investments with Working Ventures Canadian Fund Inc. Pursuant to an extension agreement dated November 27, 2000, as amended on February 22, 2001 and June 28, 2001, the Convertible Debentures were to be converted into Common Shares if an equity financing (“Qualifying Financing”) of the Corporation in an amount of at least \$2,000,000 during the period ending September 28, 2001 and thereafter in an amount of not less than \$6,000,000, exclusive of any subscriptions by the existing holders of Convertible Debentures, was completed by April 1, 2002. If the Qualifying Financing was not completed by April 1, 2002, the Convertible Debentures were to be repaid on that date. Coincident with the IPO Financing that was completed on July 10, 2001, the Convertible Debentures and \$246,245 in accrued interest thereon were converted into 2,596,996 Common Shares. The holders of the Convertible Debentures received aggregate fees of \$30,000 and each of the Convertible Debentures bore interest at a rate of 8% per annum. As additional consideration, the Corporation issued Shareholder Warrants to acquire an aggregate of up to 270,000 Common Shares. The Shareholder Warrants are exercisable at an exercise price of \$1.25 per Common Share. The Shareholder Warrants expire, as to 90,000 warrants on June 30, 2005, 90,000 warrants on November 27, 2005 and 90,000 warrants on February 22, 2006.

The Corporation entered into a consulting agreement dated April 15, 2002 with XJ Partners Inc., a company controlled by a trust that is an associate of William Tatham, a director of the Corporation. Pursuant to such agreement, XJ Partners Inc. was provided with a mandate to undertake a review of the Corporation and provide advice on strategic planning. For such services, XJ Partners Inc. will receive a consulting fee in cash and has been granted stock options under the Corporation’s New Option Plan to acquire 180,000 Common Shares at an exercise price of \$2.55 per Common Share for a two year term, of which options to acquire 135,000 Common Shares are subject to the Corporation receiving shareholder approval to increase the maximum number of Common Shares available for issuance pursuant to options granted under the Corporation’s New Option Plan. See “Options to Purchase Shares – New Stock Option Plan” herein.

Other than the foregoing, the Corporation has completed no material transaction within three years prior to the date of this prospectus in which any director, senior officer or principal shareholder of the Corporation, or any of their associates or affiliates, had any material interest, direct or indirect.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts which have been entered into by the Corporation in the two years immediately prior to the date hereof and which can reasonably be regarded as presently material are the following:

1. the Underwriting Agreement, described under “Plan of Distribution”;
2. the Special Warrant Indenture, described under “Plan of Distribution”;
3. the 2001 Private Placement Underwriting Agreement, described under “Prior Sales”;
4. the IPO Agency Agreement relating to the July 10, 2001 initial public offering, described under “Prior Sales”;
5. the convertible debenture agreements issued pursuant to the Debenture Offering, discussed under “Interest of Management and Others in Material Transactions”;
6. the Unify Reseller Agreement described under “Business of the Corporation – Reseller Arrangements with Unify Corporation” and “Prior Sales”; and
7. the employment agreement dated April 20, 2001 between the Corporation and Matthew Bogart, described under “Business of the Corporation – Investor Relations Representative”.

Copies of these agreements will be available for inspection at the principal office of the Corporation upon reasonable notice during normal business hours from 9:00 a.m. to 4:30 p.m. during the course of distribution of the Common Shares offered hereby.

LEGAL MATTERS

Certain matters relating to the securities qualified by this prospectus will be passed upon on behalf of the Corporation by Gowling Lafleur Henderson LLP, and on behalf of the Underwriters by Wildeboer Rand Thomson Apps & Dellelce, LLP.

LEGAL PROCEEDINGS

There are no ongoing or contemplated material legal proceedings to which the Corporation is a party and of which management is aware.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of the Corporation are KPMG LLP, Toronto, Ontario.

The transfer agent and registrar for the Common Shares is Computershare Trust Company of Canada at its principal transfer office in Toronto, Ontario.

PURCHASER'S STATUTORY RIGHTS

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

CONTRACTUAL RIGHT OF ACTION

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

CONSOLIDATED FINANCIAL STATEMENTS

TRIPLE G SYSTEMS GROUP, INC.

**Years ended December 31, 2001, 2000 and 1999
(with unaudited figures as at March 31, 2002
and for the three months ended March 31, 2002 and 2001)**

AUDITORS' REPORT

To the Directors of
Triple G Systems Group, Inc.

We have audited the consolidated balance sheets of Triple G Systems Group, Inc. as at December 31, 2001 and 2000 and the consolidated statements of operations and deficit and cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Toronto, Canada

March 8, 2002 except for note 16 which is as of •.

TRIPLE G SYSTEMS GROUP, INC.

Consolidated Balance Sheets

| | March 31, 2002 (unaudited) | December 31, 2001 | December 31, 2000 |
|--------------------------------------|----------------------------------|----------------------|----------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 2,800,225 | \$ 4,763,053 | \$ 1,220,915 |
| Accounts receivable | 4,918,612 | 4,282,479 | 3,188,821 |
| Unbilled work in progress | 1,907,586 | 1,992,769 | 430,727 |
| Cash held in escrow (note 2) | - | - | 751,140 |
| Prepaid software licenses | 753,872 | 498,999 | 619,821 |
| Prepaid technical support fees | 704,219 | - | - |
| Prepaid expenses, deposits and other | 357,159 | 294,025 | 374,144 |
| | <u>11,441,673</u> | <u>11,831,325</u> | <u>6,585,568</u> |
| Deferred expenses (note 3) | - | - | 1,785,077 |
| Capital assets (note 4) | 567,014 | 530,397 | 686,738 |
| Intangible assets (note 5) | - | - | 958,450 |
| | <u>\$ 12,008,687</u> | <u>\$ 12,361,722</u> | <u>\$ 10,015,833</u> |

Liabilities and Shareholders' Equity (Deficiency)

| | | | |
|---|----------------------|----------------------|----------------------|
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | \$ 2,998,921 | \$ 2,880,157 | \$ 2,776,207 |
| Current portion of long-term debt (note 7) | 265,467 | 456,667 | 731,248 |
| Deferred revenue | 4,990,556 | 5,014,404 | 4,250,255 |
| | <u>8,254,944</u> | <u>8,351,228</u> | <u>7,757,710</u> |
| Convertible debentures (note 6) | - | - | 2,728,194 |
| Long-term debt (note 7) | - | - | 456,667 |
| Shareholders' equity (deficiency): | | | |
| Capital stock (note 8) | 28,736,838 | 28,719,973 | 21,730,825 |
| Equity portion of convertible debentures (note 6) | - | - | 399,594 |
| Deficit | (24,983,095) | (24,709,479) | (23,057,157) |
| | <u>3,753,743</u> | <u>4,010,494</u> | <u>(926,738)</u> |
| Commitments (note 11) | | | |
| Subsequent event (note 16) | | | |
| | <u>\$ 12,008,687</u> | <u>\$ 12,361,722</u> | <u>\$ 10,015,833</u> |

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"F. Lee Green" F. Lee Green, Director"John L. Albright" John L. Albright, Director

TRIPLE G SYSTEMS GROUP, INC.

Consolidated Statements of Operations and Deficit

| | Three months ended March 31 2002 (unaudited) | Three months ended March 31 2001 (unaudited) | Year ended December 31 2001 | Year ended December 31 2000 | Year ended December 31 1999 |
|--|--|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Revenue | \$ 5,067,530 | \$ 4,927,132 | \$ 19,635,726 | \$ 13,458,499 | \$ 11,587,201 |
| Cost of revenue | 1,900,777 | 1,734,910 | 7,250,929 | 4,987,061 | 4,151,839 |
| | 3,166,753 | 3,192,222 | 12,384,797 | 8,471,438 | 7,435,362 |
| Expenses: | | | | | |
| Sales and marketing | 893,073 | 885,672 | 3,214,001 | 3,436,292 | 1,939,179 |
| Research and development | 1,254,976 | 1,119,177 | 4,469,373 | 5,733,319 | 4,540,302 |
| General and administrative | 1,199,618 | 1,012,028 | 4,659,790 | 4,439,422 | 3,375,277 |
| | 3,347,667 | 3,016,877 | 12,343,164 | 13,609,033 | 9,854,758 |
| Earning (loss) before the following | (180,914) | 175,345 | 41,633 | (5,137,595) | (2,419,396) |
| Interest expense | 22,812 | 139,786 | 329,139 | 433,408 | 148,052 |
| Depreciation | 69,890 | 75,840 | 406,366 | 330,261 | 346,315 |
| Amortization | — | 274,631 | 958,450 | 1,099,895 | 687,161 |
| | 92,702 | 490,257 | 1,693,955 | 1,863,564 | 1,181,528 |
| Loss for the period | (273,616) | (314,912) | (1,652,322) | (7,001,159) | (3,600,924) |
| Deficit, beginning of period | (24,709,479) | (23,057,157) | (23,057,157) | (16,055,998) | (12,455,074) |
| Deficit, end of period | \$ (24,983,095) | \$ (23,372,069) | \$ (24,709,479) | \$ (23,057,157) | \$ (16,055,998) |
| Loss per Common Share (note 13): | | | | | |
| Basic and diluted | \$ (0.01) | \$ (0.03) | \$ (0.11) | \$ (0.60) | \$ (0.40) |
| Weighted average number of Common Shares outstanding (in thousands) (note 13) | 19,132 | 11,691 | 14,530 | 11,673 | 9,076 |

See accompanying notes to consolidated financial statements.

TRIPLE G SYSTEMS GROUP, INC.

Consolidated Statements of Cash Flows

| | Three months ended March 31, 2002 (unaudited) | Three months ended March 31, 2001 (unaudited) | Year ended December 31, 2001 | Year ended December 31, 2000 | Year ended December 31, 1999 |
|---|---|---|------------------------------------|------------------------------------|------------------------------------|
| Cash provided by (used in): | | | | | |
| Operating activities: | | | | | |
| Loss for the period | \$ (273,616) | \$ (314,912) | \$ (1,652,322) | \$ (7,001,159) | \$ (3,600,924) |
| Items not involving cash: | | | | | |
| Amortization | – | 274,631 | 958,450 | 1,099,895 | 687,161 |
| Depreciation | 69,890 | 75,840 | 406,366 | 330,261 | 346,315 |
| Interest on convertible debentures | – | 102,289 | 352,466 | 127,788 | – |
| Decrease in deferred expenses | – | – | – | 575,330 | 264,239 |
| Foreign exchange gain | (9,590) | (27,414) | (67,395) | (39,416) | 39,029 |
| | (213,316) | 110,434 | (2,435) | (4,907,301) | (2,264,180) |
| Changes in non-cash working capital (note 10) | (1,478,260) | (588,910) | (1,586,715) | 2,339,387 | (934,943) |
| | (1,691,576) | (478,476) | (1,589,150) | (2,567,914) | (3,199,123) |
| Financing activities: | | | | | |
| Issuance of Common Shares (note 8) | 16,865 | 59,926 | 6,445,426 | 393,148 | 8,501,000 |
| Share issues costs | – | (5,865) | (1,151,400) | (59,419) | (883,327) |
| Increase in convertible debentures | – | – | – | 3,000,000 | – |
| Decrease in bank indebtedness | – | – | – | – | (140,000) |
| Increase in long-term debt | – | – | – | – | 2,000,000 |
| Principal repayments of long-term debt | (191,200) | (179,938) | (731,248) | (664,930) | (284,583) |
| | (174,335) | (125,877) | 4,562,778 | 2,668,799 | 9,193,090 |
| Investing activities: | | | | | |
| Increase in deferred expenses | – | – | – | – | (1,246,998) |
| Net assets of acquired subsidiary, net of cash on hand (note 2) | – | – | – | – | (2,453,877) |
| Additions to capital assets | (106,507) | (16,895) | (250,025) | (400,871) | (324,278) |
| Decrease in cash held in escrow | – | 54,360 | 751,140 | 569,910 | (1,321,050) |
| | (106,507) | 37,465 | 501,115 | 169,039 | (5,346,203) |
| Foreign exchange gain (loss) in cash held in a foreign currency | 9,590 | 27,414 | 67,395 | 39,416 | (39,029) |
| Increase in cash and cash equivalents | (1,962,828) | (539,474) | 3,542,138 | 309,340 | 608,735 |
| Cash and cash equivalents, beginning of period | 4,763,053 | 1,220,915 | 1,220,915 | 911,575 | 302,840 |
| Cash and cash equivalents, end of period | \$ 2,800,225 | \$ 681,441 | \$ 4,763,053 | \$ 1,220,915 | \$ 911,575 |

See accompanying notes to consolidated financial statements.

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

Triple G Systems Group, Inc. (the "Corporation") is incorporated under the laws of Ontario and is engaged in the design, development, marketing, licensing, installation and support of software that enables hospitals, clinics and private reference laboratories to automate their complex laboratory processes and manage their large volumes of clinical data. The Corporation's software solutions are designed to automate and streamline the operations of clinical laboratories and provide real-time access to such data for users of laboratory information.

1. Significant accounting policies:

The accounting policies of the Corporation conform to those generally accepted in Canada. Significant accounting policies are summarized below:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, Triple G Corporation, Triple G USA Corporation, Triple G Asia Pacific Pty. Ltd., Triple G Limited, 3G Corporation, and Systemes d'Information SI - 4 Inc. All intercompany accounts and transactions have been eliminated.

(b) Revenue recognition:

Revenue from software license fees and sale of the Corporation's products and services is recognized using the percentage-of-completion method of contract accounting based on the ratio of total labour hours incurred to date to estimated labour hours. Changes in job performance, job conditions, estimated profitability and final contract settlement may result in revisions to contract costs and income and are recognized in the period in which the revisions are determined. Provisions for estimated losses on contracts are recognized when identified.

Amounts are generally billable upon reaching certain performance milestones as defined by individual contracts. Revenue in excess of contract billings is recorded as unbilled work in progress. Billings rendered in advance of performance under contracts are recorded as deferred revenue.

Software and hardware maintenance revenue is recognized rateably over the life of the maintenance agreements. Revenue from computer hardware sales is recognized upon shipment.

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

1. Significant accounting policies (continued):

(c) Foreign currency translation:

The Corporation translates foreign currency denominated transactions and the financial statements of operationally dependent foreign operations using the temporal method. Monetary assets and liabilities which are denominated in foreign currencies are translated at year-end exchange rates. Non-monetary assets and liabilities are translated at rates in effect on the dates of the transactions. Revenue and expenses are translated at average rates in effect during the year with the exception of depreciation and amortization which are translated at historic rates. Exchange gains or losses on translation of current monetary items are reflected in the consolidated statements of operations and deficit in the year in which they occur.

(d) Research and development:

Research costs are expensed as incurred. Development costs are expensed as incurred unless such costs meet the criteria for deferral and amortization under generally accepted accounting principles. To date, the Corporation has not deferred any development costs.

(e) Cash and cash equivalents:

Cash and cash equivalents include highly liquid instruments with an original maturity of less than 90 days. The carrying amounts of cash and cash equivalents are stated at cost which approximate fair values.

(f) Capital assets:

Capital assets are recorded at cost and are amortized at rates which fully amortize the assets over their estimated useful lives as follows:

| Asset | Basis | Rate |
|--------------------------------|-------------------|--------------------|
| Office furniture and equipment | Declining balance | 20% |
| Computer hardware | Straight line | 3 years |
| Computer software | Declining balance | 100% |
| Leasehold improvements | Straight line | Over term of lease |

In the year of addition, the Corporation amortizes capital assets at half of the above rates.

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

1. Significant accounting policies (continued):

(g) Prepaid software licenses:

The Corporation purchases software licenses that underlie its applications. Under its arrangement with a supplier, the Corporation prepays license fees in order for the licenses to be available to customers. The Corporation records the purchase of the software licenses as deferred expenses.

(h) Acquired software rights:

Acquired software rights, which include software under development, are amortized on a straight-line basis over periods ranging from one year to thirty months. The Corporation regularly reviews the recoverability of the acquired software rights by determining whether the amortization of the acquired software rights balance over its estimated remaining life can be recovered through projected future undiscounted income from operations before the effects of the amortization.

In August 2001, The Canadian Institute of Chartered Accountants (the "CICA") issued Handbook Section 3062, "Goodwill and Other Intangible Assets" ("Section 3062"). Section 3062 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually by comparing the carrying value to the respective fair value. Section 3062 also requires that intangible assets with estimated useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment by assessing the recoverability of the carrying values.

The Corporation has adopted the provision of Section 3062 effective January 1, 2002. As of the date of adoption of Section 3062, the Corporation had no unamortized intangible assets.

(i) Management estimates:

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

In connection with the determination of the percentage-of-completion of contracts in progress, the Corporation estimates the number of hours needed to complete implementations in progress. These estimates are based on contract implementation plans and assessment of work necessary to complete the contract. Actual results could differ from those estimates.

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

1. Significant accounting policies (continued):

(j) Financial instruments and concentration of credit risk:

Financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The Corporation determines the fair value of its financial instruments based on quoted market values or discounted cash flow analyses. The recorded amounts of financial instruments approximate their fair values.

Financial instruments that potentially subject the Corporation to concentrations of credit risk, consist primarily of cash and cash equivalents and accounts receivable. The Corporation sells its software products and services directly to end users and maintains reserves for potential credit losses, but historically has not experienced any significant losses related to individual customers or groups of customers in any geographic area. The Corporation does not make use of derivative instruments.

(k) Stock-based compensation plans:

The Corporation has three stock-based compensation plans which are described in note 9. No compensation expense is recognized for the plans when shares or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to capital stock.

In December 2001, the CICA issued Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments" ("Section 3870"), which the Corporation adopted on January 1, 2002. Section 3870 establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. It applies to transactions in which shares of common stock, stock options or other equity instruments are granted or liabilities incurred based on the price of common stock or other equity instruments. The new standard permits the Corporation to continue its existing policy of not recognizing compensation expense on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is recorded as capital stock. Had the Corporation applied the fair-value based method of accounting, there would not have been a material adjustment to the consolidated financial statements.

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

1. Significant accounting policies (continued):

(l) Loss per common share:

Effective January 1, 2001, the Corporation retroactively adopted the new recommendations of the CICA Handbook Section 3500, "Earnings per Share", with respect to the computation of diluted loss per common share. Under the new standards, the treasury stock method is used in determining the dilutive effect of options. Previously, the imputed earnings approach was used. As a result of this change, diluted loss per common share did not change.

Basic loss per common share figures are computed by dividing net loss by the weighted average shares outstanding during the year. Diluted loss per share figures are computed similar to basic loss except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, compensation options, Financing Warrants, and Shareholder Warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding options and warrants are exercised at the exercise price.

2. Business combination:

On May 19, 1999, the Corporation entered into an option purchase agreement with United Hi-Tech Limited ("UHT"), providing for the purchase from UHT of certain rights under a call option agreement between UHT and Triple G Corporation Pty. Ltd., an unrelated Australian corporation, as trustee for the Triple G Corporation Unit Trust, an Australian trust ("Ausco"). Pursuant to the exercise of the rights so acquired, the Corporation entered into a software purchase agreement with Ausco providing for the purchase from Ausco of the Ultra software in the territories not previously owned by the Corporation's subsidiary, Triple G Corporation. In connection with this transaction, the Corporation formed Triple G Asia Pacific Pty. Ltd. ("Triple G Asia Pacific"), which acquired certain assets and assumed certain liabilities of Ausco. The aggregate purchase price for the option rights to the software and certain net assets of Ausco was approximately \$2,351,000 (Australian dollars ("A") \$ 2,404,000) which was paid on closing in cash. Acquisition expenses incurred in connection with this transaction were approximately \$103,000.

The fair value of the net assets acquired and liabilities assumed of Ausco as at May 19, 1999 is summarized as follows:

| | | |
|--------------------------|----|-----------|
| Current assets | \$ | 212,400 |
| Capital assets | | 124,200 |
| Acquired software rights | | 2,745,500 |
| Current liabilities | | (190,400) |
| Deferred revenue | | (437,700) |
| Total cash consideration | \$ | 2,454,000 |

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

2. Business combination (continued):

In addition, Triple G Asia Pacific also entered into a services agreement with Ausco whereby the latter would provide services of three individuals for a thirty-month period. In connection with this agreement, Triple G Asia Pacific entered into an escrow agreement with Ausco and the Corporation, providing for the deposit in escrow of \$1,462,500 (A \$1,500,000) (the "Trust Fund") in respect of payments to be made under the services agreement between Triple G Asia Pacific and Ausco, and granting to Ausco a security interest in the Trust Fund. The Corporation has made the scheduled payments totalling \$388,680 (A\$450,000) during 2000 and \$141,450 (A\$150,000) during 1999. On December 22, 2000, pursuant to an amendment to the escrow agreement, the residual Trust Fund was converted into Australian dollars and \$163,000, which is net of \$18,230 in fees, was released to the Corporation. The Corporation paid the residual amount of \$751,140 (A\$900,000) in May 2001.

The acquisition was accounted for by the purchase method and the results of operations of the acquired business have been included in the consolidated statement of operations and deficit from the date of acquisition.

3. Deferred expenses:

On October 29, 1999, the Corporation entered into a value added reseller agreement with Unify Corporation ("Unify") where the Corporation agreed to purchase a minimum of U.S. \$1,500,000 of Unify software licenses during the two-year period ending October 29, 2001. The Corporation has since renewed the value added reseller agreement until January 17, 2004. In order to satisfy a portion of its obligation to prepay this commitment, the Corporation issued 595,026 Common Shares at a price of \$3.00 each, which were held in escrow. The Corporation had the right to require Unify to sell all or part of these Common Shares back to the Corporation at a specified price of U.S. \$2.04 on or before October 31, 2001. The Corporation did not exercise this right and the shares in escrow as of October 31, 2001 were returned to treasury and the deferred expense balance was reduced.

The Corporation currently relies exclusively on Unify to supply the Corporation with database products necessary to operate the Corporation's ULTRA products.

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

4. Capital assets:

| March 31, 2002 (unaudited) | Cost | Accumulated depreciation | Net book value |
|----------------------------|--------------|--------------------------|----------------|
| Office furniture | \$ 260,020 | \$ 157,742 | \$ 102,278 |
| Computer hardware | 859,406 | 500,545 | 358,861 |
| Computer software | 466,923 | 444,132 | 22,791 |
| Office equipment | 173,611 | 90,527 | 83,084 |
| | \$ 1,759,960 | \$ 1,192,946 | \$ 567,014 |

| December 31, 2001 | Cost | Accumulated depreciation | Net book value |
|-------------------|--------------|--------------------------|----------------|
| Office furniture | \$ 255,056 | \$ 150,239 | \$ 104,817 |
| Computer hardware | 1,473,946 | 1,103,888 | 370,058 |
| Computer software | 463,597 | 436,327 | 27,270 |
| Office equipment | 115,260 | 87,008 | 28,252 |
| | \$ 2,307,859 | \$ 1,777,462 | \$ 530,397 |

| December 31, 2000 | Cost | Accumulated depreciation | Net book value |
|------------------------|--------------|--------------------------|----------------|
| Office furniture | \$ 233,938 | \$ 114,340 | \$ 119,598 |
| Computer hardware | 1,285,004 | 824,761 | 460,243 |
| Computer software | 429,176 | 373,752 | 55,424 |
| Office equipment | 118,897 | 80,457 | 38,440 |
| Leasehold improvements | 71,861 | 58,828 | 13,033 |
| | \$ 2,138,876 | \$ 1,452,138 | \$ 686,738 |

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

5. Intangible assets:

| December 31, 2001 | Cost | Accumulated amortization | Net book value |
|--------------------------|--------------|--------------------------|----------------|
| Acquired software rights | \$ 2,745,506 | \$ 2,745,506 | \$ — |

| December 31, 2000 | Cost | Accumulated amortization | Net book value |
|--------------------------|--------------|--------------------------|----------------|
| Acquired software rights | \$ 2,745,506 | \$ 1,787,056 | \$ 958,450 |

6. Financing from shareholders:

On June 30, 2000, the Corporation obtained \$3,000,000 in bridge financing comprised of \$2,000,000 in a secured convertible debenture issued to J.L. Albright II Venture Fund and \$1,000,000 in a secured convertible debenture issued to Working Ventures Canadian Fund Inc. ("Convertible Debentures"), both principal shareholders of the Corporation with representation on the Board of Directors. The Corporation paid a financing fee of \$30,000. The Convertible Debentures bore interest at a rate of 8% per annum. The Convertible Debenture holders received, in aggregate, warrants ("Shareholder Warrants") to acquire up to 270,000 Common Shares. The Shareholder Warrants, having an exercise price of \$1.25 each, expire as to 90,000 warrants on June 30, 2005, 90,000 warrants on November 27, 2005 and 90,000 warrants on February 22, 2006. Pursuant to an amendment agreement dated June 28, 2001, the Convertible Debentures, including accrued interest, were convertible into equity on the same terms as any equity financing of the Corporation of at least \$2,000,000 during the period ending September 28, 2001 and thereafter in an amount of not less than \$6,000,000, exclusive of any subscriptions by the existing holders of Convertible Debentures. The Convertible Debentures were secured by a floating charge on all assets and undertakings of the Corporation subordinate to the interests of the Corporation's bank and long-term debt.

The estimated fair value of the conversion privilege was \$399,594 at the time of issue and this was recorded as equity. At June 30, 2000, the fair value of the Corporation's obligation to make future payments was \$2,600,406 with an effective interest rate of 18% per annum.

Coincident with the equity financing that was completed on July 10, 2001 (note 8), the Convertible Debentures and \$246,245 in accrued interest thereon were converted into 2,596,996 Common Shares.

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

7. Long-term debt:

| | March 31 2002 (unaudited) | December 31 2001 | December 31 2000 |
|----------------------|---------------------------------|---------------------|---------------------|
| Subordinated debt | \$ 265,467 | \$ 456,667 | \$ 1,158,487 |
| Term loan | – | – | 29,428 |
| | 265,467 | 456,667 | 1,187,915 |
| Less current portion | 265,467 | 456,667 | 731,248 |
| | \$ – | \$ – | \$ 456,667 |

On July 13, 1999, the Corporation obtained \$2,000,000 subordinated debt financing from GATX/MM Venture Finance Partnership. The subordinated debt is repayable over 36 months in equal monthly instalments of principal and interest of \$68,307. The debt bears interest at a rate of 13.95% and is secured by a general security agreement and guarantees from Triple G Corporation, Triple G USA Corporation and Triple G Asia Pacific Pty. Ltd. ("Guarantors") which is subordinated to the general security agreement covering all assets of the Corporation held by the Corporation's bank. In addition, the Corporation has pledged the shares of the Guarantors. The Corporation has also granted 153,333 warrants to GATX/MM Venture Finance Partnership ("Financing Warrants") which entitle the holder thereof to purchase up to 153,333 Common Shares at a price of \$3.00 per Common Share. The Financing Warrants expire on the later of: (a) two years from the date the Common Shares are listed on The Toronto Stock Exchange or NASDAQ, but in any event not longer than July 13, 2009; or (b) July 13, 2004.

8. Capital stock:

(a) Authorized and issued:

The Corporation is authorized to issue an unlimited number of Common Shares and Class A preference shares. On September 7, 2000, the shareholders of the Corporation authorized the Class A preference shares to be issuable in series. The Corporation has no preference shares outstanding.

Pursuant to articles of amendment certified effective June 13, 2001, the Corporation amended its articles to consolidate all of the issued and outstanding Common Shares on the basis of one post-consolidation Common Share for every five pre-consolidation Common Shares. All references to Common Shares and per Common Share information in these consolidated financial statements are stated on a post-consolidation basis.

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

8. Capital stock (continued):

The capital stock transactions of the Corporation for the three months ended March 31, 2002 (unaudited) and the years ended December 31, 2001 and 2000 are as follows:

| | Number of common shares | Recorded value of common shares |
|--|-------------------------------|---------------------------------------|
| Balances as at December 31, 1999 | 12,215,640 | \$ 21,397,096 |
| Issued for cash | 2,871 | 8,155 |
| Issued under the employee plan | 148,307 | 444,919 |
| Promissory notes owing from employees | (80,533) | (59,926) |
| Share issue costs | — | (59,419) |
| Balances as at December 31, 2000 | 12,286,285 | 21,730,825 |
| Payment of promissory notes owing from employees | 80,533 | 59,926 |
| Initial public offering | 2,800,000 | 3,500,000 |
| Conversion of convertible debentures | 2,596,996 | 3,246,245 |
| Equity portion of convertible debentures reclassified to capital stock | — | 233,954 |
| Over-allotment option | 170,000 | 212,500 |
| Cancellation of Common Shares issued to Unify (note 3) | (595,026) | (1,785,077) |
| Private placement | 1,782,000 | 2,673,000 |
| Share issue costs | — | (1,151,400) |
| Balances as at December 31, 2001 | 19,120,788 | 28,719,973 |
| Compensation Options exercised (unaudited) | 10,692 | 13,365 |
| Stock options exercised (unaudited) | 1,400 | 3,500 |
| Balances as at March 31, 2002 (unaudited) | 19,132,880 | \$ 28,736,838 |

On July 10, 2001, the Corporation completed a \$3,500,000 initial public offering and issued 2,800,000 Common Shares. Coincident with this financing and pursuant to the terms of the Convertible Debentures (note 6), the principal and accrued interest thereon aggregating \$3,246,245, were converted into 2,596,996 Common Shares.

In conjunction with the July 10, 2001 financing, the Corporation granted to the agents of the financing over-allotment options to acquire up to 420,000 Common Shares. On September 7, 2001, the agents exercised a portion of the options for 170,000 Common Shares for gross proceeds of \$212,500. The residual over-allotment options expired on September 10, 2001.

On November 30, 2001, the Corporation completed a private placement of 1,782,000 Common Shares for gross proceeds of \$2,673,000.

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

8. Capital stock (continued):

(b) Warrants and compensation options:

The Corporation has issued 153,333 Financing Warrants to GATX/MM Venture Finance Partnership, which entitles the holder thereof to purchase up to 153,333 Common Shares at a price of \$3.00 per Common Share (note 7). The Corporation has also issued Shareholder Warrants to the holders of the Convertible Debentures which entitle the holder to acquire an aggregate of up to 270,000 Common Shares (note 6).

In conjunction with the initial public offering, over-allotment option and private placement financing, the Corporation granted compensation options to the agents of the financing to acquire up to 498,960 Common Shares. Each compensation option has an exercise price and expiry date as follows:

| Options granted in connection with | Number of options as at March 31 2002 (unaudited) | Number of options as at December 31 2001 | Exercise price | Expiry date |
|---------------------------------------|---|---|-------------------|-------------------|
| Initial public offering | 325,308 | 336,000 | \$1.25 - \$1.45 | July 10, 2003 |
| Over-allotment option | 20,400 | 20,400 | \$1.25 - \$1.45 | September 7, 2003 |
| Private placement | 142,560 | 142,560 | \$1.50 | November 30, 2003 |
| | 488,268 | 498,960 | | |

9. Stock-based compensation plans:

At December 31, 2001, the Corporation has three stock-based compensation plans, which are described below:

(a) Old stock option plan:

Under the old stock option plan (the "Old Option Plan"), the Corporation may grant options to its directors and employees for up to 1,050,000 Common Shares. Effective June 21, 2000, a new stock option plan was initiated and no further options can be granted from the Old Option Plan. Under the Old Option Plan, the exercise price of each option was established at the discretion of the Board of Directors at the time the option is granted.

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

9. Stock-based compensation plans (continued):

Options expire five years from the date of grant and may be exercised in whole or in part at any time after the first anniversary of the date of grant, subject to vesting over three years. Generally options granted vest quarterly in arrears, commencing with the first calendar quarter after the date of grant but the Board of Directors has the authority to accelerate the vesting condition.

A summary of the status of the Corporation's Old Option Plan as at March 31, 2002 (unaudited) and as at December 31, 2001 and 2000 and changes during the periods then ended is presented below:

| | Number of options March 31 2002 (unaudited) | Weighted average exercise price per share (unaudited) | Number of options Dec. 31 2001 | Weighted average exercise price per share | Number of options Dec. 31 2000 | Weighted average exercise price per share |
|--|---|--|---|---|---|---|
| Options outstanding at beginning of period | 721,633 | \$ 2.91 | 840,075 | \$ 2.89 | 515,050 | \$ 2.80 |
| Granted | – | – | – | – | 327,896 | 3.00 |
| Exercised | (1,400) | (2.50) | – | – | (2,871) | 2.84 |
| Expired | (43,333) | (2.84) | (118,442) | (2.79) | – | – |
| Options outstanding, end of period | 676,900 | \$ 2.91 | 721,633 | \$ 2.91 | 840,075 | \$ 2.89 |
| Options exercisable, end of period | 586,000 | \$ 2.90 | 589,283 | \$ 2.89 | 483,075 | \$ 2.83 |

| | Number of options March 31 2001 (unaudited) | Weighted average remaining contractual life outstanding (unaudited) | Number of options Dec. 31 2001 | Weighted average remaining contractual life outstanding | Number of options Dec. 31 2000 | Weighted average remaining contractual life outstanding |
|--------------------------------|---|---|---|--|---|--|
| Broken down by exercise price: | | | | | | |
| \$2.50 | 118,800 | 1.1 years | 134,200 | 1.2 years | 184,783 | 2.3 years |
| \$3.00 | 558,100 | 2.5 years | 587,433 | 2.6 years | 655,292 | 4.3 years |
| | 676,900 | | 721,633 | | 840,075 | |

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

9. Stock-based compensation plans (continued):

Options as at December 31, 2001 expire as follows:

| Year of expiry | Number of options |
|----------------|-------------------|
| 2002 | 78,833 |
| 2003 | 79,400 |
| 2004 | 361,300 |
| 2005 | 202,100 |
| | 721,633 |

(b) New stock option plan:

On June 21, 2000, the Corporation established a new stock option plan (the "New Option Plan") under which the Corporation may grant options to its directors and employees for up to 1,000,000 Common Shares. Under the New Option Plan, the exercise price of each option will not be less than the "market price" as defined in the New Option Plan.

Options expire five years from the date of grant and may be exercised in whole or in part subject to vesting. Generally granted options vest quarterly in arrears over three years, commencing with the first calendar quarter after the date of grant but the Board of Directors has the authority to accelerate the vesting conditions.

A summary of the status of the Corporation's New Option Plan as at March 31, 2002 (unaudited) and as at December 31, 2001 and 2000 and changes during the periods then ended is presented below:

| | Number of options March 31 2002 (unaudited) | Weighted average exercise price per share (unaudited) | Number of options Dec. 31 2001 | Weighted average exercise price per share | Number of options Dec. 31 2000 | Weighted average exercise price per share |
|---|---|--|---|---|---|---|
| Options outstanding at beginning of period | 886,133 | \$ 1.73 | 28,800 | \$ 3.00 | — | \$ — |
| Granted | 27,500 | 2.60 | 857,333 | 1.69 | 28,800 | 3.00 |
| Expired | (5,333) | 1.34 | — | — | — | — |
| Options outstanding, end of period | 908,300 | \$ 1.76 | 886,133 | \$ 1.73 | 28,800 | \$ 3.00 |
| Options exercisable, end of period | 198,508 | \$ 2.07 | 128,925 | \$ 2.24 | — | \$ — |

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

9. Stock-based compensation plans (continued):

| | Number of options March 31 2001 (unaudited) | Weighted average remaining contractual life outstanding (unaudited) | Number of options Dec. 31 2001 | Weighted average remaining contractual life outstanding | Number of options Dec. 31 2000 | Weighted average remaining contractual life outstanding |
|--------------------------------|---|---|---|--|---|--|
| Broken down by exercise price: | | | | | | |
| \$1.25 | 597,000 | 4.3 years | 600,333 | 4.6 years | — | — |
| \$1.50 | 45,500 | 4.6 years | 47,500 | 4.9 years | — | — |
| \$2.00 | 5,000 | 4.7 years | 5,000 | 5.0 years | — | — |
| \$2.60 | 27,500 | 5.0 years | — | — | — | — |
| \$3.00 | 233,300 | 3.8 years | 233,300 | 4.0 years | 28,800 | 4.7 years |
| | 908,300 | | 886,133 | | 28,800 | |

Options as at December 31, 2001 expire as follows:

| Year of expiry | Number of options |
|----------------|-------------------|
| 2002 | 3,333 |
| 2005 | 50,800 |
| 2006 | 832,000 |
| | 886,133 |

(c) Employee stock purchase plan:

In April 2000, the Corporation received subscriptions from eligible participants to purchase 150,000 Common Shares available under its employee stock purchase plan (the "Employee Plan") at a price of \$3.00 each. Subsequent to this, a subscription to purchase 1,693 Common Shares was cancelled. The Corporation offered non-interest bearing loans to assist employees who purchased shares under the Employee Plan. On December 31, 2000, \$59,926 in promissory notes relating to the purchase of 80,533 Common Shares remained unpaid. These promissory notes were repaid during the year ended December 31, 2001 and the 80,533 Common Shares have been issued pursuant to the Employee Plan.

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

10. Supplemental cash flow information:

- (a) Changes in non-cash working capital as per the consolidated statement of cash flows is comprised of the following:

| | Three months ended March 31, 2002 (unaudited) | Three months ended March 31, 2001 (unaudited) | Year ended December 31, 2001 | Year ended December 31, 2000 | Year ended December 31, 1999 |
|---|---|---|------------------------------------|------------------------------------|------------------------------------|
| Accounts receivable | \$ (636,133) | \$ 380,625 | \$ (1,093,658) | \$ 228,330 | \$ (1,613,654) |
| Unbilled work in progress | 85,183 | (320,809) | (1,562,042) | (430,727) | – |
| Prepaid software licenses | (254,873) | 289,405 | 120,822 | – | – |
| Prepaid technical support fees | (704,219) | (377,590) | – | – | – |
| Prepaid expenses, deposits and other | (63,134) | 139,793 | 80,119 | (250,498) | 65,807 |
| Accounts payable and accrued liabilities | 118,764 | 387,818 | 103,895 | 928,862 | 558,438 |
| Deferred revenue | (23,848) | (1,088,152) | 764,149 | 1,863,420 | 54,466 |
| | \$ (1,478,260) | \$ (588,910) | \$ (1,586,715) | \$ 2,339,387 | \$ (934,943) |

- (b) Cash paid (received) during the period:

| | Three months ended March 31, 2002 (unaudited) | Three months ended March 31, 2001 (unaudited) | Year ended December 31, 2001 | Year ended December 31, 2000 | Year ended December 31, 1999 |
|-------------------|---|---|------------------------------------|------------------------------------|------------------------------------|
| Interest paid | \$ 28,988 | \$ 105,402 | \$ 281,946 | \$ 367,248 | \$ 251,238 |
| Interest received | (6,176) | (8,726) | (59,029) | (85,638) | (103,186) |
| | \$ 22,812 | \$ 96,676 | \$ 222,917 | \$ 281,610 | \$ 148,052 |

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

10. Supplemental cash flow information (continued):

(c) Non-cash conversion of Convertible Debentures to Common Shares:

| | Three months ended March 31, 2002 (unaudited) | Three months ended March 31, 2001 (unaudited) | Year ended December 31, 2001 | Year ended December 31, 2000 | Year ended December 31, 1999 |
|--|---|---|------------------------------------|------------------------------------|------------------------------------|
| Principal amount of Convertible Debentures | \$ - | \$ - | \$ 3,000,000 | \$ - | \$ - |
| Accrued interest thereon | - | - | 246,245 | - | - |
| | - | - | 3,246,245 | - | - |
| Accretion of Convertible Debentures | - | - | 106,221 | - | - |
| | \$ - | \$ - | \$ 3,352,466 | \$ - | \$ - |

11. Commitments:

The Corporation leases equipment and premises under non-cancellable operating leases extending to various dates to 2006.

The annual lease commitments are as follows:

| | | |
|------|----|-----------|
| 2002 | \$ | 1,008,000 |
| 2003 | | 407,000 |
| 2004 | | 387,000 |
| 2005 | | 365,000 |
| 2006 | | 312,000 |
| | \$ | 2,479,000 |

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

12. Income taxes:

The provision for income taxes differ from the amount computed by applying the Canadian federal statutory income tax rates to the Corporation's loss for the years ended December 31, 2001 and 2000 are as follows:

| | 2001 | 2000 |
|---|----------------|----------------|
| Loss for the year | \$ (1,652,322) | \$ (7,001,159) |
| Income taxes based on combined basic Canadian federal and provincial income tax rate of 42.12% (2000 - 44%) | \$ (695,963) | \$ (3,080,510) |
| Tax effect of: | | |
| Change in enacted rates | 464,920 | 92,892 |
| Lower tax rate for foreign subsidiary | 15,898 | 370,327 |
| Depreciation and amortization | – | 566,373 |
| Share issue costs | (265,598) | – |
| Change in valuation allowance | 453,360 | 1,816,955 |
| Other | 27,383 | 233,963 |
| Total income taxes | \$ – | \$ – |

The Corporation has accumulated losses for federal income tax purposes, which are available to reduce taxable income in future periods. The benefit of these losses has not been reflected in these consolidated financial statements. The losses will expire as follows:

| | | |
|------------|--|--------------|
| 2002 | (Canadian entities) | \$ 1,213,000 |
| 2003 | (Canadian entities) | 2,328,000 |
| 2004 | (Canadian entities) | 1,274,000 |
| 2005 | (Canadian entities) | 975,000 |
| 2006 | (Canadian entities) | 443,000 |
| 2008 | (Canadian entities) | 2,199,000 |
| 2020 | (USA entity) | 1,855,000 |
| 2021 | (USA entity) | 198,000 |
| Indefinite | (Australian and United Kingdom entities) | 3,953,000 |

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

12. Income taxes (continued):

Significant components of the Corporation's future tax assets as at December 31, 2001 and 2000 are as follows:

| | 2001 | 2000 |
|--|--------------|--------------|
| Non-capital losses carried forward | \$ 6,105,017 | \$ 5,598,520 |
| Capital assets - attributable to excess of tax carrying values over accounting carrying values | 2,425,029 | 2,715,013 |
| Unamortized share financing costs for tax purposes | 556,149 | 333,723 |
| Other | 98,572 | 84,151 |
| | 9,184,767 | 8,731,407 |
| Less valuation allowance | (9,184,767) | (8,731,407) |
| Net future tax assets | \$ - | \$ - |

13. Loss per Common Share:

The computations for basic and dilutive loss per share are as follows:

| (in thousands, except per share amounts) | Three months ended March 31, 2002 (unaudited) | Three months ended March 31, 2001 (unaudited) | Year ended December 31, 2001 | Year ended December 31, 2000 | Year ended December 31, 1999 |
|--|--|--|------------------------------|------------------------------|------------------------------|
| Loss for the period | \$ (274) | \$ (315) | \$ (1,652) | \$ (7,001) | \$ (3,601) |
| Weighted average number of Common Shares outstanding: Basic and diluted | 19,132 | 11,691 | 14,530 | 11,673 | 9,076 |
| Basic and diluted loss per common share | \$ (0.01) | \$ (0.03) | \$ (0.11) | \$ (0.60) | \$ (0.40) |

The effect of the exercise of stock options, Shareholder Warrants, Financing Warrants and compensation options, which as at December 31, 2001 aggregated 2,530,059 Common Shares

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

(December 31, 2000 - 3,868,741), have not been included as they would not have had a dilutive effect.

14. Segmented information:

The Corporation operates in two operating segments ULTRA and TriWin, based on product and service characteristics. Both businesses are involved in the development, sales, marketing, licensing, installation and support of software that automates and integrates medical laboratory processes. ULTRA operates under the Open Systems Architecture of UNIX and is ideally suited for large, high-volume, multi-facility laboratory environments. TriWin is the Corporation's NT-based laboratory solution that automates small- to medium-sized laboratories primarily in Canada.

The accounting policies are the same as those described in the significant accounting policies in note 1. The Corporation evaluates performance based on income (loss) before income taxes, non-recurring gains or losses and amortization. The Corporation considers the net identifiable assets to be shareholders' equity (deficiency) less intangible assets and the net assets of discontinued operations.

| Three months ended March 31, 2002 (unaudited) | TriWin | ULTRA | Total |
|---|--------------|--------------|--------------|
| Revenue | \$ 868,667 | \$ 4,198,863 | \$ 5,067,530 |
| Earnings (loss) before depreciation | 373,713 | (577,439) | (203,726) |
| Depreciation | (23,212) | (46,678) | (69,890) |
| Net earnings (loss) | \$ 350,501 | \$ (624,117) | \$ (273,616) |
| Capital expenditures | \$ 10,175 | \$ 96,332 | \$ 106,507 |
| Net investment | \$ 3,261,731 | \$ 492,012 | \$ 3,753,743 |

| Three months ended March 31, 2001 (unaudited) | TriWin | ULTRA | Total |
|---|------------|--------------|--------------|
| Revenue | \$ 594,200 | \$ 4,332,932 | \$ 4,927,132 |
| Earnings (loss) before depreciation and amortization | 189,129 | (153,570) | 35,559 |
| Depreciation | (6,238) | (69,602) | (75,840) |
| Amortization | – | (274,631) | (274,631) |
| Net earnings (loss) | \$ 182,891 | \$ (497,803) | \$ (314,912) |
| Capital expenditures | \$ – | \$ 16,895 | \$ 16,895 |

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

| | | | |
|----------------|--------------|----------------|----------------|
| Net investment | \$ 2,178,307 | \$ (3,974,715) | \$ (1,796,408) |
|----------------|--------------|----------------|----------------|

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

14. Segmented information (continued):

| Year ended December 31, 2001 | TriWin | ULTRA | Total |
|--|--------------|----------------|----------------|
| Revenue | \$ 2,669,948 | \$ 16,965,778 | \$ 19,635,726 |
| Earnings (loss) before depreciation and amortization | \$ 944,653 | \$ (1,232,159) | \$ (287,506) |
| Depreciation | (28,839) | (377,527) | (406,366) |
| Amortization | – | (958,450) | (958,450) |
| Net earnings (loss) | \$ 915,814 | \$ (2,568,136) | \$ (1,652,322) |
| Capital expenditures | \$ 7,899 | \$ 242,126 | \$ 250,025 |
| Net identifiable assets | \$ 2,911,230 | \$ 1,099,264 | \$ 4,010,494 |
| Year ended December 31, 2000 | TriWin | ULTRA | Total |
| Revenue | \$ 2,721,422 | \$ 10,737,077 | \$ 13,458,499 |
| Earnings (loss) before depreciation and amortization | \$ 1,118,343 | \$ (6,689,346) | \$ (5,571,003) |
| Depreciation | (28,352) | (301,909) | (330,261) |
| Amortization | – | (1,099,895) | (1,099,895) |
| Net earnings (loss) | \$ 1,089,991 | \$ (8,091,150) | \$ (7,001,159) |
| Capital expenditures | \$ 33,528 | \$ 367,343 | \$ 400,871 |
| Net identifiable assets | \$ 1,995,416 | \$ (3,805,604) | \$ (1,810,188) |

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

14. Segmented information (continued):

Geographic segments:

The Corporation operates primarily in Canada, the United States, the United Kingdom and the Asia Pacific region. Revenue is attributed to customers based on location of the customer. The majority of the Corporation's capital assets are located in Canada.

| Revenue by geographic segment | Three months ended March 31, 2002 (unaudited) | Three months ended March 31, 2001 (unaudited) | Year ended December 31, 2001 | Year ended December 31, 2000 | Year ended December 31, 1999 |
|-------------------------------|--|--|------------------------------|------------------------------|------------------------------|
| United States | \$ 2,758,493 | \$1,934,060 | \$ 8,959,938 | \$ 5,660,339 | \$ 4,965,841 |
| Asia Pacific | 1,171,906 | 1,951,807 | 5,339,533 | 3,641,307 | 2,972,127 |
| Canada | 998,853 | 1,041,265 | 3,819,925 | 4,156,853 | 3,649,233 |
| Europe | 138,278 | — | 1,516,330 | — | — |
| | \$ 5,067,530 | \$4,927,132 | \$19,635,726 | \$13,458,499 | \$11,587,201 |

15. Significant customers:

(a) Concentration of revenue:

During the periods ended March 31, 2002 and March 31, 2001, two customers each contributed 12% of the Corporation's consolidated revenue (unaudited). During 2001, one customer contributed 11.7% of the Corporation's consolidated revenue. During 2000, no customer contributed over 10% of the Corporation's consolidated revenue.

(b) Concentration of credit risk:

The Corporation operates primarily in Canada, the United States, the United Kingdom and Australia. The Corporation performs ongoing credit evaluations of customers and generally does not require collateral. Allowances are maintained for potential credit losses.

As at March 31, 2002, 41% of accounts receivable balances were denominated in United States dollars, 18% in Australian dollars and 11% in United Kingdom pounds. As at December 31, 2001, 41% of accounts receivable balances were denominated in United States dollars, 24% in United Kingdom pounds and 22% in Australian dollars. As at December 31, 2000, 30% of accounts receivable balances were denominated in United States dollars and 14% in Australian dollars.

TRIPLE G SYSTEMS GROUP, INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2001, 2000 and 1999 (All amounts as at March 31, 2002 and for the three months ended March 31, 2002 and 2001 are unaudited)

15. Significant customers (continued):

As at March 31, 2002, two customers accounted for 28% of the consolidated accounts receivable (unaudited). As at December 31, 2001, three customers accounted for 34% of the consolidated accounts receivable. As at December 31, 2000, two customers accounted for 24% of the consolidated accounts receivable. The Corporation believes that there is no unusual exposure associated with the collection of these receivables.

(c) Industry concentration:

The Corporation derives substantially all of its revenue from licenses and services related to laboratory software products sold to the laboratory and hospital information systems software industry.

16. Subsequent event:

On May 22, 2002, the Corporation issued and sold 3,015,000 special warrants (the "Special Warrants") at a price of \$2.70 per Special Warrant for gross proceeds of \$8,140,500 (the "Offering"). Subject to a penalty adjustment, each Special Warrant will entitle the holder thereof to acquire one Common Share without payment of any additional consideration.

On •, 2002, the Board of Directors approved the filing of a (final) prospectus dated •, 2002 with certain regulatory authorities qualifying the issue and distribution of 3,015,000 Common Share issuable upon the exercise or deemed exercise of the Special Warrants.

The Corporation has also granted to the underwriters of the Offering (the "Underwriters") a compensation option entitling the Underwriters to acquire a broker warrant (the "Broker Warrant") for no additional consideration. The Broker Warrant will entitle the Underwriters to acquire up to 211,050 Common Shares at an exercise price of \$2.70 per Common Share until May 22, 2004. The aforementioned (final) prospectus qualifies the distribution of the portion of the Broker Warrants entitling the holders thereto to acquire Common Shares in an amount equal to 5% of the aggregate number of Common Shares issuable from treasury upon the exercise or deemed exercise of the Special Warrants sold pursuant to the Offering.

CERTIFICATE OF THE CORPORATION AND THE PROMOTER

Dated: June 12, 2002

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

(Signed) F. Lee Green
Chief Executive Officer

(Signed) Robert McQuade
Chief Financial Officer

On behalf of the Board of Directors

(Signed) John L. Albright
Director

(Signed) Ralph Soberano
Director

PROMOTER

(Signed) F. Lee Green

CERTIFICATE OF THE UNDERWRITERS

Dated: June 12, 2002

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 qualified by this prospectus as required by Part XV of the *Securities Act* (Ontario), and Part 9 of the *Securities Act* (British Columbia, and the regulations thereunder.

YORKTON SECURITIES INC.

By: (Signed) Mark McQueen

RESEARCH CAPITAL CORPORATION

By: (Signed) Douglas Bell