**Initial Public Offering** **July 24, 1998**

# MedcomSoft Inc.

## Maximum: 1,666,667 Common Shares ($2,000,000)
## Minimum: 1,250,000 Common Shares ($1,500,000)

**and**

## 533,333 Common Shares
## issuable upon the exercise of the Initial Special Warrants

**and**

## 466,666 Common Shares
## issuable upon the exercise of the Second Special Warrants

This prospectus qualifies for distribution a minimum of 1,250,000 and a maximum of 1,666,667 common shares ("Common Shares") of MedcomSoft Inc. ("MedcomSoft"). The price of the Common Shares offered hereby has been determined by negotiation between MedcomSoft and Rampart Securities Inc. (the "Agent").

## Price: $1.20 per Common Share

| | Total Price to the Public | Agent's Fee(1) | Net Proceeds to MedcomSoft(2) |
|---|---|---|---|
| Per Common Share | $ 1.20 | $ 0.12 | $ 1.08 |
| Total Offering – Minimum(3) | $1,500,000 | $150,000 | $1,350,000 |
| – Maximum(3) | $2,000,000 | $200,000 | $1,800,000 |

(1) As additional compensation, MedcomSoft has agreed to grant the Agent a non-assignable option (the "Compensation Option") to purchase up to that number of Common Shares equal to 10% of the number of Common Shares distributed within the minimum and maximum offered hereunder at any time within two years after this Offering at an exercise price of $1.20 per Common Share so acquired. This prospectus qualifies the grant of one half of the Compensation Option. See "Plan of Distribution".

(2) Before deducting the expenses of the Offering estimated at $100,000 which, together with the Agent's Fee, will be paid from the proceeds of this Offering.

(3) MedcomSoft has granted to the Agent an option, exercisable for a period of 60 days after closing of this Offering to acquire up to that number of Common Shares equal to 10% of the number of Common Shares distributed within the minimum and maximum offered hereunder on the same terms as specified herein (the "Over-Allotment Option"). If the Over-Allotment Option is exercised in full, the Total Price to the Public will be a minimum of $1,650,000 and a maximum of $2,200,000 and the Agent's Fee will be a minimum of $165,000 and a maximum of $220,000 and the Net Proceeds to MedcomSoft will be a minimum of $1,485,000 and a maximum of $1,980,000. This prospectus also qualifies the distribution of any Common Shares issued upon exercise of the Over-Allotment Option. See "Plan of Distribution".

**AGENT:**

**RAMPART SECURITIES INC.**
**55 University Avenue**
**Suite 1000**
**Toronto, Ontario M5J 2P8**
**Telephone: (416) 867-6000**
**Toll Free: 1 800 616-8858**
**Facsimile: (416) 867-6137**

**The offering price per Common Share of this Offering of $1.20 exceeds by, in the case of the minimum Offering, $1.12 and, in the case of the maximum Offering, $1.10 the consolidated net tangible book value attributable to each Common Share as at April 30, 1998, after this issue of Common Shares and the issue of Common Shares to be issued upon exercise of the Initial Special Warrants and the Second Special Warrants, but without giving effect to the exercise of the Over-Allotment Option and the exercise of the Compensation Option and the exercise of the Initial Broker's Warrants and the exercise of the Second Broker's Warrants, representing a dilution factor of 93%, in the case of the minimum Offering, and 92%, in the case of the maximum Offering. See "Dilution". There currently is no market through which Common Shares of MedcomSoft may be sold and there can be no assurance that a market will develop. An investment in the Common Shares offered hereby is speculative due to MedcomSoft's limited operating history, MedcomSoft's financial position and MedcomSoft's present stage of development. The purchase of Common Shares is only suitable for investors who are aware of the risks and who have the ability and willingness to accept the risk of total loss of invested capital. See "Risk Factors".**

The Agent conditionally offers for sale on a best efforts basis the Common Shares offered hereunder subject to prior sale, if, as and when issued and sold by MedcomSoft and delivered to the Agent in accordance with the conditions contained in the Agency Agreement described under "Plan of Distribution" and subject to the approval of certain legal matters by Gowling, Strathy & Henderson, on behalf of MedcomSoft.

This Offering is subject to a minimum subscription of 1,250,000 Common Shares for gross proceeds of $1,500,000. While the closing is expected to take place on or about August 6, 1998, if the minimum number of subscriptions is not received within sixty (60) days of the issuance of the receipt (final) for this prospectus by the Ontario Securities Commission or such other time as may be authorized by the Ontario Securities Commission and agreed to by the Agent, all subscription monies relating to this Offering (but not the Initial and Second Special Warrant Offering) will be returned to the subscribers without interest or deduction by Montreal Trust Company of Canada who will hold all subscription proceeds in trust pending closing of this Offering. Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. All subscription proceeds received by the Agent will be deposited in trust with Montreal Trust Company Of Canada, pending closing of this Offering. It is expected that definitive certificates for the Common Shares will be available for delivery at closing which is expected to occur on or about August 6, 1998, or such other date as may be agreed upon. See "Plan of Distribution".

In the opinion of Gowling, Strathy & Henderson, counsel to MedcomSoft, the Common Shares will be eligible for investment under certain statutes. See "Eligibility for Investment".

This prospectus also qualifies the distribution of 533,333 Common Shares to be issued without additional payment upon the exercise or deemed exercise of 533,333 special warrants (the "Initial Special Warrants") issued by MedcomSoft on February 25, 1998. Each Initial Special Warrant was issued at a price of $0.75 and entitles the holder, upon the exercise or deemed exercise thereof to receive one Common Share at no additional payment after February 25, 1998 and ending at 4:30 p.m. (Toronto time) (the "Initial Expiry Time") on the earlier of: (i) five business days following the date upon which a receipt for this prospectus has been issued by the Quebec Securities Commission; and (ii) February 25, 1999. If a receipt for this prospectus is not obtained from the securities commission in Quebec before July 24, 1998, the holder will be entitled, upon exercise or deemed exercise of the Initial Special Warrants, at any time thereafter to receive an additional 0.1 Common Share for each Initial Special Warrant, subject to adjustment in certain events, without the payment of any additional consideration. Refer to "Plan of Distribution".

This prospectus also qualifies the distribution of 466,666 Common Shares to be issued without additional payment upon the exercise or deemed exercise of 466,666 special warrants (the "Second Special Warrants") issued by MedcomSoft on March 24, 1998. Each Second Special Warrant was issued at a price of $0.75 and entitles the holder, upon the exercise or deemed exercise thereof to receive one Common Share at no additional payment after March 24, 1998 and ending at 4:30 p.m. (Toronto time) (the "Second Expiry Time") on the earlier of: (i) five business days following the date upon which a receipt (final) for this prospectus has been issued by the Ontario Securities Commission; and (ii) March 24, 1999. If a receipt (final) for this prospectus is not obtained from the Ontario Securities Commission before August 21, 1998, the holders will be entitled, upon exercise or deemed exercise of the Second Special Warrants, at any time thereafter to receive an additional 0.1 Common Share for each Second Special Warrant, subject to adjustment in certain events, without the payment of any additional consideration. Refer to "Plan of Distribution".

| | Total Price to the Public | Agent's Fee(1) | Net Proceeds to MedcomSoft |
|---|---|---|---|
| Per Initial Special Warrant | $ 0.75 | $ 0.075 | $ 0.675 |
| Total | $400,000 | $40,000 | $ 360,000(2) |
| Per Second Special Warrant | $ 0.75 | $ 0.075 | $ 0.675 |
| Total | $350,000 | $35,000 | $ 315,000(2) |

(1) Pursuant to an agency agreement dated February 25, 1998 (the "Initial Agency Agreement"), MedcomSoft issued to the Agent, as additional compensation, a non-assignable broker compensation warrant (the "Initial Compensation Warrant") entitling the Agent to acquire, for no additional consideration, broker's warrants (the "Initial Broker's Warrants"), entitling the Agent to acquire at any time prior to February 25, 2000 up to 53,333 Common Shares at a price of $0.75 per Common Share. This prospectus also qualifies the distribution of that number of Initial Broker's Warrants entitling the Agent to acquire 26,666 Common Shares of MedcomSoft upon exercise of such Initial Broker's Warrants to be issued without additional payment upon the exercise or deemed exercise of the Initial Compensation Warrant. Pursuant to an agency agreement dated March 23, 1998 (the "Second Agency Agreement"), MedcomSoft issued to the Agent, as additional compensation, a non-assignable broker compensation warrant (the "Second Compensation Warrant") entitling the Agent to acquire, for no additional consideration, broker's warrants (the "Second Broker's Warrants") entitling the Agent to acquire at any time prior to March 24, 2000 up to 46,666 Common Shares at a price of $0.75 per Common Share. This prospectus also qualifies the distribution of that number of Second Broker's Warrants entitling the Agent to acquire 23,333 Common Shares of MedcomSoft upon exercise of such Second Broker's Warrants to be issued without additional payment upon the exercise or deemed exercise of the Second Compensation Warrant.

(2) Before deducting the expenses of the Initial Special Warrant Offering and the Second Special Warrant Offering. The expenses of the Initial Special Warrant Offering amounted to $41,000 ($20,000 due diligence fee, $16,000 work out fee and $5,000 legal fees) which, together with the Agent's fee, were paid from the proceeds of the Initial Special Warrant Offering. The expenses of the Second Special Warrant Offering amounted to $5,350 ($5,350 legal fees) which, together with Agent's fee, were paid from the proceeds of the Second Special Warrant Offering.

**The issue price per Common Share issuable upon the exercise or deemed exercise of an Initial Special Warrant of $0.75 exceeds by $0.77 the consolidated net tangible book value attributable to each Common Share as at April 30, 1998, after the issue of Common Shares to be issued upon exercise of the Initial Special Warrants, but without giving effect to the exercise of the Initial Broker's Warrants, representing a dilution factor of 103%. The issue price per Common Share issuable upon the exercise or deemed exercise of a Second Special Warrant of $0.75 exceeds by $0.75 the consolidated net tangible book value attributable to each Common Share as at April 30, 1998, after the issue of Common Shares to be issued upon exercise of the Second Special Warrants, but without giving effect to the exercise of the Initial Broker's Warrants and the Second Broker's Warrants, representing a dilution factor of 100%.**

## TABLE OF CONTENTS

## ELIGIBILITY FOR INVESTMENT

In the Opinion of Gowling, Strathy & Henderson, counsel to MedcomSoft, the Common Shares offered under this prospectus would not, if issued on the date hereof, be precluded as investments, in each case subject to general investment provisions and, in certain cases, subject to prudent investment standards and the satisfaction of additional requirements relating to investment policies, standards, procedures or goals, under or by the following statutes and, where applicable, the regulations thereunder:

*Insurance Companies Act* (Canada)
*Pensions Benefits Standards Act* (Canada)
*Trust and Loan Companies Act* (Canada)
*Pension Benefits Act* (Ontario)
*An Act respecting trust companies and savings companies* (Quebec)
*Supplemental Pensions Plans Act* (Quebec)

In the opinion of such counsel to MedcomSoft, after MedcomSoft becomes a "public corporation" (as defined in the *Income Tax Act* (Canada)) by filing the appropriate election and complying with the requirements of the *Income Tax Act* (Canada) as to the dispersal of ownership of Common Shares (including a minimum of 150 shareholders each holding a "block of shares" (as defined) that have an aggregate fair market value of not less than $500), the Common Shares to be issued pursuant to this Offering or acquired upon exercise of the Special Warrants will be qualified investments for registered retirement savings plans, registered retirement income funds and deferred profit sharing plans for the purposes of the *Income Tax Act* (Canada).

## SUMMARY OF PROSPECTUS

*The following summary must be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information and financial statements appearing elsewhere in this prospectus. Capitalized terms appearing herein and not otherwise defined have the respective meanings ascribed thereto elsewhere in this prospectus.*

### The Company

MedcomSoft Inc. is a healthcare efficiency company that specializes in the design, development, marketing and implementation of healthcare provider information systems. MedcomSoft's products easily communicate and integrate with each other, creating the essential foundation for Community Health Information Networks ("CHINs") and telemedicine. MedcomSoft's products focus on streamlining and automating business processes across the industry in an effort to improve efficiency, reduce administrative costs, and improve the quality of medical care through instant access to medical information.

### Details of this Offering

**Issue:** Minimum of 1,250,000 Common Shares
Maximum of 1,666,667 Common Shares

**Price:** $1.20 per Common Share

**Amount:** Minimum of $1,500,000
Maximum of $2,000,000

**Dilution:** The offering price per Common Share of this Offering of $1.20 exceeds by, in the case of the minimum Offering, $1.12 and, in the case of the maximum Offering, $1.10 the consolidated net tangible book value attributable to each Common Share as at April 30, 1998, after this issue of Common Shares and after the issue of Common Shares to be issued upon exercise of the Initial Special Warrants and the Second Special Warrants, but without giving effect to the exercise of the Over-Allotment Option and the Compensation Option and the exercise of the Initial Broker's Warrants and the Second Broker's Warrants, representing a dilution factor of 93%, in the case of the minimum Offering, and 92%, in the case of the maximum Offering.

### Details Of Initial And Second Special Warrant Offerings

**Description:** 533,333 Initial Special Warrants were issued by MedcomSoft on February 25, 1998. Each Initial Special Warrant was issued at a price of $0.75 and entitles the holder, upon the exercise or deemed exercise thereof to receive one Common Share at no additional payment after February 25, 1998 and ending at 4:30 p.m. (Toronto time) (the "Initial Expiry Time") on the earlier of: (i) five business days following the date upon which a receipt for this prospectus has been issued by the securities commission in the Province of Quebec; and (ii) February 25, 1999.

466,666 Second Special Warrants were issued by MedcomSoft on March 24, 1998. Each Second Special Warrant was issued at a price of $0.75 and entitles the holder, upon the exercise or deemed exercise thereof to receive one Common Share at no additional payment after March 24, 1998 and ending at 4:30 p.m. (Toronto time) (the "Second Expiry Time") on the earlier of: (i) five business days following the date upon which a receipt (final) for this prospectus has been issued by the Ontario Securities Commission; and (ii) March 24, 1999.

**Dilution:** The issue price per Common Share issuable upon the exercise or deemed exercise of an Initial Special Warrant of $0.75 exceeds by $0.77 the consolidated net tangible book value attributable to each Common Share as at April 30, 1998, after the issue of Common Shares to be issued upon exercise of the Initial Special Warrants, but without giving effect to the exercise of the Initial Broker's Warrants, representing a dilution factor of 103%. The issue price per Common Share issuable upon the exercise or deemed exercise of a Second Special Warrant of $0.75 exceeds by $0.75 the consolidated net tangible book value attributable to each Common Share as at April 30, 1998, after the issue of Common Shares to be issued upon exercise of the Second Special Warrants, but without giving effect to the exercise of the Initial Broker's Warrants and the Second Broker's Warrants, representing a dilution factor of 100%.

## Use of Proceeds

The estimated net proceeds from the sale of the Common Shares hereunder will be approximately $1,250,000 for this Offering (minimum) or $1,700,000 for this Offering (maximum) after payment of the Agent's fee of $150,000 (maximum $200,000) and the expenses of this Offering estimated at $100,000. Of such aggregate net proceeds from this Offering, approximately $300,000 will be utilized to fund expansion of the management team to enable MedcomSoft to execute its sales and marketing plan; $450,000 will be utilized to fund the expenses associated with the execution of the marketing and sales plan for the *MedWorks* suite of healthcare related software products; $200,000 (maximum $550,000) will be utilized to fund research and development of existing and complementary products; and approximately $300,000 (maximum $400,000) will be utilized to fund working capital needs.

MedcomSoft has already received gross proceeds of $750,000 from the sale of the Initial Special Warrants and the Second Special Warrants, the net proceeds of $628,650 from such sale have been utilized to fund the preparation and the initial launch of the marketing campaign, and to fund working capital needs.

## Dividend Policy

Holders of common shares are entitled to receive such dividends as MedcomSoft's directors from time to time may declare out of funds legally available therefor. MedcomSoft has no fixed dividend policy. When circumstances permit, a dividend policy aimed at maximizing shareholder return, in compliance with all applicable laws and as funds permit, is planned to be instituted.

## Risk Factors

An investment in the Common Shares offered hereby involves certain risks. Investors should consider carefully such risk factors which include:

(i) Absence of Public Trading Market — there can be no assurance that an active market for MedcomSoft's Common Shares will develop or be sustained after this Offering;

(ii) Dilution — purchasers of Common Shares will incur immediate and substantial dilution in the combined net tangible book value per Common Share;

(iii) Management of Growth — MedcomSoft's growth will place demands on its managerial and operations resources;

(iv) Attraction and Retention of Key Personnel — the loss of one or more of MedcomSoft's executive officers could have a material adverse effect on MedcomSoft's financial condition and results of operations;

(v) Additional Financing Requirements — there can be no assurance that MedcomSoft will be able to raise additional capital in the future on commercially reasonably terms;

(vi) Developing Markets — there can be no assurance that wide spread acceptance of MedcomSoft's products will occur or that new markets will adopt MedcomSoft's products and processes;

(vii) Competition — management believes that MedcomSoft's principal competitors pose a significant risk to MedcomSoft;

(viii) Principal Shareholders — Dr. Aita and Lea Aita if acting jointly and in concert may be able to elect the directors of MedcomSoft and determine the outcome of any matters submitted to a vote of shareholders, excluding matters requiring a special resolution;

(ix) Limited Operating History — since MedcomSoft was founded in June, 1994, there is a limited operating history upon which to base an evaluation of MedcomSoft and its business and future prospects;

(x) Negative Cash Flow and Absence of Profits — there is no assurance that future revenues will be sufficient to generate the required funds to continue the business development and marketing activities of MedcomSoft;

(xi) Technological Change — there can be no assurance that MedcomSoft will be successful in using new technologies effectively or adapting proprietary technology to customer requirements;

(xii) Year 2000 — while MedcomSoft's systems, equipment and operations are Year 2000 compliant, there can be no assurance that the systems of other companies and government agencies on which MedcomSoft's systems rely will be converted in a timely manner;

(xiii) Government Regulations — there can be no assurance that new legislation or regulations will not be enacted nor that the application of laws or regulations from jurisdictions whose laws do not currently apply to MedcomSoft's business will subsequently become applicable;

(xiv) Security — there can be no assurance that MedcomSoft's security measures will prevent security breaches and protect MedcomSoft from any resulting risk of loss;

(xv) Protection of Intellectual Property — there can be no assurance that the steps taken by MedcomSoft will prevent misappropriation of its technology or that agreements entered into for that purpose will be enforceable;

(xvi) Reliance on Third-Party Software — there can be no assurance that MedcomSoft would be able to replace the functionality provided by third party software currently offered in conjunction with MedcomSoft's products in the event that such third party software becomes unavailable to MedcomSoft or obsolete or incompatible with future versions of MedcomSoft's products; and

(xvii) Risk of Change in Foreign Regulations — international sales are subject to certain inherent risks including trade barriers, staffing and operating foreign sales and service operations.

### Currency

All dollar amounts referred to herein are in Canadian dollars except where otherwise indicated.

### Selected Financial Information

The following table sets forth selected financial information for MedcomSoft which has been derived from the financial statements of MedcomSoft. The table should be read in conjunction with the financial statements and the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Operating Results" included elsewhere in this prospectus.

### Statement of Operations Data

| | Ten Months Ended | | Year Ended | | |
|---|---|---|---|---|---|
| | 30-Apr-98 | 30-Apr-97 | 30-Jun-97 | 30-Jun-96 | 30-Jun-95 |
| | (Unaudited) | | | (Audited) | |
| SOFTWARE & RELATED SERVICES | 22,923 | 5,930 | 6,206 | — | — |
| SALES OF HARDWARE | 8,196 | 375 | 375 | — | — |
| COST OF SALES | 8,687 | 34 | 924 | — | — |
| Gross Profit (Loss) | (491) | 341 | (549) | — | — |
| | 22,432 | 6,271 | 5,657 | — | — |
| **Expenses** | | | | | |
| Research & Development | 247,487 | 144,030 | 247,706 | 217,801 | 301,012 |
| Selling, General & Admin | 607,921 | 422,640 | 470,548 | 127,130 | 116,449 |
| | 855,408 | 566,670 | 718,254 | 344,931 | 417,461 |
| Investment Tax Credits | 0 | (119,228) | (119,228) | (89,168) | 0 |
| **Total expenses** | 855,408 | 447,442 | 599,026 | 255,763 | 417,461 |
| **Other Income** | | | | | |
| Consulting Fees | 0 | 0 | 0 | 0 | 107,500 |
| Sale of Marketing Rights | 0 | 0 | 0 | 0 | 89,261 |
| Interest Income | 0 | 1,635 | 3,253 | 4,916 | 0 |
| **Total Other Income** | 0 | 1,635 | 3,253 | 4,916 | 196,761 |
| **Net Loss** | (832,976) | (439,536) | (590,116) | (250,847) | (220,700) |

### Balance Sheet Data

| | As at | | | |
|---|---|---|---|---|
| | 30-Apr-98 | 30-Apr-97 | 30-Jun-97 | 30-Jun-96 |
| | (Unaudited) | | (Audited) | |
| Current Assets | 266,706 | 79,177 | 7,535 | 45,457 |
| Total Assets | 317,664 | 135,283 | 71,841 | 91,031 |
| Current Liabilities | 253,474 | 232,369 | 299,507 | 48,581 |
| Term Liabilities | 0 | 375,536 | 395,536 | 375,536 |
| Shareholders Equity (Capital deficiency) | 64,190 | (472,622) | (623,202) | (333,086) |

## THE COMPANY

MedcomSoft was incorporated under the *Business Corporations Act* (Ontario) by Articles of Incorporation dated June 23, 1994. The registered address and principal executive office of MedcomSoft is located at Suite 2206, 2025 Sheppard Avenue East, Toronto, Ontario, Canada, M2J 1V7.

## COMPANY BACKGROUND

MedcomSoft was founded to address the service and cost-containment needs of the healthcare industries through the development and implementation of software solutions for wide-area community health information networks ("CHINs").

Management's strategy has been to deliver tools that will help healthcare providers and administrators create, analyze and communicate information and to facilitate the processes of accessing, distributing and analyzing all healthcare information, in order to help the effort of managed care and cost-containment.

MedcomSoft has developed a number of unique products and service applications that are now commercial and poised for broad market introduction. MedcomSoft's core products and applications consist of *DB Glue* and *MedWorks*. MedcomSoft's user specific applications are *MedWorks Physician, MedWorks Primary Care Clinic, MedWorks Radiology* and *MedWorks HIS (Hospital Information System)*.

## MARKET OPPORTUNITY

The healthcare efficiency market includes companies that help healthcare industry stakeholders such as providers, payors and patients to reduce costs and improve the quality of outcomes through the use of technology. Companies within the industry provide software solutions, enabling technologies, databases, outsourcing, transaction processing and demand management.

Management believes that the healthcare industry currently faces a number of challenges that offer opportunities to healthcare efficiency companies like MedcomSoft.

### Industry Overview

Although healthcare is primarily an information-based business, the information necessary to make healthcare service decisions is fragmented, if it is available at all. Management believes that during a typical patient admission to a hospital, there are numerous physicians, nurses, technologists, pharmacists and other healthcare workers involved in direct patient care. Each provider is generating information that may be useful or even critical to the others, but that is often documented in a mix of paper and electronic systems that are not linked. Management believes that one of the major criticisms of the U.S. healthcare system is the discontinuity of care among providers. This discontinuity extends to patient records, whose lack of integration of inpatient and outpatient information is a significant deficiency.

The traditional fee-for-service model of healthcare reimbursement further encourages this inefficiency. The more services that are provided, the more providers are paid, regardless of the need for, efficacy or cost-effectiveness of these treatments. Management believes, however, that this model is changing.

Many of the participants in the health care industry are presently undergoing a conversion to Year 2000 compliance. Specifically, the Ontario Ministry of Health has publicly announced that it is in the process of updating its programs to accept a four-digit year identification on systems input and to reflect it on systems output. In addition, the Ministry of Health has publicly released new system specifications and requested that all healthcare providers convert their systems prior to March 18, 1999. Prior to this time, the current specifications will continue to be accepted by the Ministry of Health. After this time, however, only the new specifications will be accepted by the Ministry of Health. Management believes that MedcomSoft may have an advantage in relation to its competitors who are not Year 2000 compliant.

### Cost Control

The healthcare marketplace is facing increasing pressure to contain rising costs. Canada and the United States lead the world in healthcare spending as a percentage of GDP. Both public and private sector payors are reducing the funding available for healthcare services, while insisting that the same or even higher levels of service are provided to patients.

This pressure has led to the growth in Managed Care Organizations and Health Maintenance Organizations in the U.S. These organizations negotiate contracts with providers on behalf of payors, including an increasing number of capitation contracts where providers assume some of the financial risk associated with patient treatment. These organizations negotiate contracts with healthcare providers on behalf of payors, including an increasing number of contracts pursuant to which healthcare providers are paid a flat yearly fee based on the number of patients under their responsibility regardless of the number of patient visits resulting in a transfer of some of the financial risk to healthcare providers. This model is not limited to the United States. The Primary Care Reform pilot focuses on a patient-centred, service co-ordinated approach with an emphasis on illness prevention, health promotion and community-based care. The Primary Care Network allows patients to enroll with an affiliated physician who will provide primary healthcare services to the patients. Primary Care Network physicians are then able to electronically access patient medical records and receive information electronically and securely from other health care service suppliers. The Ontario Ministry of Health has announced that it anticipates that the system will be operational by January, 1999. The focus of the recently announced Primary Care Reform pilot between the Ontario Ministry of Health and the Ontario Medical Association is exploring different compensation models such as capitated payments for patient rosters.

This risk sharing by providers has required them to become more efficient in their operations in order to maintain their profitability. Workflow processes are being re-engineered to optimize productivity. More and more providers and healthcare organizations are looking at information technology as a tool to support their re-engineered processes and provide them with the data necessary to manage risk.

**Industry Infrastructure**

Despite the growing need for information technology in the healthcare industry, management believes that it remains one of the most under serviced in terms of infrastructure. A recent survey indicated that the average expenditure on information technology in hospitals surveyed represented 0.7% of their annual operating budget as compared to a 6.0% expenditure for companies in the banking and financial services industry (Source: Deloitte & Touche, Emerging Trends in Information Technology, 1995). It is estimated that only 5-10% of U.S. healthcare records are maintained electronically (Source: Encyclopaedia Britannica, Inc. Medical and Health Annual, 1996). According to a computerized medical records study, it was recommended that, among other things, healthcare professionals and organizations should adopt the computer based patient record (CPR) as the standard for medical and all other records related to patient care.

Most of the information technology expenditures are in the areas of administrative automation. Billing, patient scheduling and medical transcription applications are the most commonly used. These applications offer considerably less benefit than the possible savings from clinical applications, which can actually reduce costs from inappropriate and duplicated services. Adoption of these types of applications is much lower.

As pressures to contain costs increase, providers will need to look to information technology solutions to increase their efficiency and integrate information from disparate sources. The healthcare systems industry is expected to grow at a compound annual rate of 15% and exceed $25 billion by 2005. Independent information system vendors are expected to grow more quickly than the industry average (Source: Needham & Company, Inc., Investment Analysis, April 1996). The current under-utilization of technology tools in the healthcare industry offers MedcomSoft the opportunity to establish itself as a leader in a rapidly growing healthcare efficiency market.

## BUSINESS OF THE COMPANY

**Products and Related Services**

MedcomSoft has developed a suite of products and service applications that mitigate many of the problems associated with the acquisition, storing and utilization of healthcare information. MedcomSoft's tools, products and services provide enterprise-wide integration of information systems, indexing of patient records, clinical information integration and decision support at the point-of-care. Management decision support systems can be based upon access to comprehensive enterprise-wide clinical and financial information. MedcomSoft's solutions enable its customers to reduce the cost of delivering healthcare through increased productivity and to improve the quality of care through enhanced analysis of outcomes and continuous improvement of patient care processes.

MedcomSoft has developed a number of unique products and service applications that are now available for market introduction. MedcomSoft's new suite of products are currently commercially available in Ontario and offer full online connectivity with the Ministry of Health Electronic Data Transfer ("EDT") and Health Card Validation.

***Technology***

MedcomSoft has focused on the development of specific proprietary software technologies to allow it to customize products and develop additional *MedWorks* application modules. Two software tools are the basis of *MedWorks* development, *DB Glue* and the *MedWorks* Intelligent Data Collection Interface.

***Products Overview***

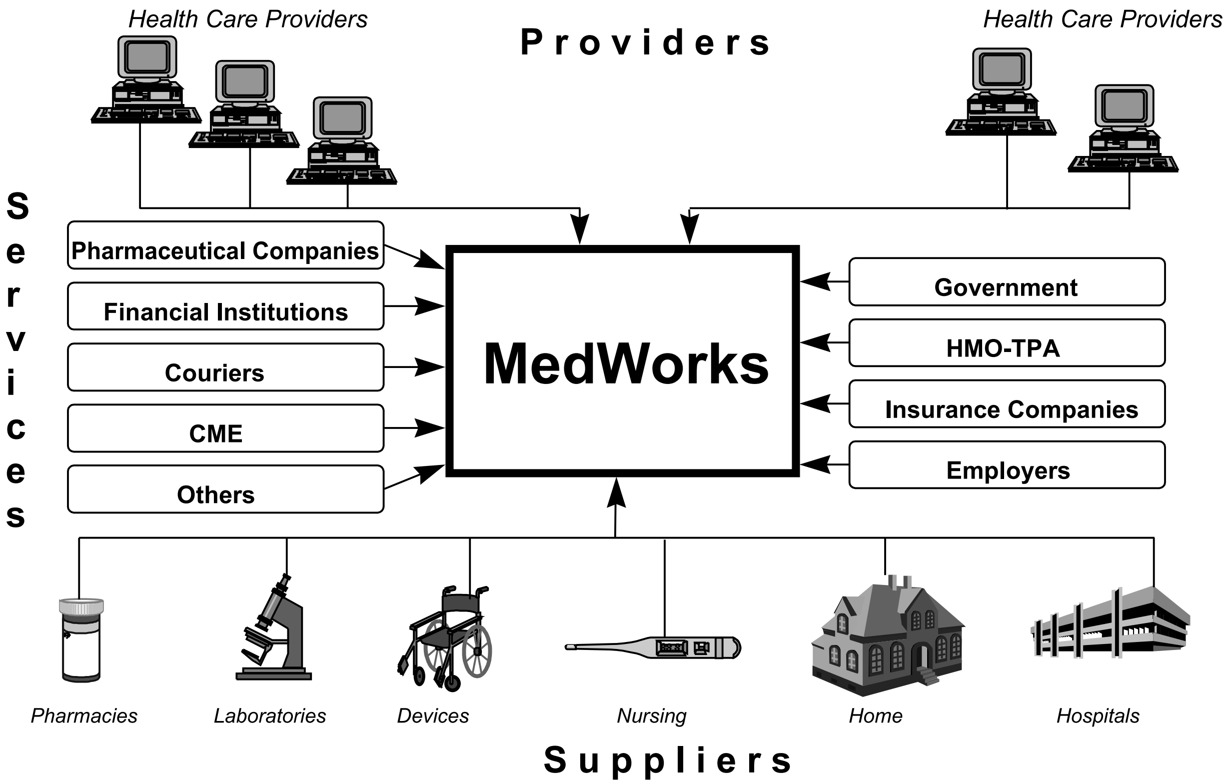
***DB Glue***

From inception, MedcomSoft has chosen Microsoft NT as its standard development environment and Microsoft Visual C++ as its main application development tool. To ensure that MedcomSoft can re-use developed code MedcomSoft made the decision to focus its entire efforts, in the first year of existence on the development of a generic engine that will help achieve that goal. *DB Glue* (MedcomSoft's generic engine) combines the power and flexibility of Visual C++ for creating applications with the ease-of-use of Visual Basic or Microsoft Access. *DB Glue* is a technological breakthrough for MedcomSoft and represents its core technology for the rapid deployment of applications. It allows a speedy and powerful integration with Microsoft tools. Its main features include:

- binding Windows NT and Windows 95 controls to database fields
- automatically synchronizing record sets with One-to-Many relationships
- automatically assigning default values/counter fields for new records
- linking forms/dialogues to databases in minutes
- buffering records for quick traversal and display
- ODBC compliant (no need for ODBC API knowledge)
- reduces code necessary to create, update, or delete records

***MedWorks***

MedcomSoft has developed a suite of products and service applications that alleviate many of the problems associated with the acquisition, storing and utilization of healthcare information. MedcomSoft's tools, products and services provide enterprise-wide integration of information systems and indexing of patient records, clinical information integration and decision support at the point-of-care, and management decision support systems based upon access to comprehensive enterprise-wide clinical, financial and other information. MedcomSoft's solutions enable its customers to reduce the cost of delivering healthcare through increased productivity and to improve the quality of care through analysis of outcomes and continuous improvement of patient care processes. The following diagram illustrates the hypothetical use of healthcare resources by healthcare providers connected to the *MedWorks* system:




The *MedWorks* system is designed to provide comprehensive, integrated, real-time information. The system is structured around clearly defined events and business processes as modular applications. Each application is designed to meet the specific needs of each participating stakeholder. The system optimizes the utilization of healthcare resources through the access and communication of information.

*MedWorks* addresses the needs and requirements of many stakeholders by providing:

- user-specific and user-friendly front-end applications for individual physicians, clinics, pharmacies, labs and hospitals;
- an intelligent data collection interface (or integration engine) which provides a friendly and flexible interface for collecting data in standardized ways;
- back-end systems that provide repositories, adjudication and connectivity for networks;
- specialized applications for payors; and
- research and analysis tools for health resources utilization and cost evaluation.

With the consent of a patient, the electronic medical record ("EMR"), or any portion of the EMR can be accessed by any service provider (i.e. physician, pharmacy or hospital) connected to the network. The process involves swiping a health card and accessing an adjudication server to ensure eligibility. Upon confirmation by the payor, services can be provided and the software will access numerous databases to aggregate the information that will form the EMR. Only those pieces of information required by the provider, as determined by the configuration of the network, will be viewed through the *MedWorks* front-end. For instance, a pharmacy may only be permitted to view the prescriptions the patient has taken or currently uses; and a physician may be permitted to access all patient information. As the MedcomSoft solution is completely scaleable, any number of databases can be accessed, depending on the configuration of the network.

***MedWorks – IDCI***

*MedWorks – IDCI (Intelligent Data Collection Interface)*, "the *MedWorks desktop*" is a new object-oriented application, and is at the foundation of MedcomSoft's concept of homogeneous collection of data across the healthcare sector. It is an open system with a layered design that allows for co-existence of *MedWorks* in heterogeneous networks and its integration with different foreign systems. As a true 32-bit application, written with Microsoft Visual C++, *MedWorks – IDCI* is designed to operate under Microsoft's Windows NT and Windows 95 environments and provides a full graphic user interface, coupled with the highest standards of security and connectivity.

***MedWorks – Physician***

*MedWorks – Physician* was developed as an integrated suite of modules to facilitate both clinical and administrative functions in any type of physician practice environment. Application modules include:

- Patient demographic registration
- Electronic billing, submission and collection system
- Complete EMR
- Detailed medical history module
- Flexible encounter and patient examination module
- Electronic prescription writer
- Medical laboratory requests and results reporting
- Radiology module

***MedWorks – Primary Care Clinic***

*MedWorks* – Primary Care Clinic is a product targeted exclusively to primary care clinics and supplements the functionality of *MedWorks Physician* with an additional array of features. It is a system that will equally fit small or large clinics and streamline all administrative functions regardless of whether these clinics operate in a centralized or decentralized fashion.

***MedWorks – Radiology***

*MedWorks – Radiology* enables radiologists to manage and communicate digital images, share diagnostic tasks, obtain colleagues' opinions, create appropriate reports and locate stored data. *MedWorks – Radiology* links to different types of digitally stored images in a variety of formats and databases. Access to these images may then be obtained without unnecessary file duplication or additional storage capacity.

***MedWorks – HIS (Hospital Information System)***

MedcomSoft's new modular approach to hospital information systems allows them to communicate and integrate seamlessly with other *MedWorks* healthcare provider systems (Physician, Clinic, etc.) In addition to the extensive list of *MedWorks* clinic functionality, *MedWorks HIS,* will feature:

- Admission, discharge, and transfer (ADT)
- Bed scheduling and management
- Ward ordering
- Pharmacy dispensing
- Pharmacy and material inventory control

Initially targeted for hospitals with less than 100 beds, management believes that this product will bring MedcomSoft one step closer to making the *MedWorks* medical suite a standard desktop application for all healthcare environments. *MedWorks HIS* is currently in development, and is expected to be released in the last quarter of 1998.

***Services***

MedcomSoft offers a complete package of professional services to support clients implementing *MedWorks* products. These services include:

- Business Consulting, including Year 2000 issues
- Requirements Definition and Analysis
- Software Customization
- Installation and Implementation Services
- Customer Training
- Customer Support and Help Desk Services

## Product Considerations

### *Sophisticated Application & Integration Engine*

MedcomSoft has recently released version 2.0 of the *MedWorks* product in the Ontario market and is actively promoting the product. The software addresses the need for collection of healthcare information, the creation of online multimedia electronic records and the integration of distributed databases. The MedcomSoft integration engine, *DB Glue,* provides a platform for easy customization and quick response to different markets and requirements.

### *Unique Patient Centric Information Manager*

The *MedWorks* System provides integrated and complete electronic record management. The patient is the central focus to the system. The software provides seamless access to and interaction with data in a legacy or distributed client server environment such as a doctor's office, clinic, hospital, laboratory or pharmacy. The *MedWorks* front-end operates in a Windows environment (or graphic user interface environment) that is user friendly and easy to learn.

### *Independent from Stakeholder Bias*

There are a number of electronic medical record software products in the market. Management believes that most, if not all, are in one way or another tied to a single stakeholder, and thus there is a perceived imbalance by the remaining stakeholders which prohibits rapid deployment and acceptance. Furthermore, management believes that many of these software packages have been designed for legacy systems and are thus not easily adaptable to other or non-proprietary systems. MedcomSoft is independent from any stakeholder bias and has developed an open-based database solution to the electronic medical record.

### *Open & Scaleable Platform*

MedcomSoft's open solutions allow customers to use or interface with existing systems and/or legacy systems while gaining the benefits of real-time processing in a wide area integrated system. *MedWorks* is completely scaleable and adaptable to changes in the number of users and the volumes and types of information.

### *Latest Technology for a Longer Product Shelf Life*

MedcomSoft uses some of the latest and most advanced technologies available, thus securing the longest possible product shelf life. Products were built with Visual C++ as true 32-bit multi-platform applications, designed to operate with Windows NT/95, and featuring multi-threading, open database connectivity and object linking and embedding. See "Business of the Company — Year 2000.

### *Dedicated Research and Development Team*

MedcomSoft has a dedicated research and development team composed of five fully dedicated developers. Current research projects include the development of an Internet browser interface for remote access to *MedWorks*, integration of new voice recognition technology, and the planning of a migration path to new operating systems such as Windows 98 and Windows NT version 5.0.

## Year 2000

MedcomSoft has reviewed the Year 2000 issue as it may impact MedcomSoft. This issue affects computer systems that have time-sensitive programs necessary to address the Year 2000 and may result in major system failures or miscalculations.

MedcomSoft's systems, equipment and operations are Year 2000 compliant. Management believes that any Year 2000 problems have been addressed as the use of the latest technology means that MedcomSoft's products recognize the Year 2000. MedcomSoft's systems, equipment and operations can interact with non-Year 2000 compliant systems and convert data from those systems into a four digit format. MedcomSoft's systems interface with governmental systems, such as the Ministry of Health's systems, hospital systems, doctors' offices and pharmacies. After January 1, 2000, MedcomSoft, however, cannot guarantee the validity of non-year 2000 data as it is unable to determine how its products, systems and data structures will treat non-Year 2000 compliant data. MedcomSoft had been reviewing and will continue to review this Year 2000 issue. See "Risk Factors — Year 2000".

### Facilities

MedcomSoft operates in a 4,500 square foot facility in Willowdale, Ontario, protected by a monitored three layered security system. All programming activities are performed in a separate access-controlled area of the facility. Access to the facility by the employees is monitored by card entry systems, with different time zones according to security clearance. Reports on personnel access to the facility after hours is printed and monitored on a daily basis. Access to the Internet is centralized and protected through firewall systems. MedcomSoft maintains insurance that covers business interruption for up to $475,000, liability of up to $1,000,000 and coverage on office and non-office contents of up to $415,000. In addition, MedcomSoft performs regularly scheduled back-ups on all its corporate data (including all source code) and maintains copies of these back-ups off premises for disaster recovery. In the Philippines, MedcomSoft operates out of a 100 square foot branch office located in the Philippine Exchange Tower in Manila.

### Employees

In its Toronto head office, MedcomSoft has 14 full time personnel, divided into research and development, customer support and sales and administration. Over 40% of its personnel have been employed since MedcomSoft's inception and a majority of the personnel are also shareholders. MedcomSoft has a full-time research and development team and a full-time customer support and help desk team whose activities include software support, trouble shooting, installation and training. MedcomSoft engages consultants from time to time to meet its growth objectives. Senior management takes an active role in marketing and promotion activities. In addition, MedcomSoft has two full time staff and two senior consultants in its Southeast Asia regional office located in Manila, Philippines.

### Marketing and Sales Strategy

Management believes the market for MedcomSoft's products and services extends nationally and internationally.

#### *In Canada*

In Ontario, the focus will be on mass marketing, distribution to physicians and strategic alliances with suppliers of healthcare services (medical laboratories, pharmacies). MedcomSoft has launched a major marketing campaign to coincide with the Ministry of Health implementation of Health Card Validation and Electronic Data Transfer. MedcomSoft was a pioneer in that field and worked on the pilot project for both of these processes with the Ontario Ministry of Health. MedcomSoft is now providing the *MedWorks* software, with no up-front capital cost, to all physicians in Ontario. Physicians pay a monthly fee of $69 for utilization, support, maintenance, upgrades and updates. This allows the physicians to communicate directly with the Ministry of Health and all healthcare suppliers which have open systems.

In the other Canadian provinces, the focus is primarily on regional health information network initiatives and secondary and tertiary care hospital departments. Although discussions are on-going, no contract has yet been signed.

#### *In the U.S.*

MedcomSoft's management has concluded that due to costs, the best entry approach in the U.S. market will be through strategic alliances resulting in a top-down marketing approach. MedcomSoft will target physician management corporations, clearing houses, health maintenance organizations, third party administrators and other large healthcare payers. MedcomSoft is currently looking for strategic partners to initiate its entry in this market.

#### *International*

MedcomSoft believes that international projects, and more specifically, projects in emerging economies, could be a substantial source of revenue over the next eighteen months. Two marketing strategies have been identified for this specific market; (i) direct selling, whereby MedcomSoft is involved in all phases of the project development; and (ii) selling through strategic alliances, similar to the one currently in place with Systems Xcellence Inc. MedcomSoft is currently involved in the bidding and negotiation process for several international projects in targeted markets including Malaysia and the Philippines. Refer to "Strategic Alliances". MedcomSoft established a branch office in Manila, Philippines in June, 1997 to service the South East Asia market. The Manila office is currently staffed to conduct regional market research, initial marketing activities and will supply the first line of support and training.

An example of an international project is MedcomSoft's participation in the Philippines in the creation of a Philippine CHIN. The national network will connect all the hospitals in the Philippines (1,863 hospitals) to government agencies, including the Philippine Health Insurance Corporation, the Social Security System, the Government Service Insurance System, the Department of Health, major health maintenance organizations, and large employers such as the Ayala Group, Meralco, and the Philippine Long Distance Telephone Company. A Protocol of Intentions was entered into with Philippine government officials on January 15, 1997 during the trade mission to the Philippines by, among others, the Canadian Prime Minister and Ontario's Premier. The Protocol of Intentions involves MedcomSoft's planned participation in the establishment, operation and maintenance of a National Health Information Network in the Philippines. MedcomSoft also finalized the design and the business model of the project, organized the financing for Phase I with the help and the support of the Canadian Export Development Corporation and is currently negotiating the final technical details prior to deployment, although the final contract has not yet been signed.

MedcomSoft is currently negotiating for a pilot project in Malaysia which may result in *MedWorks* being deployed in 40 primary care clinics throughout Malaysia. Management expects a contact to be signed by late July with deployment tentatively scheduled before the fall of 1998.

**Strategic Alliances**

***Microsoft Corporation***

MedcomSoft is a registered Microsoft Developer. As such, it obtains privileged and early access to the latest technologies developed by Microsoft, the largest software company in the world, and it maintains a pool of highly specialized and Microsoft certified professionals in software development ensuring that MedcomSoft remains at the forefront of technological developments.

Today all of MedcomSoft's products are built with the latest Microsoft tools and are designed to integrate seamlessly with all of Microsoft's applications and operating systems.

***PharmaNet***

MedcomSoft is a Registered Developer & Supplier for the British Columbia Ministry of Health's integrated health network (PharmaNet), the only health integrated network in British Columbia. PharmaNet services currently all BC retail pharmacies, and expansion of the network to all other healthcare providers is planned. As only a Registered Developer & Supplier can provide to the PharmaNet System and interface with the British Columbia Ministry of Health, management believes that being a Registered Developer & Supplier has well positioned MedcomSoft for purposes of its future marketing efforts.

***Canadian Bidding Alliance***

MedcomSoft is an active member of the Canadian Bidding Alliance ("CBA"), a strategic partnership of leading Canadian companies working in the field of community information networks. The CBA offers a variety of solutions and applications in healthcare and education. The CBA is currently working on several large projects including a regional network in Belleville, Ontario. As a member of the CBA, MedcomSoft is better positioned to be involved in large projects in the healthcare and education field which MedcomSoft would not alone be positioned to make such a bid.

***Systems Xcellence Inc.***

MedcomSoft has a teaming agreement with Systems Xcellence Inc. ("SXC"), a publicly traded Canadian company specializing in financial and healthcare transaction switching. The teaming agreement, which is primarily for MedcomSoft's PCHIN project, provides MedcomSoft with an immediate back-end solution until the full range of its *MedWorks's* products has been developed. In addition, the agreement provides MedcomSoft with access to additional markets in which SXC is active. SXC benefits in return from *MedWorks'* strong appeal to users to sell their back-end products as part of a turnkey solution.

### *BNK Informatics Canada Inc.*

BNK Informatics Canada Inc. ("BNKI") is a Canadian company specializing in information management, information policies, strategic IT planning and information intensive applications. MedcomSoft has signed an agreement with BNKI under which BNKI will promote *MedWorks* concepts to a number of international financing agencies including the World Bank to investigate evolving and adapting the *MedWorks'* concepts for applications in developing environments.

## Revenue Considerations

MedcomSoft has expended in excess of $2.3 million primarily for product development but also for marketing research projects, advertising, promotion and public relations activities. All start-up costs have been expensed and R&D costs have not been capitalized. MedcomSoft has no long-term debt.

MedcomSoft's management anticipates revenue to be generated from the following five sources: domestic software licenses and utilization fees, international software primary licenses, maintenance and support services, consulting and project design services, and transaction fees.

Initial revenues are currently being generated through the sale of licenses to various healthcare providers in Ontario. The specific price being determined locally is based on the number and types of transactions required. In Ontario, licences are leased for $69/month/provider. Internationally, management estimates that the license price will be fixed between US$3,000 and US$5,000 based on jurisdiction and customization and the annual maintenance fee will be based on 15% of the sale price.

*MedWorks* is designed to generate additional revenues on a per-transaction basis. The network infrastructure is available for use by an infinite number of healthcare providers. These providers are charged individual service fees for insurance claim processing, issuing of prescriptions, laboratory requisitions and reports, device ordering and couriers. Fees will be charged for targeted communications such as pharmaceutical and medical device advertising and health educational programs sponsored by trade partners.

It is expected that MedcomSoft will generate additional revenues from consulting contracts specifically in the area of project design and specifications preparation. Once the concept of CHIN is accepted, the implementation studies and the definition of the technical requirements will constitute the bulk of MedcomSoft's consulting business.

## Competition

At the present time, management believes that MedcomSoft's principal competitors are large hospital management system suppliers which market proprietary systems, primarily to tertiary and secondary care facilities. Management believes that its primary competition includes companies such as Cerner, Meditech and Share Medical System. Management believes, however, that these competitors are attempting to reposition themselves as providers of CHIN. This is being accomplished to a degree through the expansion of their proprietary tertiary care systems to include close-proximity primary and secondary care institutions. These competitors pose a significant risk to MedcomSoft since they are well entrenched in important markets, possess vast resources, and are capable of maintaining intensive marketing and public relations campaigns. Management believes that the weakness of these competitors is that their products are designed for an automation specific facility. Therefore, modifications of these products to respond to the needs of an entire community with several different types of healthcare providers and facilities are difficult, lengthy and expensive.

Management believes that MedcomSoft is positioned to respond to this competitive threat by offering a more affordable and comprehensive range of highly specialized products for the CHIN market. These products provide rapid solutions for automating specific business processes horizontally without the need to transform the entire information technology infrastructure of the facility. Management believes *MedWorks* solutions not only satisfy the needs of tertiary, secondary and primary care institutions but also those of clinics, individual or group physician practices, pharmacies and laboratories.

## CONSOLIDATED CAPITALIZATION OF MEDCOMSOFT

The following table and notes sets forth the consolidated capitalization of MedcomSoft as at April 30, 1998 and as at June 30, 1998, both before and after giving effect to this issue of Common Shares and the issue of Common Shares to be issued upon exercise of the Initial Special Warrants and the Second Special Warrants but without giving effect to the exercise of the Over-Allotment Option, the exercise of the Compensation Option, the exercise of the Initial Broker's Warrants and the exercise of the Second Broker's Warrants. This table should be read in conjunction with and is qualified in its entirety by reference to MedcomSoft's financial statements.

| | Authorized | Outstanding as at April 30, 1998 (Unaudited)(1) | Outstanding as at June 30, 1998 (Unaudited)(1) | Outstanding as at June 30, 1998 after giving effect to the Minimum Offering(2) | Outstanding as at June 30, 1998 after giving effect to the Maximum Offering(2) |
|---|---|---|---|---|---|
| Shareholder's Equity | | | | | |
| Common Shares | Unlimited | $1,330,179 (15,000,001 shares) | $1,330,179 (15,000,001 shares) | $3,208,829 (17,250,000 shares) | $3,658,829 (17,666,667 shares) |
| Special Warrants . . . . | | 628,650 (999,999 Special Warrants) | 628,650 (999,999 Special Warrants) | | |

(1) There are reserved for issuance 533,333 Common Shares upon the exercise of the Initial Special Warrants and 466,666 Common Shares upon the exercise of the Second Special Warrants.

(2) Reflects the issue of 1,250,000 Common Shares for the Minimum Offering and 1,666,667 for the Maximum Offering hereunder at $1.20 per Common Share, and the issue of 533,333 Common Shares upon the exercise of the Initial Special Warrants and the issue of 466,666 Common Shares upon the exercise of the Second Special Warrants but without giving effect to the exercise of the Over-Allotment Option, the exercise of the Compensation Option, the exercise of the Initial Broker's Warrants and the exercise of the Second Broker's Warrants. The only Common shares reserved for issuance are, (i) that number of Common Shares equal to 10% of the number of Common Shares distributed within the minimum and maximum offered hereunder issuable upon the exercise of each of the Over-Allotment Option and the Compensation Option described under "Plan of Distribution"; (ii) 53,333 Common Shares issuable upon the exercise of the Initial Broker's Warrants and 46,666 Common Shares issuable upon the exercise of the Second Broker's Warrants described under "Plan of Distribution"; and (iii) 2,587,500 Common Shares issuable upon the exercise of stock options that may be granted from time to time by the Board of Directors of MedcomSoft pursuant to the Plan described under "Options to Purchase Common Shares".

(3) As at April 30, 1998, MedcomSoft had a deficit of $1,894,639.

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

The following discussion and analysis of MedcomSoft's financial condition and results of operation is qualified by and should be read in conjunction with the consolidated financial statements of MedcomSoft and the notes thereto contained elsewhere in this prospectus.

### Overview

MedcomSoft was incorporated under the laws of the province of Ontario on June 23, 1994. Since its inception, MedcomSoft has focused its activities on the design and the development of its suite of healthcare related software products that was released for commercial sale in September 1997 under the name *MedWorks*. As a result, MedcomSoft's only major sources of revenue up to that point were technology consulting fees and sale of marketing rights for a product known as *DB Soft*. However, it did experience a reduction of expenses through R&D tax recoveries and interest earned from such payments.

### Results of Operations

***Ten Months Ended April 30, 1998 Compared to Ten Months Ended April 30, 1997***

During the ten months ended April 30, 1998 MedcomSoft had revenue from software and related services of $22,923 compared to $5,930 in the ten months ended April 30, 1997. This amount represented $16,713 (1997 — $5,309) for one time *MedWorks* training and installation fees in connection with the *Medworks*, contracts, and $6,210 (1997 — $621) in utilization fee income. The *MedWorks* utilization fee is income for user fees on 22 *MedWorks* contracts. The contracts are on a month to month basis, cancelable at the request of the user, for the use of software which includes support services. The increase is attributable principally to the release for commercial sale of the *MedWorks* product commencing in September, 1997. In addition, MedcomSoft had computer hardware sales of $8,196 (1997 — $375) and these hardware sales are used to support software sales . In relation to this increase in sales, cost of sales increased to $8,687 in 1998 from $34 in 1997. The increase is principally attributable to the cost of hardware included in sales. During the ten months ended April 30, 1998, MedcomSoft incurred expenses of $855,408 compared to $566,670 in the ten months ended April 30, 1997, representing an increase of approximately 51%. The increase is attributable principally to the addition of management, administrative, training, support personnel and selling activity which increased to $607,921 from $422,640 in connection with the initial commercial sale of *MedWorks*. MedcomSoft's research and development costs increased to $247,487 from $144,030, reflecting additional expenses incurred in connection with the accelerated development and initial marketing of *MedWorks*. This increase also reflects the calculation of amortization that began in fiscal 1998 and was equal to $25,202 for the period ending April 30, 1998. During the ten month period ended April 30, 1998 there were no investment tax credits recognized against expenses, compared to $119,228 recognized in 1997. The difference relates to the company's accounting policy of recording investment tax credits when there is reasonable assurance that the credits will be received and the company considers that to be when the claims are approved by Revenue Canada. During 1997, the claims were approved during the period. No claims have been approved during 1998. The company has submitted claims to Revenue Canada of $112,840, which have yet to be approved.

During the ten months ended April 30, 1998, MedcomSoft raised $891,718 through the issuance of Common Shares, the proceeds of which were mainly used to retire all existing debt and current liabilities of MedcomSoft. In addition, MedcomSoft issued Special Warrants with net proceeds of $628,650, the proceeds of which will be used to fund the initial Ontario marketing campaign of *MedWorks* and other working capital requirements. At the end of the period (April 30, 1998) the cash position of MedcomSoft was $255,468, compared to $73,193 on April 30, 1997.

***Fiscal 1997 Compared to Fiscal 1996***

During fiscal 1997, MedcomSoft incurred expenses of $718,254 compared to $344,931 in fiscal 1996 representing an increase of approximately 108%. The increase is attributable principally to additional management fees, office and general expenses and travel promotional expenses required to be incurred as MedcomSoft moved towards commercial sale of its *MedWorks* software product. MedcomSoft's research and product development costs increased to $247,706 in fiscal 1997 from $217,801 in fiscal 1996, reflecting additional expenses incurred in connection with the pending commercial sale of its products. The total of selling, general and administrative expenses increased to $470,548 during fiscal 1997 from $127,130 in fiscal 1996.

During fiscal 1997, MedcomSoft earned interest income of $3,253 compared to $4,916 in fiscal 1996.

***Fiscal 1996 Compared to Fiscal 1995***

During fiscal 1996, MedcomSoft incurred expenses of $344,931 compared to $417,461 in fiscal 1995, representing a decrease of 17%. The decrease is attributable principally to a reduction of administrative and R&D personnel while MedcomSoft secured additional financing. MedcomSoft's research and development costs decreased to $217,801 in fiscal 1996 from $301,012 in fiscal 1995, reflecting the end of the development of MedcomSoft's generic engine, *DB Glue*. In fiscal 1996, selling, general and administrative expenses increased to $127,130 compared to $116,449 in fiscal 1995. Office and general expenses decreased to $75,900 from $101,445 and promotion and marketing expenses, including travel, increased to $51,230 from $15,004 reflecting the commencement of MedcomSoft's market research activities.

During fiscal 1996, MedcomSoft earned interest income of $4,916 compared to nil in fiscal 1995. In addition, MedcomSoft received $89,261 in fiscal 1995 from AMCS a corporate shareholder controlled by a director and officer of the company in return for granting it the unlimited license and marketing rights in relation to the development and distribution of a product known as *DB Soft*. This contractual arrangement was for a period of up to two years from March 31, 1995 and has since expired. There has not been any further revenue received from AMCS in relation to the granting of licenses and sale of marketing rights since June 1995. Upon granting of the license MedcomSoft had no further contractual obligations to provide any services to AMCS.

Also during fiscal 1995, MedcomSoft received consulting fees of $107,500 from AMCS a corporate shareholder controlled by an officer and director of the company in relation to technology consulting. These technology consulting services were completed during the fiscal 1995 period and were a one time service provided to AMCS. MedcomSoft has no further obligations in relation to this consulting arrangement. During fiscal 1995 there were no investment tax credits recognized against expenses, compared to $89,168 recognized in 1996. The difference relates to the company's accounting policy of recording investment tax credits when there is reasonable assurance that the credits will be received and the company considers that to be when the claims are approved by Revenue Canada. No claims had been approved during the year ended June 30, 1995.

**Liquidity and Capital Resources**

Since its inception, MedcomSoft has financed its working capital requirements through proceeds received from debt and equity financing. MedcomSoft has not utilized bank financing to fund its activities to date. As at April 30, 1998 MedcomSoft had cash of $255,468. MedcomSoft had positive working capital as at April 30, 1998 of $13,232.

MedcomSoft's principal cash requirements for the next year will be primarily to finance the expansion of its management team, the marketing and sale of its *MedWorks* suite of healthcare related software products and research and development. This will be fully financed from the proceeds of this Offering (see "Use of Proceeds"). A portion of the proceeds of this Offering will be used for working capital purposes.

MedcomSoft's only committed expenditures relate to lease payments for equipment and premises. These payments are approximately $5,400 per month.

MedcomSoft expects that the proceeds of this Offering and cash generated from its operations will be sufficient to fund its current objectives described under "Use of Proceeds". In the event, however, that this Offering is not completed, MedcomSoft will be required to seek alternate sources of financing. In approximately 1 year the Company expects the sale and marketing strategy to be fully implemented, and that the cash flow from operations should be sufficient to fund its ongoing operations. Should the proceeds from this Offering not be sufficient to fund its ongoing operations, MedcomSoft would seek out other sources of capital or debt financing.

**Year 2000**

MedcomSoft has recognized the need to ensure that its systems, equipment and operations will not be adversely impacted by the Year 2000 issue. This issue affects computer systems that have time sensitive programs that may not properly recognize the year 2000.

MedcomSoft is currently utilizing systems, equipment and operations which can effectively process transactions in the Year 2000. There can be no assurance that the systems, equipment and operations of other companies and other agencies on which MedcomSoft's systems rely will be converted in a timely manner or that any such failure to convert by another company would not have an adverse affect on MedcomSoft's systems. MedcomSoft has been reviewing and will continue to review Year 2000 issues.

**Outlook**

MedcomSoft expects to incur net additional expenditures of between $950,000 and $1,300,000 in connection with the domestic and international commercialization of its *MedWorks* system. These net expenditures represent the total proceeds of this Offering, except those which are being used to fund short term working capital needs. MedcomSoft has commenced commercial production of its *MedWorks* system and the Company expects *MedWorks* to be in full commercial production and sale by July 1999. Upon the completion of this Offering, MedcomSoft anticipates that its current cash resources will be sufficient to finance MedcomSoft's planned operations, expenditure and operating losses through the initial marketing launch and commercial production.

## DESCRIPTION OF SHARE CAPITAL

The authorized capital of MedcomSoft consists of an unlimited number of Common Shares. On closing of this Offering, a minimum of 17,250,000 and a maximum of 17,666,667 Common Shares will be issued and outstanding. Other than the Compensation Option, the Over-Allotment Option and the Initial Broker's Warrants and Second Broker's Warrants, there are no outstanding options. See "Plan of Distribution". The following is a summary of the principal attributes of the share capital of MedcomSoft.

Each common share ranks equally with all other issued common shares. Subject to prior rights attached to any preferred or special class of shares which may have been created, in the event of any voluntary or involuntary liquidation, dissolution or winding up of MedcomSoft, holders of common shares would be entitled to share equally in the balance of assets, if any, remaining after payment of all debts and liabilities.

## PRINCIPAL SHAREHOLDERS

To the knowledge of directors and senior officers of MedcomSoft as at the closing of this Offering, no person beneficially owns, directly or indirectly, or exercises control or direction over equity or voting securities carrying more than 10% of the issued and outstanding Common Shares of MedcomSoft other than:

| Name and Municipality of Residence | Number of Common Shares | Percentage of Common Shares as at June 30, 1998(1) | Percentage of Common Shares After This Offering (Minimum)(2) | Percentage of Common Shares After This Offering (Maximum)(2) |
|---|---|---|---|---|
| Dr. Sami Aita . . . . . . . . . . . . . . . . . . . . . . .<br>Thornhill, Ontario | 5,094,244 | 33.96% | 29.53% | 28.84% |
| Lea Aita . . . . . . . . . . . . . . . . . . . . . . . . . .<br>Thornhill, Ontario | 2,547,122 | 16.98% | 14.77% | 14.42% |
| Bryan Nelson . . . . . . . . . . . . . . . . . . . . . . .<br>Toronto, Ontario | 1,512,481 | 10.08% | 8.77% | 8.56% |

(1) Prior to the issue of Common Shares under this Offering, the 533,333 Common Shares issuable upon exercise of the Initial Special Warrants, the 466,666 Common Shares issuable upon exercise of the Second Special Warrants, and the issue of Common Shares upon the exercise of the Over-Allotment Option, the exercise of the Compensation Option, the exercise of the Initial Broker's Warrants and the exercise of the Second Broker's Warrants.

(2) Without giving effect to the exercise of the Over-Allotment Option, the exercise of the Compensation Option, the exercise of the Initial Broker's Warrants and the exercise of the Second Broker's Warrants but with giving effect to the Common Shares issued after this Offering.

The directors and officers of MedcomSoft as a group, beneficially own or control, directly or indirectly, 9,932,865 Common Shares of MedcomSoft, representing 66.22% of the outstanding Common Shares before giving effect to this issue of Common Shares, the issue of Common Shares upon the exercise of the Initial Special Warrants, the Second Special Warrants, the Compensation Option, the Initial Broker's Warrants and the Second Broker's Warrants. After giving effect to this issue of Common Shares and the issue of Common Shares upon the exercise of the Initial Special Warrants and the Second Special Warrants, directors and officers as a group will hold a minimum of 56.22% and a maximum of 57.58% of the then outstanding Common Shares without giving effect to the issue of Common Shares upon the exercise of the Compensation Option, the Initial Broker's Warrants and the Second Broker's Warrants.

## DIVIDEND POLICY

Holders of common shares are entitled to receive such dividends as MedcomSoft's directors from time to time may declare out of funds legally available therefor. MedcomSoft has no fixed dividend policy. When circumstances permit, a dividend policy aimed at maximizing shareholder return, in compliance with all applicable laws and as funds permit, is planned to be instituted.

## USE OF PROCEEDS

The estimated net proceeds from the sale of the Common Shares hereunder will be approximately $1,250,000 for this Offering (minimum) or $1,700,000 for this Offering (maximum) after payment of the Agent's fee of $150,000 (maximum $200,000) and the expenses of the Offering estimated at $100,000. The net proceeds from this Offering will be utilized as follows:

| | Minimum | Maximum |
|---|---|---|
| (a) to fund expansion of the management team to enable MedcomSoft to execute its sales and marketing plan | $ 300,000 | $ 300,000 |
| (b) to fund the expenses associated with the execution of the proposed marketing and sales plan for the *MedWorks* suite of healthcare related software products | 450,000 | 450,000 |
| (c) to fund research and development of existing and complementary products | 200,000 | 550,000 |
| (d) to fund short term working capital needs | 300,000 | 400,000 |
| | $1,250,000 | $1,700,000 |

The expansion of the management team referred to in (a) above will involve the hiring of a Chief Financial Officer and a Director of Sales and Marketing. Although negotiations have commenced, no agreement with respect to the hiring of these individuals and to the terms and conditions thereof is anticipated until completion of this Offering.

The expenses associated with the execution of the proposed marketing and sales plan referred to in (b) above relate to the costs associated with the development of the domestic and international market for MedcomSoft's products. The domestic market costs primarily include the production of brochures and CD-ROMs, journal advertising campaigns, direct mail to medical practitioners, trade shows and telemarketing and training personnel and are expected to be approximately $250,000, in addition to the amounts already expended. The international market costs include the travel and development costs associated with international presentation and market development and are expected to be approximately $200,000, in addition to the amounts already expended.

The expenses associated with the research and development referred to in (c) above include costs associated with the development of existing product and complimentary product. The costs related to the research and development of existing products include the further developments and refinements necessary on MedcomSoft's domestic *MedWorks* software product, including the addition of clinical support systems, and are expected to be $150,000. The costs related to the research and development of complementary products include the research and development necessary on MedcomSoft's foreign *MedWorks* software related product, including the hospital informations systems, and are expected to be $50,000 (minimum offering) to $400,000 (maximum offering).

In the event that more than the minimum number but less than the maximum number of Common Shares are issued under this Offering, the proceeds will be utilized by MedcomSoft in the priority listed above.

MedcomSoft has already received gross proceeds of $750,000 from the sale of the Initial Special Warrants and the Second Special Warrants, the net proceeds of $628,650 from such sale have been utilized to fund the preparation and the initial launch of the marketing campaign, and to fund working capital needs.

## MANAGEMENT OF THE COMPANY

### Directors and Officers

The name, municipality of residence, position and principal occupation of each of the directors and officers of MedcomSoft are as follows:

| Name and Municipality of Residence | Office Held | Principal Occupation, If Different From Office Held |
|---|---|---|
| Sami Aita, MD<br>Thornhill, Ontario | Chairman, CEO, President, Treasurer, Director | |
| Bryan Nelson<br>Toronto, Ontario | Chief Financial Advisor, Director | |
| André Claire<br>Toronto, Ontario | Director | |
| Lea Aita<br>Thornhill, Ontario | Director | |
| Nabil Harfoush, Ph.D<br>Toronto, Ontario | Director | Business Development Consultant<br>President, BNK Informatics Canada Inc. |
| Peter Aldor<br>Toronto, Ontario | Director | Dentist |
| Peter Langer<br>Toronto, Ontario | Director | Vice President, PMA Group<br>President, Viceregal Developments Limited |
| G. Mark Curry<br>Toronto, Ontario | Director | Chairman of Revmar Inc. |
| Heather A. Gordon, C.A.<br>Toronto, Ontario | Director | Vice President and Director of Canbras Communications Corp. |
| Howie C. Wong<br>Toronto, Ontario | Secretary | Lawyer |

### Management Team

The management team has extensive experience in the operation and growth of healthcare technology companies:

**Sami Aita**, MD, has served as President of MedcomSoft since June, 1994 and prior thereto served as President of Advanced Medical Computer Systems and Management Inc. ("AMCS") from 1986. Dr. Aita has over 20 years of experience in healthcare and software technology. He was the founder of the first electronic collector network for physicians in Canada. Prior to that, Dr. Aita founded several companies including SuperTime Inc. (a LAN group productivity software), Advanced Health Services Inc. (a physician house call operation for treatment of home medical emergencies) and S.O.S. 92 (a medical emergency service in Paris, France).

**Marc D. Rigby**, P. Eng., I.S.P., General Manager, is a senior systems professional with more than 10 years experience in the information technology industry. Most recently, Mr. Rigby was the founder and director of information technology of Health Web Inc. ("HWI") where he was responsible for all product line software development activities. HWI is a software company focused on information solutions for the healthcare sector based on Internet technologies. Prior to starting HWI, Mr. Rigby was a senior consultant and acting marketing manager at Systems Xcellence Inc., where he was responsible for client solution and product design for large-scale healthcare transaction processing systems, as well as the development of the marketing strategy and process for product and service offerings. Before joining Systems Xcellence Inc., he held project management and systems development positions at several software firms in the healthcare and financial transaction processing sectors.

**Bryan Nelson**, has been the Chief Financial Advisor for MedcomSoft since June, 1994 and prior thereto has been a senior consultant to the investment industry with over 30 years of experience in the investment banking business. Focused primarily on government securities, Mr. Nelson was involved in all aspects of trading, sales and underwriting throughout North America, Europe and Asia. Mr. Nelson held positions at Royal Securities Corp., Wood Gundy, Kernaghan & Co., and Bankers Trust in Canada, as well as with Hambros Bank (London, England) and Enskilda Securities (founder and director) in London, England. He was involved with the raising and investing of venture capital for several international entities and continues to hold positions as an investor, consultant, and director in a number of start-up businesses.

**André Claire**, P.Eng., has been Vice President, Research & Development, for MedcomSoft since June, 1994 and prior thereto served as Vice President of AMCS from 1986. Mr. Claire has 25 years of experience in the healthcare industry. Mr. Claire helped found AMCS in 1985. Prior to that, Mr. Claire worked for C.G.R., a large French medical equipment manufacturer.

**Lea Aita**, has been Accounting Manager for MedcomSoft since June, 1994 and prior thereto served as Accounting Manager for AMCS since 1986. Mrs. Aita has over 12 years of industry experience in the management of operations of healthcare-related companies, delivering primary care products and services.

**Outside Directors**

**Nabil Harfoush**, Ph.D., has been the President of BNK Informatics Inc. since August, 1990. From September, 1996 to July, 1997, Mr. Harfoush was a consultant to MedcomSoft. He has 24 years of experience in consulting in the areas of information technology, telecommunications technology and management. Mr. Harfoush has consulted extensively to international and domestic clients including Industry Canada, World Health Organization, World Bank, UNESCO, and foreign governments.

**Peter Aldor**, DDS., has been a dentist since 1970 and was one of the founders of the first dental group practices in Ontario. He is involved in two leading dental associations, namely The Toronto Study Club for Osseointegration and the Ontario Implant Study Club. Outside of the dental/medical industry, Dr. Aldor's activities include managing and operating real estate properties and service companies related to that industry. Dr. Aldor has actively assisted with the financial sourcing for MedcomSoft activities.

**Peter Langer**, is currently Vice President of the PMA Brethour Group and President of Viceregal Developments Limited, specializing in residential land development and new community marketing. From 1974 to 1995 he was a Divisional Vice President of Markborough Properties Inc., one of Canada's largest public real estate development and investment corporations. Mr. Langer has served for many years as President and on the Board of Directors of the Greater Toronto Home Builders' Association. He has recently served on a number of industry task force committees, advising the Ontario provincial government on amendments to the Planning Act, de-regulation and the Development Charges Act, to encourage new business investment in Ontario.

**G. Mark Curry**, is Chairman of Revmar Inc, an investment consulting firm located in Toronto, Ontario, since June 1991. Mr. Curry has wide experience in investment consulting in Toronto and New York. He is a director of Canadian public and private companies, including International Pursuit Corporation, United Canadian Shares and Vitran Corporation. He holds a Bachelor of Arts & Economics degree from Stanford University and a Master of Business Administration from the University of Western Ontario.

**Heather A. Gordon, C.A.** is Vice-President Finance and Director of Canbras Communications Corp., a publicly traded Canadian company that develops and manages cable television and communications investments in Brazil, since 1994, and Vice-President, Finance of P.S. Production Services Ltd., a television and motion picture equipment rental company, from 1994 to 1997. Prior thereto, Senior Consultant with CUC Broadcasting Limited, a privately held Canadian company with interests in cable television, broadcast and specialty television, radio and paging interest in Canada and the United Kingdom.

## EMPLOYMENT CONTRACTS

On March 23, 1998, MedcomSoft entered into a professional services agreement with HWI, the principal of which is Marc Rigby. Under the agreement, Health Web, through Marc Rigby, provides professional management services to MedcomSoft. The agreement is for a term of four months and may be renewed by agreement of both parties. Health Web will be paid $600 per day and will be reimbursed for any travel, living and other out-of-pocket expenses incurred in connection with the services provided by Marc Rigby under the agreement.

On May 27, 1998, MedcomSoft entered into a consulting agreement with Contour Software Inc. ("Contour"), the principal of which is Kevin Boyle. Under the agreement, Contour, through Kevin Boyle, provides consulting services to MedcomSoft. The agreement is for a term of six months and provides payment of consulting fees of $10,000 per month to Contour. The agreement may be renewed by agreement of both parties. The agreement contains provisions generally restricting Contour from soliciting customers of MedcomSoft for a period of one year following completion of the term of the agreement.

MedcomSoft entered into a management agreement with Lea Aita on July 1, 1996. The agreement provides for Lea Aita to be paid an annual salary of $55,000, as well as a car allowance not exceeding $400 per month. The agreement contains provisions generally restricting Lea Aita from soliciting employees or customers of MedcomSoft for a period of one year following completion of the term of the agreement.

## CORPORATE GOVERNANCE

As a private company, MedcomSoft has been managed by one of its principal shareholders who is also its President and a director with the advice and assistance of the board of directors and the executive team now serving MedcomSoft. In anticipation of becoming a public company, the board of directors will develop a governance system that will meet recognized corporate governance guidelines.

Immediately prior to the completion of this Offering, MedcomSoft intends to establish an Audit Committee and a Compensation Committee. The Audit Committee will be responsible for reviewing MedcomSoft's financial statements and its interim financial controls, reviewing the work of MedcomSoft's independent auditors and reporting thereon to the board of directors. The Compensation Committee will be responsible for reviewing the level and form of compensation payable to the executive officers of MedcomSoft, and making recommendations with respect thereto to the board of directors. The Compensation Committee will also be responsible for making recommendations to the board of directors with respect to the granting of stock options pursuant to MedcomSoft's Incentive Stock Option Plan. Refer to "Options to Purchase Common Shares".

## EXECUTIVE COMPENSATION

### Compensation of Named Executive Officers

The following table sets forth all compensation for the period indicated paid in respect of the individuals who were at June 30, 1997 the Chief Executive Officer and the executive officers of MedcomSoft with compensation of $100,000 per annum or more.

| | 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 ($) | LTIP Payouts ($) | All Other Compensation ($) |
| Dr. Sami Aita | 1997 | $111,200 | – | – | – | – | – | $ 3,907[(1)] |

(1) Represents taxable benefits for personal use of employer's automobile by employee.

Dr. Aita will enter into a five year term employment agreement with MedcomSoft effective upon completion of this Offering. In his capacity as President, Dr. Aita will receive an annual base salary of $189,000. Dr. Aita may also receive a bonus to be determined by the compensation committee, the members of which will consist of at least two independent directors and no more than one inside director. The bonus amount will be calculated by reference to the number arising from multiplying Dr. Aita's base salary by a proportion of MedcomSoft's revenue and earnings for any given year relative to goals contained in a pre-determined business plan. The agreement will also contain confidentiality, non-solicitation and non-competition provisions.

**Key Man Life Insurance**

MedcomSoft has applied for key man life insurance for Dr. Aita, in the amount of up to $4,000,000 with Westbury Life with MedcomSoft as the named beneficiary under the policy. Although there can be no assurance that this insurance will be issued, Dr. Aita has no reason to believe that it will not be issued.

**Compensation of Directors**

MedcomSoft has not to date remunerated its directors in their capacity as directors. After this Offering, each director who is not also an officer of MedcomSoft will be paid a fee of $4,000 per year for serving as a director, in addition to a fee of $500 for attending each meeting of MedcomSoft's Board of Directors and will be reimbursed for reasonable out-of-pocket expenses incurred in connection with attending meetings. The work fee for outside directors will be $350 per day. Directors will be eligible for participation in the Company's stock option plan. See "Options to Purchase Common Shares".

**Directors and Officers Insurance**

To date, MedcomSoft has not maintained liability insurance for the directors and officers of MedcomSoft. In connection with this Offering, MedcomSoft intends to purchase liability insurance covering its directors and officers acting in their capacities as such. No part of the insurance premium will be paid for by the directors or officers.

**Indebtedness of Directors and Officers**

During the fiscal years ended June 30, 1995, 1996 and 1997, none of the directors, officers, employees or former directors, officers or employees of MedcomSoft or any of their respective associates were indebted to MedcomSoft.

No director, executive officer or senior officer of MedcomSoft or proposed nominee for election as a director of MedcomSoft, or each associate of any such director, officer or proposed nominee is, or at any time since the beginning of the most recently completed financial year of MedcomSoft has been, indebted to MedcomSoft or is, or at any time since the beginning of the most recently completed financial year of MedcomSoft has been, indebted to another entity which indebtedness is or has been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by MedcomSoft.

## OPTIONS TO PURCHASE COMMON SHARES

MedcomSoft has created a stock option plan (the "Plan") pursuant to which employees, directors, officers and consultants to MedcomSoft and its affiliates may be granted options to purchase Common Shares. Upon creation of the Plan, MedcomSoft reserved 2,587,500 previously unissued Common Shares for issuance upon exercise of options granted pursuant to the Plan. Options granted under the Plan are non-assignable and may be granted with terms not exceeding 10 years at an option exercise price equal to the closing price of the Common Shares on the last trading day immediately preceding the date of grant as reported by the stock exchange (if any) or over-the-counter market on which a majority of the Common Shares are traded. Options granted under the Plan will be terminated upon the optionee ceasing to be an employee, director or officer of MedcomSoft except in the event of the death of any such person in which case such option will terminate 6 months following the date of death. As at the date hereof no options have been granted under the Plan.

## PLAN OF DISTRIBUTION

**Initial Public Offering**

Pursuant to an agreement (the "Agency Agreement") between MedcomSoft and the Agent, MedcomSoft has agreed to issue and sell and the Agent has agreed to use its best efforts on behalf of MedcomSoft to arrange for the sale on or about August 6, 1998, or on such other date as may be agreed upon (the "Closing Date") a minimum of 1,250,000 Common Shares and a maximum of 1,666,667 Common Shares at a price of $1.20 per Common Share payable against delivery of certificates representing such Common Shares on the Closing Date. Pending the closing of this Offering, all subscription proceeds will be held in trust by Montreal Trust Company of Canada.

The Agency Agreement provides that MedcomSoft will pay the Agent an aggregate fee of a minimum of $150,000 or a maximum of $200,000 or $0.12 per share in consideration for their services in connection with this Offering. Such fee, together with all other expenses of this Offering, will be paid by MedcomSoft out of the proceeds of this Offering. As additional compensation, MedcomSoft has agreed to grant the Agent non-assignable options (the "Compensation Options") to purchase up to that number of Common Shares equal to 10% of the number of Common Shares distributed within the minimum and maximum offered hereunder at any time within two years after this Offering at the Offering Price. This prospectus qualifies the grant of one half of the Compensation Option.

MedcomSoft has granted to the Agent an option exercisable for a period of 60 days after closing (the "Over-Allotment Option") to acquire up to that number of Common Shares equal to 10% of the number of Common Shares distributed within the minimum and maximum offered hereunder on the terms specified hereunder to cover the number of Common Shares over-allotted as at the close of business on the second trading day after the closing of the Offering. Such option expires 60 days after the Closing Date. To the extent that the Compensation Option or the Over-Allotment Option is exercised, the additional Common Shares will be purchased at the Offering Price. MedcomSoft will pay to the Agent a fee of $0.12 per share with respect to shares issued under the Over-Allotment Option. This prospectus qualifies the distribution of any Common Shares issued upon exercise of the Over-Allotment Option.

The obligations of the Agent under the Agency Agreement may be terminated at its discretion on the basis of its assessment of the state of the financial markets and also may be terminated upon the occurrence of certain stated events. The Agent is, however, obligated to take up and pay for all of the Common Shares offered by this prospectus if any of such Common Shares are purchased under the Agency Agreement.

Pursuant to a policy statement of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the Agent may not, throughout the period of distribution, bid for or purchase Common Shares. The foregoing restriction is subject to certain exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. In connection with this Offering, the Agent may over-allot or effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

Pursuant to the Initial Agency Agreement and the Second Agency Agreement described under "Plan of Distribution — Initial Special Warrant Offering and Second Special Warrant Offering", MedcomSoft has agreed to enter into a fiscal agency agreement with the Agent whereby the Agent will provide financial consulting and advisory services to MedcomSoft. The Agreement is anticipated to be for a term of one year and will provide for a fee of $2,000 to be paid to the Agent per month.

**Initial Special Warrant Offering**

On February 25, 1998, MedcomSoft completed the private placement of 533,333 Initial Special Warrants pursuant to a prospectus exemption under applicable securities legislation, through the Agent pursuant to the agency agreement dated February 25, 1998 (the "Initial Agency Agreement"), between MedcomSoft and the Agent. Each Initial Special Warrant was issued at a price of $0.75 and entitles the holder, upon the exercise or deemed exercise thereof to receive one Common Share at no additional payment after February 25, 1998 and ending at 4:30 p.m. (Toronto time) (the "Initial Expiry Time") on the earlier of: (i) five business days following the date upon which a receipt for this prospectus has been issued by the securities commission in the Province of Quebec; and (ii) February 25, 1999. If a receipt for this prospectus is not obtained from the securities commission in Quebec before July 24, 1998, the holder will be entitled, upon exercise or deemed exercise of the Initial Special Warrants, at any time after July 24, 1998 to receive an additional 0.1 Common Share for each Initial Special Warrant, subject to adjustment in certain events, without the payment of any additional consideration. Any Initial Special Warrants not exchanged by February 25, 1999 shall be deemed to be exchanged at the Initial Expiry Time.

Pursuant to the Initial Agency Agreement, MedcomSoft paid the Agent a fee of $40,000 and issued the Initial Compensation Warrant entitling the Agent to acquire, for no additional consideration, Initial Broker's Warrants entitling the Agent to acquire at any time prior to February 25, 2000 up to 53,333 Common Shares of MedcomSoft at a price of $0.75 per Common Share. The Agent, pursuant to the Initial Agency Agreement, was also paid a $20,000 due diligence fee and a $16,000 work fee and the Agent's counsel was paid a fee of $5,000.

This prospectus is being filed in the provinces of Quebec and Ontario to qualify, in part, the distribution of the Common Shares issuable upon the exercise of the Initial Special Warrants and the distribution of that number of the Initial Broker's Warrants entitling the Agent to acquire 26,666 Common Shares issuable upon the exercise of such Initial Broker's Warrants issuable upon the exercise of the Initial Compensation Warrant. Any Common Share issued upon the exercise of an Initial Special Warrant, and any Initial Broker's Warrants issued upon the exercise of an Initial Compensation Warrant prior to the issue of a receipt for this prospectus by applicable securities regulatory authorities in such provinces, or to holders of Initial Special Warrants in any province in which a receipt for this prospectus has not been issued, may be subject to resale restrictions under applicable securities legislation.

**Second Special Warrant Offering**

On March 24, 1998, MedcomSoft completed the private placement of 466,666 Second Special Warrants pursuant to prospectus exemption under applicable securities legislation, through the Agent pursuant to the agency agreement dated March 24, 1998 (the "Second Agency Agreement"), between MedcomSoft and the Agent. Each Second Special Warrant was issued at a price of $0.75 and entitles the holder, upon the exercise or deemed exercise thereof to receive one Common Share at no additional payment after March 24, 1998 and ending at 4:30 p.m. (Toronto time) (the "Second Expiry Time") on the earlier of: (i) five business days following the date upon which a receipt (final) for this prospectus has been issued by the Ontario Securities Commission; and (ii) March 24, 1999. If a receipt (final) for the prospectus is not obtained from the Ontario Securities Commission before August 21, 1998, the holder will be entitled, upon exercise or deemed exercise of the Second Special Warrants, at any time after August 21, 1998 to receive an additional 0.1 Common Share for each Second Special Warrant, subject to adjustment in certain events, without the payment of any additional consideration. Any Second Special Warrants not exchanged by March 24, 1999 shall be deemed to be exchanged at the Second Expiry Time.

Pursuant to the Second Agency Agreement, MedcomSoft paid the Agent a fee of $35,000 and issued a Second Compensation Warrant entitling the Agent to acquire, for no additional consideration, Second Broker's Warrants entitling the Agent to acquire at any time prior to March 24, 2000 up to 46,666 Common Shares of MedcomSoft at a price of $0.75 per Common Share. Pursuant to the Second Agency Agreement, the Agent's counsel was also paid a fee of $5,000.

This prospectus is being filed in the province of Ontario to qualify, in part, the distribution of the Common Shares issuable upon the exercise of the Second Special Warrants and the distribution of that number of the Second Broker's Warrants entitling the Agent to acquire 23,333 Common Shares issuable upon the exercise of such Second Broker's Warrants issuable upon the exercise of the Second Compensation Warrant. Any Common Share issued upon the exercise of a Second Special Warrant, and any Second Broker's Warrants issued upon the exercise of a Second Compensation Warrant prior to the issue of a receipt for this prospectus by the applicable securities regulatory authority in such province, or to holders of Second Special Warrants in any province in which a receipt for this prospectus has not been issued, may be subject to resale restrictions under applicable securities legislation.

## ESCROWED SHARES

Pursuant to Ontario Securities Commission Policy 5.9 ("Policy 5.9"), 9,511,590 Common Shares have been deposited in escrow with MedcomSoft's transfer agent, as escrow agent, subject to release as follows:

(a) immediately after nine months following the issuance of the receipt for MedcomSoft's (final) prospectus, 10% of the escrowed Common Shares;

(b) 20% of the escrowed Common Shares will be released immediately after each of the first, second and third anniversaries of the initial release; and

(c) 30% of the escrowed Common Shares will be released immediately after the fourth anniversary of the initial release.

Subject to the automatic release provisions of Policy 5.9, as described above, none of the Common Shares owned by such individuals may be released from escrow or transferred within escrow without the prior written consent of the Ontario Securities Commission.

In addition to the escrow required under Policy 5.9, Dr. Aita, Lea Aita, Bryan Nelson, André Claire and Ingrid Blot (the "Escrowed Shareholders") have agreed with the Agent that at the closing of this Offering they will enter into an agreement with the Agent providing that they will not sell, transfer or otherwise dispose of any of their Common Shares, or any economic or other interest therein, for a period of 18 months following the date the (final) receipt for this prospectus is issued by the Ontario Securities Commission without the prior consent of the Agent.

## DILUTION

### This Initial Public Offering

The offering price per Common Share of this Offering of $1.20 exceeds by, in the case of the minimum Offering, $1.12 and, in the case of the maximum Offering, $1.10 the consolidated net tangible book value attributable to each Common Share as at April 30, 1998, after this issue of Common Shares and the issue of Common Shares to be issued upon exercise of the Initial Special Warrants and the Second Special Warrants, but without giving effect to the exercise of the Over-Allotment Option and the exercise of the Compensation Option and the exercise of the Initial Broker's Warrants and the exercise of the Second Broker's Warrants, representing a dilution factor of 93%, in the case of the minimum Offering, and 92%, in the case of the maximum Offering.

| | Minimum | Maximum |
|---|---|---|
| Offering price per Common Share | $ 1.20 | $ 1.20 |
| Net tangible book value per Common Share as at April 30, 1998, before this issue of Common Shares | $ 0.00 | $ 0.00 |
| Increase in net tangible book value per Common Share attributable to this issue of Common Shares(1) | $ 0.08 | $ 0.10 |
| Net tangible book value after this issue of Common Shares and the issue of Common Shares to be issued upon exercise of the Initial Special Warrants and the Second Special Warrants | $ 0.08 | $ 0.10 |
| Dilution per Common Share to purchasers of Common Shares | $ 1.12 | $ 1.10 |
| Percentage dilution in relation to the offering price per Common Share | 93% | 92% |

(1) After deduction of expenses of this issue and the fee paid to the Agents of $0.12 per Common Share, but without giving effect to the exercise of the Over-Allotment Option and the Compensation Option.

### Initial Special Warrant Offering and Second Special Warrant Offering

The issue price per Common Share issuable upon the exercise or deemed exercise of an Initial Special Warrant of $0.75 exceeds by $0.77 the consolidated net tangible book value attributable to each Common Share as at April 30, 1998, after the issue of Common Shares to be issued upon exercise of the Initial Special Warrants, but without giving effect to the exercise of the Initial Broker's Warrants, representing a dilution factor of 103%. The issue price per Common Share issuable upon the exercise or deemed exercise of a Second Special Warrant of $0.75 exceeds by $0.75 the consolidated net tangible book value attributable to each Common Share as at April 30, 1998, after the issue of Common Shares to be issued upon exercise of the Second Special Warrants, but without giving effect to the exercise of the Initial Broker's Warrants and the Second Broker's Warrants, representing a dilution factor of 100%.

| | Initial Special Warrant Offering | Second Special Warrant Offering |
|---|---|---|
| Issue price per Common Share to be issued upon exercise of the Initial Special Warrants and the Second Special Warrants | $ 0.75 | $ 0.75 |
| Net tangible book value per Common Share as at April 30, 1998, before the issuance of the Initial Special Warrants and the Second Special Warrants, as the case may be, and this issue of Common Shares | $(0.04) | $(0.02) |
| Increase in net tangible book value per Common Share attributable to the issue of Common Shares upon the exercise of the Initial Special Warrants and the Second Special Warrants, as the case may be(1) | $ 0.02 | $ 0.02 |
| Net tangible book value per Common Share after the issue of Common Shares to be issued upon exercise of the Initial Special Warrants and the Second Special Warrants, as the case may be | $(0.02) | $ 0.00 |
| Dilution per Common Share to purchasers of Initial Special Warrants and Second Special Warrants, as the case may be | $ 0.77 | $ 0.75 |
| Percentage dilution in relation to the issue price per Common Share | 103% | 100% |

(1) After deduction of expenses of the Initial Special Warrant Offering and the Second Special Warrant Offering and the fee paid to the Agents of $0.075 per Common Share, but without giving effect to the exercise of the Initial Broker's Warrants and the Second Broker's Warrants and the exercise of the Over-Allotment Option and the Compensation Option.

## RISK FACTORS

An investment in Common Shares involves the following potential investment risks which prospective investors should carefully consider. As a result, an investment in the securities offered hereby should 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.

### Absence of Public Trading Market

Prior to this Offering, there has been no market for the Common Shares, and there can be no assurance that an active market for MedcomSoft's Common Shares will develop or be sustained after this Offering. The price for the Common Shares under this Offering has been determined by negotiation between MedcomSoft and the Agent based upon several factors, including the history of, and prospects for, MedcomSoft's business; the industry in which it operates; and an assessment of MedcomSoft's management, operations and earnings. Factors such as MedcomSoft's and its competitors' financial results and general conditions in the industry, the overall economy and financial markets could cause significant fluctuations in the price and trading volume of the Common Shares.

### Dilution

Purchasers of the Common Shares offered hereunder will incur immediate and substantial dilution in the combined net tangible book value per Common Share.

### Management of Growth

MedcomSoft's growth will place demands on its managerial and operations resources. If MedcomSoft is unable to manage its growth effectively or maintain its current level of growth, this could have a material adverse effect on its financial condition and results of operations.

### Attraction and Retention of Key Personnel

MedcomSoft's success depends on certain of its executive officers, the loss of one or more of whom could have a material adverse effect on MedcomSoft's financial condition and results of operations. MedcomSoft believes that its continued success also depends on its ability to attract and retain highly-skilled technical, managerial and marketing personnel, including, in particular, additional personnel in the areas of research and development and technical support. Competition for such personnel is intense. There can be no assurance that MedcomSoft will be successful in attracting and retaining the personnel it requires.

### Additional Financing Requirements

MedcomSoft anticipates that its current financial resources together with the proceeds from this Offering will be sufficient to finance MedcomSoft's budgeted operating costs, system development and anticipated discretionary advertising expenditures over approximately the next 18 to 24 months. However, MedcomSoft expects that in order to accelerate its growth objectives, it may need to raise additional funds from lenders and equity markets in the future. Although management is not aware of any significant risks or uncertainties that may affect MedcomSoft's liquidity position, there can be no assurance that MedcomSoft will be able to raise additional capital on commercially reasonable terms to finance its growth objectives.

### Developing Markets

The market for MedcomSoft's services has only recently begun to develop and is rapidly changing. As is typical for new and rapidly evolving industries, demand and market acceptance for recently introduced services and products is subject to a high level of uncertainty and there exists few proven services and products. There can be no assurance that wide spread acceptance of MedcomSoft's products will occur or that new markets will adopt MedcomSoft's products and processes. Moreover, MedcomSoft does not have extensive experience in successfully marketing its products and there can be no assurance that future efforts will be successful.

## Competition

Management believes that the principal competitors are large hospital management system suppliers. Management believes these competitors pose a significant risk to MedcomSoft because management believes they are well entrenched in important markets, possess vast resources, and are capable of maintaining intensive marketing and public relations campaigns.

## Principal Shareholders

After the completion of this Offering, Dr. Sami Aita will directly and indirectly hold a minimum of 28.84% and a maximum of 29.53% of the Common Shares while Lea Aita will directly and indirectly hold a minimum of 14.42% and a maximum of 14.77% of the outstanding Common Shares. Accordingly, Dr. Aita and Lea Aita if acting jointly and in concert may be able to elect the directors of MedcomSoft and determine the outcome of any matters submitted to a vote of the shareholders, excluding matters requiring a special resolution.

## Limited Operating History

MedcomSoft was founded in June, 1994. Accordingly, there is a limited operating history upon which to base an evaluation of MedcomSoft and its business and future prospects. MedcomSoft's business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving markets. There can be no assurance that MedcomSoft will be successful in doing what is required to address such concerns.

## Negative Cash Flow and Absence of Profits

MedcomSoft has not earned profits to date, and there is no assurance that it will earn profits in the future, or that profitability, if achieved, will be sustained. A significant portion of MedcomSoft's financial resources have been, and will continue to be, directed to the development of its systems and marketing activities. The success of MedcomSoft will ultimately depend on its ability to generate revenues from its operations, such that the business development and marketing activities may be financed by revenues from operations instead of external financing. There is no assurance that future revenues will be sufficient to generate the required funds to continue the business development and marketing activities.

## Technological Change

The industry is characterized by rapid technological change, changes in user and customer requirements and new service or product introductions embodying new technologies that could render MedcomSoft's proprietary technology obsolete. MedcomSoft's performance will depend, in part, on its ability to enhance its existing services, develop new proprietary technology that addresses the increasingly sophisticated and varied needs of its prospective customers, and respond to technological advances and practices on a timely and cost-effective basis. The development of proprietary technology entails significant technical and business risks. There can be no assurance that MedcomSoft will be successful in using new technologies effectively or adapting proprietary technology to customer requirements.

## Year 2000

MedcomSoft is currently utilizing systems, equipment and operations which can effectively process Year 2000 transactions. There can be no assurance that the systems of other companies and other agencies on which MedcomSoft's systems rely will be converted in a timely manner or that any such failure to convert by another company would not have an adverse affect on MedcomSoft's systems.

## Government Regulation

MedcomSoft is not currently subject to direct regulation by any government agency, other than applicable securities laws and regulations applicable to business generally. However, it is possible that a number of laws and regulations may be adopted with respect to regulating user privacy, pricing and consumer protection which may impose additional burdens on companies in this industry conducting business and thus increase MedcomSoft's cost of doing business. There can be no assurance that any such new legislation or regulation will not be enacted nor that the application of laws or regulations from jurisdictions whose laws do not currently apply to MedcomSoft's business will subsequently become applicable.

### Security

A significant barrier to online communications is the secure transmission of confidential information over public networks. There can be no assurance that the advances in computer capabilities, new discoveries in the field of cryptography or other events or developments will not result in a compromise or breach of the encryption technology used by MedcomSoft to protect patient data. There can be no assurance that MedcomSoft's security measures will prevent security breaches and protect MedcomSoft from any resulting risk of loss.

### Protection of Intellectual Property

MedcomSoft's performance and ability to compete are dependent to a significant degree on its proprietary technology. MedcomSoft relies on a combination of patent, trademark, copyright and trade secret laws, as well as confidentiality agreements and technical measures to establish and protect its proprietary rights. MedcomSoft's proprietary software is protected by copyright laws. As part of its confidentiality procedures, MedcomSoft generally enters into agreements with its employees and consultants and limits access to and distribution of its software, documentation and other proprietary information. There can be no assurance that the steps taken by MedcomSoft will prevent misappropriation of its technology or that agreements entered into for that purpose will be enforceable. The laws of other countries may afford MedcomSoft little or no effective protection of its intellectual property.

### Reliance on Third-Party Software

Because certain of MedcomSoft's products incorporate software developed and maintained by third parties, MedcomSoft relies to a certain extent upon such third parties' ability to enhance their current products, to develop new products on a timely and cost effective basis that will meet changing customer needs and to respond to emerging industry standards and other technological changes. If MedcomSoft were to breach its license agreements or the license agreements were terminated, MedcomSoft could lose the right to use the licensed software. There can be no assurance that MedcomSoft would be able to replace the functionality provided by the third party software currently offered in conjunction with MedcomSoft's products in the event that such software becomes unavailable to MedcomSoft or obsolete or incompatible with future versions of MedcomSoft's products. The absence of, or any significant delay in, the replacement of that functionality could have a material adverse effect on MedcomSoft's financial condition or on the results of its respective operations. In addition, if any of this third party software fails or fails to be supported by their vendors it could be necessary for MedcomSoft to redesign substantial portions of its product lines. The result of any of these events could have a material adverse effect on MedcomSoft's financial condition or on the results of its operations. Furthermore, should new releases of this third-party software prove to be incompatible with the current version of MedcomSoft's product lines, the resulting decline in demand for the affected products could have a material adverse effect on MedcomSoft's financial condition or on the results of its operation.

*MedWorks* uses a data table control from ProtoView Development Corporation. It allows the display of certain data in a table format. There are several different third party vendors of this type of control. MedcomSoft uses a small portion of the data table functionality and its usage is contained in a small section of the application code. If this software became obsolete or unavailable to MedcomSoft, it could be replaced with the Microsoft Windows Operating System List Control.

### Risk of Change in Foreign Regulations

MedcomSoft markets its products to customers outside of Canada and, accordingly, is exposed to the risks of international business operations, including unexpected changes in foreign and domestic regulatory requirements, possible foreign currency controls, uncertain ability to protect and utilize its intellectual property in foreign jurisdictions, tariffs or other barriers, difficulties in staffing and managing foreign operations, difficulties in obtaining and managing vendors and distributors and potentially negative tax consequences. International sales are subject to certain inherent risks including trade barriers, staffing and operating foreign sales and service operations. There can be no assurance that any of these factors will not have a material adverse effect on MedcomSoft's business, financial condition or on the results of its operations.

## PRIOR SALES

MedcomSoft has not issued any securities within the past 12 months other than as follows:

1. On January 30, 1998, MedcomSoft issued 28.09 Common Shares (357,743 Common Shares after giving effect to the share split described in item 7 below) to AMCS pursuant to the exercise of the conversion privilege contained in a convertible term loan agreement between MedcomSoft and AMCS dated March 20, 1997.
2. On January 30, 1998, MedcomSoft issued 77.28 Common Shares (984,208 Common Shares after giving effect to the share split described in item 7 below) to Bryan Nelson pursuant to the exercise of the conversion privilege contained in a convertible term loan agreement between MedcomSoft and Bryan Nelson dated March 4, 1997.
3. On January 30, 1998, MedcomSoft issued 6.81 Common Shares (86,729 Common Shares after giving effect to the share split described in item 7 below) to Lamia Abu Samra pursuant to the exercise of the conversion privilege contained in a convertible term loan agreement between MedcomSoft and Lamia Abu Samra.
4. On January 30, 1998, MedcomSoft issued 13.62 Common Shares (173,459 Common Shares after giving effect to the share split described in item 7 below) to Hounada Diab pursuant to the exercise of the conversion privilege contained in a convertible term loan agreement between MedcomSoft and Hounada Diab.
5. On February 2, 1998, MedcomSoft entered into a subscription agreement with Mark Curry and Forfuture Ltd. pursuant to which it sold 8 previously unissued Common Shares (101,885 Common Shares after giving effect to the share split described in item 7 below) to each of Mark Curry and Forfuture Ltd. at a price of $6,250 per common share for an aggregate purchase price of $100,000.
6. On February 25, 1998, MedcomSoft entered into the Initial Agency Agreement with the Agent pursuant to which 533,333 Initial Special Warrants were issued. Each Initial Special Warrant was issued at a price of $0.75. See "Plan of Distribution — Initial Special Warrant Offering".
7. On March 10, 1998, MedcomSoft's shareholders voted by way of a special resolution to divide the 1,177.80 issued and outstanding common shares of MedcomSoft on a 12,735.61-for-one basis into 15,000,001 common shares.
8. On March 24, 1998, MedcomSoft entered into the Second Agency Agreement pursuant to which 466,666 Second Special Warrants were issued. Each Second Special Warrant was issued at a price of $0.75. See "Plan of Distribution — Second Special Warrant Offering".

## MATERIAL CONTRACTS

The only material contacts entered into by MedcomSoft within the past two years, other than contracts entered into within the ordinary course of business, are as follows:

(a) Escrow agreement described under "Escrowed Shares".

(b) Escrow agreement with the Escrowed Shareholders described under "Escrowed Shares".

(c) Agency Agreement described under "Plan of Distribution".

(d) Fiscal Agency Agreement described under "Plan of Distribution".

(e) Initial Agency Agreement dated February 25, 1998 with the Agent with respect to the offering of 466,666 Initial Special Warrants.

(f) Second Agency Agreement dated March 23, 1998 with the Agent with respect to the offering of 533,333 Second Special Warrants.

(g) Medworks contracts pursuant to which MedcomSoft charges a $69 per month utilization fee per doctor for access to the *MedWorks* system. MedcomSoft currently has approximately 50 doctors utilizing the *MedWorks* program in Ontario.

(h) Agreement dated March 20, 1997 with AMCS which provides for the transfer of intellectual property and business know-how.

(i) Agreement dated December 12, 1996 with Systems Xcellence Inc., a publicly traded Canadian company which specializes in financial and health transaction switching. The agreement will facilitate deployment by MedcomSoft if a contract in the Philippines is signed.

(j) Marketing agreement dated October 10, 1996 with the New Business Development Group ("NBDG"). Under the terms of the marketing agreement NBDG will be employed by MedcomSoft as its non-exclusive agent in the Philippines, Azerbijan and Turkmenistan.

(k) Agreement in October, 1996 with BNK Informatics Canada Inc., a Canadian company, specialized in information management, information policies, strategic information technology and information intensive applications.

Copies of the foregoing agreements, when executed, may be inspected during business hours at the principal office of MedcomSoft during the period of distribution of the Common Shares qualified by this prospectus and for a period of 30 days thereafter.

## CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

### Introduction

In the opinion of Gowling, Strathy & Henderson, counsel to MedcomSoft, the following is a summary of the principal Canadian federal income tax considerations generally applicable to original purchasers of Special Warrants who, for the purposes of the *Income Tax Act* (Canada) (the "Tax Act"), are resident in Canada, hold their Special Warrants and will hold their Common Shares issuable upon the exercise of the Special Warrants as capital property and original purchasers of Common Shares who hold Common Shares as capital property, and deal at arm's length with MedcomSoft. The Special Warrants and Common Shares will generally be considered capital property to a holder unless either the holder holds such Special Warrants and / or Common Shares in the course of carrying on a business or the purchaser has acquired the Special Warrants and / or Common Shares in a transaction or transactions considered to be an adventure in the nature of trade. The summary does not apply to a purchaser or holder that is a financial institution as defined in section 142.2 of the Tax Act.

This summary is based on the current provisions of the Tax Act, the regulations thereunder (the "Regulations"), proposals to amend the Tax Act and the Regulations announced by the Minister of Finance prior to the date hereof (the "Proposals") and the understanding of counsel of the administrative practices and policies of Revenue Canada which have been made publicly available. This summary does not take into account or anticipate any other changes in law, whether by legislative, regulatory, administrative or judicial decision or action or changes in the administrative practices of Revenue Canada nor does it take into account provincial or foreign income tax legislation or considerations.

**This summary is of a general nature only and is not intended to be, nor should be construed to be, legal or tax advice for any particular holder of Special Warrants and Common Shares and no representation with respect to Canadian federal income tax consequences to any particular holder is made. Therefore, holders of Special Warrants and Common Shares should consult their own tax advisers with respect to their particular circumstances.**

### Exercise of Special Warrants

Holders of Special Warrants will not realize any gain or loss upon the exercise or deemed exercise thereof. When a Special Warrant is exercised, the aggregate cost to the holder of the Common Shares so acquired upon the exercise of the Special Warrants will be equal to the adjusted cost base to him or her of the Special Warrant.

### Disposition of Common Shares

In general, a disposition, or a deemed disposition, of a Common Share will give rise to a capital gain (or capital loss) equal to the amount by which the proceeds of disposition of the Common Share net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Common Share to the holder thereof.

A holder will be required to include in income three-quarters of the amount of any capital gain (a "taxable capital gain") realized in the year of a disposition of Common Shares and will generally be entitled to deduct three-quarters of the amount of any capital loss (an "allowable capital loss") against taxable capital gains realized in the year of disposition, the three preceding years or any subsequent year. A corporation that is a Canadian-controlled private corporation may be liable to pay, in addition to tax otherwise payable under the Tax Act, a refundable tax of 6⅔% determined by reference to its aggregate investment income (other than dividends deductible in computing income). For this purpose, investment income includes taxable capital gains. In the case of a holder that is a corporation, the amount of any capital loss otherwise realized on a disposition or deemed disposition of the Common Shares may be reduced by the amount of dividends previously received thereon to the extent and under circumstances prescribed in the Tax Act. Analogous rules apply where a corporation is a member of a partnership or a beneficiary of a trust which owns Common Shares of MedcomSoft. Under the Proposals, these rules will be extended to trusts and partnerships that have a trust or partnership as a beneficiary or member. Capital gains realized by an individual may give rise to a liability for minimum tax.

**Dividends on Common Shares**

Dividends received on the Common Shares by an individual will be included in computing the individual's income for tax purposes and the gross-up and dividend tax credit treatment normally applicable to dividends paid by a taxable Canadian corporation will apply. Dividends received by an individual may give rise to alternative minimum tax. Generally, dividends received on the Common Shares by a taxable Canadian corporation will be included in computing its income for tax purposes but will be deductible in computing its taxable income, with the result that no tax will be payable by it in respect of such dividends. Certain corporations, including most private corporations, will be liable for a refundable tax under Part IV of the Tax Act at the rate of 33⅓% of the dividends received on the Common Shares.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Dr. Aita, Lea Aita and Andre Claire are shareholders in AMCS and collectively own 87.5% of the voting shares of AMCS. MedcomSoft and AMCS entered into an agreement dated March 20, 1997. This agreement provided for the transfer of AMCS's network switching technology, EDT and healthcard validation technology, in addition to its market know-how and marketing information, to MedcomSoft in exchange for MedcomSoft providing upgraded *MedWorks* to all of AMCS's customers and to provide a *MedWorks* license to all AMCS customers that were then using certain AMCS software products for a period of five years from the date of the agreement. AMCS is responsible for support of its customer and has the right to receive any maintenance, support or utilization fees from its customers related to the use of the *MedWorks* software. Nabil Harfoush is the principal shareholder of BNK Informatics Canada Inc. which entered into a teaming agreement in October, 1996 with MedcomSoft. This agreement was entered into in connection with MedcomSoft's proposal to the Philippine Community Health Information Network Inc. Pursuant to the agreement, BNK has agreed to provide expertise by way of subcontract to MedcomSoft in connection with any contract awarded to create an integrated community health information network. MedcomSoft's obligation under the agreement in to subcontract with BNK for certain expertise required by it in connection with such contract. See "Material Contracts".

Other than the transactions referred to above, within the three years prior to June 5, 1998, there have been no transactions or proposed transactions which have materially or will materially affect MedcomSoft in which any director or senior officer of MedcomSoft, any person or company who owns of record, or is known by MedcomSoft to own beneficially, directly or indirectly, more than 10 per cent of any class of securities of MedcomSoft, or any associate or affiliate of any of the foregoing persons or companies has a direct or indirect interest.

## AUDITORS

Fedder & Gurau, Chartered Accountants, Toronto, Ontario, were the auditors of MedcomSoft until the end of January, 1998, at which time Deloitte & Touche, Chartered Accountants, Toronto, Ontario were appointed auditors of MedcomSoft.

## REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada is the registrar and transfer agent for the Common Shares through its offices in Toronto.

## LEGAL PROCEEDINGS

In the opinion of management, the following is the only claim against MedcomSoft which may be regarded as material.

Paul Gomes commenced an action in September, 1995 in the Ontario Court of Justice (General Division) against MedcomSoft and Dr. Sami Aita in the amount of approximately $20,000 alleging breach of contract. The exchange of Affidavit of Documents was completed on October 10, 1996 and no further steps were taken by Paul Gomes or his lawyers until recently when Paul Gomes' lawyers requested discoveries be scheduled. Although MedcomSoft has proposed discoveries for August and/or September, no date has been agreed upon. Management is of the opinion that the claim is unfounded.

## PROMOTER

Dr. Sami Aita, President and Director of MedcomSoft, has taken the initiative in organizing the business of MedcomSoft since June, 1994 and, accordingly, is considered to be the promoter of MedcomSoft under applicable securities legislation. Prior to the Initial Special Warrant offering, the Second Special Warrant offering and this Offering, Dr. Aita directly owned 5,094,244 Common Shares (33.96%) while his spouse, Lea Aita, directly owned 2,547,122 Common Shares (16.98%) of MedcomSoft. Dr. Aita and Lea Aita also own 75% of the voting shares of AMCS which owned 357,743 Common Shares (2.38%) of MedcomSoft prior to the Initial Special Warrant Offering, the Second Special Warrant Offering and this Offering. See "Principal Shareholders".

## LEGAL OPINIONS

Certain matters relating to the Common Shares will be passed upon for MedcomSoft by Gowling, Strathy & Henderson, Toronto and for the Agent by Carbonaro Dakin Flude Mikulinski Sugar.

## PURCHASER'S STATUTORY RIGHTS

Securities legislation in Ontario and Quebec provides purchasers with a right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendments thereof. Securities legislation in Ontario and Quebec further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limits prescribed by the securities legislation of the purchaser's province or territory. A purchaser should refer to the applicable provisions of the securities legislation of such purchaser's province for the particulars of these rights or consult with a legal advisor.

In the event that a holder of a special warrant, who acquires a Common Share upon the conversion of a special warrant, is or becomes entitled under applicable securities legislation to the remedy of rescission by reason of this prospectus or any amendment thereto containing a misrepresentation, such holder shall be entitled to rescission of the private placement transaction pursuant to which the special warrant was initially acquired and shall be entitled in connection with such rescission to a full refund of all money paid to MedcomSoft for the acquisition of the special warrant. In the event such holder is a permitted assignee of the interest of the original special warrant holder, such permitted assignee shall be entitled to exercise the rights of rescission and refund granted hereunder as if such permitted assignee was such original holder. The foregoing is in addition to any other right or remedy available to a holder of a special warrant.

## GLOSSARY

In this prospectus, the following terms have the meanings set forth herein:

| | |
|---|---|
| **32-bit** | Length of data words used to represent information in a computer. |
| **Adjudication** | The steps through which a claim is processed by a third-party payer to verify coverage eligibility, determine appropriateness of care and services rendered and establish the amount of reimbursement. Adjudication ranges from fully automated to partially automated to fully manual. |
| **Application Programming Interface (API)** | A specification defining how one program can access the services or functionality of another program. |
| **Back-End System** | A computer server that provides services, such as transaction processing or database access to one or more front-end (client) systems. |
| **Clearing House** | An intermediary that accepts electronic transmissions from other organizations, edits and processes the transmissions and reroutes and sends them electronically to the appropriate payers. In insurance, it is an intermediary that receives claims from healthcare providers or other claimants, edits the claims data for validity and accuracy, translates the data from a given format into one acceptable to the intended payer and forwards the processed claim to the appropriate payers. |
| **Continuous Medical Education (CME)** | Mandatory post-graduate training for healthcare providers. |
| **Community Health Information Network (CHIN)** | An organization that offers electronic connections that enable all providers, payers and purchasers of care to exchange financial, clinical and administrative information in a defined geographic region. |
| **Data Repository** | A database that brings together information from various venues of care and hospital departments to make patient information available where and when it is needed, from multiple sites within and integrated delivery system. A repository stores on-line transaction information. |
| **Distributed Client Server Environment (Distributed Computing)** | A style of computing in which computing resources are spread throughout the organization, distributing data and processing chores to PCs, workstations, minicomputers and mainframes throughout an enterprise. Client/server systems typically are distributed computing, but distributed computing need not involve client/server systems. One use of distributed computing is in a distributed database, which allows information stored on separate systems to be accessed by disparate members of a network, creating a virtual central repository. |
| **Electronic Data Transfer (EDT)** | The electronic transmission of strategically important business data in a standard syntax by means of computer-to-computer exchange (either real-time or batch) via a standard on-line transmission method. |
| **Electronic Medical Record (EMR)** | Electronically maintained information about an individual's lifetime health status and healthcare. It replaces the paper medical record as the primary source of information for healthcare, meeting all clinical, legal and administrative requirements. |
| **Eligibility Checking** | The determination of whether a payer will cover a person's treatment. The answer may depend on who the provider is or the type of service suggested. |
| **Environment** | Sum of all parameters under which any application is running such as the hardware or operating system. |
| **Generic Engine** | Universal processing software that is easily adaptable to various new processes or developments. |

| | |
|---|---|
| **Graphic User Interface (GUI)** | A key component of client systems, the GUI, is the set of menus, windows, control buttons and other standard screen devices that are intended to make using a computer as intuitive as possible. |
| **Health Maintenance Organization (HMO)** | An organized system of managed care that provides, offers or arranges for coverage of designated healthcare services for plan members for a fixed, prepaid premium. Members are not reimbursed for care not provided or authorized by the HMO. Participating healthcare providers may be paid in many ways, including discounted fee-for-service and capitation. |
| **Health Transaction Switching** | The routing of electronic healthcare information between stakeholders. |
| **Healthcare Efficiency Market** | The healthcare efficiency market includes companies that help healthcare industry stakeholders such as providers, payors and patients to reduce costs and improve the quality of outcomes through the use of technology. |
| **Homogenous Collection** | Standardization of data collection. |
| **Integrated Network Wide Scheduler** | Multi-user schedule, available to all the users on a network and integrated with the application. |
| **Integration Engine** | Software that permits the flow of information from one application to another within an organization without the need to develop point-to-point interfaces. The technology provides for the real-time translation, routing and switching of data. |
| **Interface** | An electronic connection between software programs operating on the same computer system or between two information systems. The term also is used to describe a software program that establishes or allows communication between otherwise incompatible programs or systems. |
| **IT** | Information technology. |
| **Lan Group Productivity Software** | Software that allows LAN users to easily share information and collaborate on work (i.e. group schedules, e-mail, discussion databases, etc.) |
| **Legacy System** | Computer applications that have been "inherited" through previous information system acquisitions and installations. Legacy systems run business applications that generally are not integrated with each other and are commonly monolithic. |
| **Module** | A self-contained component of software with a defined API. |
| **Modular Application** | Application constructed with modules as "building blocks". |
| **MS Solution Provider** | Microsoft Solution Providers are in partnership with Microsoft to implement customer solutions, using or integrated with Microsoft technology and products. |
| **Multimedia** | Hardware and software that is capable of delivering not only text, but digitized voice, image and/or video presentations of information. |
| **Multi-Platform Application** | Any computer program/application that is capable of running on various operating systems and networks. |
| **Multi-Threading** | A programming technique that allows a single process to perform multiple simultaneous tasks by starting an independent "thread" for each task. |
| **Object Linking & Embedding (OLE)** | A Microsoft-developed standard for inter-process communications. |
| **Object-Oriented** | A computer programming approach that builds software applications through the repeated use of self-contained objects — bits of data that are surrounded with the program information needed to gain access to the data. Objects can perform certain computer functions when they receive messages to do that function. |

| | |
|---|---|
| **On-Line** | A communications terminal is on-line when it is connected via a communications link to a central computer during a transaction or operation. Also used to describe linkups that permit automated or interactive consummation of a transaction with an external source. |
| **On-Line Database Connectivity (ODBC)** | A Microsoft-developed API standard that allows generic access to multiple databases. |
| **Open Solution/System** | Systems based on technology and protocols that can be employed by multiple vendors. Standards-based open systems are based on publicly accepted conventions, available to all vendors. Open systems, in theory, can operate with any system that follows those conventions. |
| **Operating System** | Computer software that is responsible for controlling the allocation and use of hardware resources and the execution of application programs. |
| **Outcomes** | Result of medical treatment, generally measured in terms of a patient's ability to function, quality of life and length of life. |
| **Patient Demographics** | Record of all personal patient information, such as address, date of birth etc. |
| **Payors** | Insurance companies, fiscal intermediaries, government agencies or individuals responsible for the payment of healthcare claims. |
| **PharmaNet** | Pharmacy network operated by the Ministry of Health in British Columbia, Canada. |
| **Platform** | Operating system that a computer runs. |
| **Point Of Entry** | Method by which information is entered. |
| **Providers/Service Providers/ Healthcare Providers** | Person, organization, or institution that provides medical services or services related to medical treatment. |
| **Real-Time Processing** | A system that processes transactions fast enough to keep an operation going at the speed required. It also can mean simultaneous performance of an electronic counterpart to a real-world operation. |
| **Recaller System** | Automatic scheduling of follow-up appointments for patients. |
| **Scaleable** | A system that can be incrementally expanded to meet increasing processing and data volume requirements. |
| **Stand-Alone** | A computer that is not networked. |
| **Telemedicine** | The use of medical information exchanged from one site to another via electronic communications for the health and education of the patient or healthcare provider and for the purpose of improving patient care. |
| **Third Party Administrator (TPA)** | An administrative organization used by a self-funded employer to collect premiums, pay claims and/or provide administrative services. |
| **Turn-Key Solution** | Solution in which all of the components required are provided by the same source. |
| **Utilization Fee** | Fee paid for usage of a software/network. |
| **Visual C++** | Microsoft's integrated development environment for C++, an object-oriented programming language. |
| **WHO** | World Health Organization. |
| **Windows NT/95** | Operating systems. |
| **X.25** | An international standard for asynchronous data communications. |

## AUDITORS' REPORT

To the Directors of MedcomSoft Inc.

We have audited the balance sheets of MedcomSoft Inc. as at June 30, 1997 and 1996 and the statements of operations and deficit and changes in financial position for each of the years in the three year period ended June 30, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 financial statements present fairly, in all material respects, the financial position of the company as at June 30, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three year period ended June 30, 1997 in accordance with generally accepted accounting principles.

Toronto, Ontario
November 26, 1997
(except for Note 14 which
is as of June 5, 1998)

"FEDDER & GURAU"
Chartered Accountants

**MEDCOMSOFT INC.**

**BALANCE SHEETS**

| | As at April 30, | | As at June 30, | |
|---|---|---|---|---|
| | 1998 | 1997 | 1997 | 1996 |
| | (unaudited) | | | |
| **ASSETS** | | | | |
| CURRENT | | | | |
| Cash | $ 255,468 | $ 73,193 | $ — | $ 38,676 |
| Accounts receivable | 2,484 | 1,186 | 1,185 | — |
| Prepaid expenses and sundry receivables | 8,754 | 4,798 | 6,350 | 6,781 |
| | 266,706 | 79,177 | 7,535 | 45,457 |
| CAPITAL ASSETS (Note 3) | 50,958 | 56,106 | 64,306 | 45,574 |
| | $ 317,664 | $ 135,283 | $ 71,841 | $ 91,031 |
| **LIABILITIES** | | | | |
| CURRENT | | | | |
| Bank indebtedness | $ — | $ — | $ 3,072 | $ — |
| Accounts payable and accrued liabilities (Note 4) | 253,474 | 81,507 | 151,576 | 48,581 |
| Shareholders' loans payable (Note 5) | — | 150,862 | 144,859 | — |
| | 253,474 | 232,369 | 299,507 | 48,581 |
| LOAN PAYABLE (Note 6) | — | 200,000 | 220,000 | — |
| DEBENTURE PAYABLE (Note 7) | — | — | — | 200,000 |
| DUE TO ADVANCED MEDICAL COMPUTER SYSTEMS & MANAGEMENT INC. (Note 8) | — | 175,536 | 175,536 | 175,536 |
| | — | 375,536 | 395,536 | 375,536 |
| **SHAREHOLDERS' EQUITY / (DEFICIENCY)** | | | | |
| Share capital | | | | |
| Authorized | | | | |
| An unlimited number of common shares | | | | |
| Issued (Note 9) | 1,330,179 | 438,461 | 438,461 | 138,461 |
| Special warrants (Note 10) | 628,650 | — | — | — |
| Deficit | (1,894,639) | (911,083) | (1,061,663) | (471,547) |
| | 64,190 | (472,622) | (623,202) | (333,086) |
| | $ 317,664 | $ 135,283 | $ 71,841 | $ 91,031 |

**Approved on behalf of the board**

"DR. SAMI AITA"
DR. SAMI AITA
Director

"ANDRÉ CLAIRE"
ANDRÉ CLAIRE
Director

## MEDCOMSOFT INC.

## STATEMENTS OF OPERATIONS AND DEFICIT

| | Ten-month periods ended April 30 | | Years ended June 30 | | |
|---|---|---|---|---|---|
| | 1998 | 1997 | 1997 | 1996 | 1995 |
| | (unaudited) | | | | |
| SOFTWARE & RELATED SERVICES | 22,923 | 5,930 | 6,206 | — | — |
| SALES OF HARDWARE | 8,196 | 375 | 375 | — | — |
| COST OF SALES | 8,687 | 34 | 924 | — | — |
| Gross Profit (Loss) | (491) | 341 | (549) | — | — |
| | 22,432 | 6,271 | 5,657 | — | — |
| EXPENSES | | | | | |
| Research and development | 247,487 | 144,030 | 247,706 | 217,801 | 301,012 |
| Selling, general and administration | 607,921 | 422,640 | 470,548 | 127,130 | 116,449 |
| | 855,408 | 566,670 | 718,254 | 344,931 | 417,461 |
| Less: Investment Tax Credits | — | 119,228 | 119,228 | 89,168 | — |
| | 855,408 | 447,442 | 599,026 | 255,763 | 417,461 |
| OTHER INCOME | | | | | |
| Consulting fees (Note 4) | — | — | — | — | 107,500 |
| Sale of marketing rights (Note 4) | — | — | — | — | 89,261 |
| Interest income | — | 1,635 | 3,253 | 4,916 | — |
| | — | 1,635 | 3,253 | 4,916 | 196,761 |
| NET LOSS FOR THE PERIOD | (832,976) | (439,536) | (590,116) | (250,847) | (220,700) |
| DEFICIT – BEGINNING OF PERIOD | (1,061,663) | (471,547) | (471,547) | (220,700) | — |
| DEFICIT – END OF PERIOD | $(1,894,639) | $(911,083) | $(1,061,663) | $(471,547) | $(220,700) |
| LOSS PER SHARE (Note 16) | $ 0.06 | $ 0.04 | $ 0.05 | $ 0.02 | $ 0.02 |

## MEDCOMSOFT INC.

## STATEMENTS OF CHANGES IN FINANCIAL POSITION

| | Ten-month periods ended April 30 | | Years ended June 30 | | |
|---|---|---|---|---|---|
| | 1998 | 1997 | 1997 | 1996 | 1995 |
| | (unaudited) | | | | |
| NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES | | | | | |
| OPERATIONS | | | | | |
| Loss for the period | $ (832,976) | $ (439,536) | $ (590,116) | $ (250,847) | $ (220,700) |
| Item not affecting cash | | | | | |
| Amortization | 25,202 | — | — | — | — |
| | (807,774) | (439,536) | (590,116) | (250,847) | (220,700) |
| Net change in other current assets and liabilities | 98,195 | 33,723 | 102,241 | 6,998 | 34,802 |
| | (709,579) | (405,813) | (487,875) | (243,849) | (185,898) |
| INVESTING | | | | | |
| Acquisition of capital assets | (11,854) | (10,532) | (18,732) | (3,099) | (42,475) |
| FINANCING | | | | | |
| Loan payable | (220,000) | — | 220,000 | — | — |
| Common shares issued | 891,718 | 300,000 | 300,000 | — | 138,461 |
| Special warrants issued net of issue costs | 628,650 | — | — | — | — |
| Debenture payable | — | — | (200,000) | 200,000 | — |
| Shareholders' loans payable | (144,859) | 150,862 | 144,859 | — | — |
| Due to Advanced Medical Computer Systems & Management Inc. | (175,536) | — | — | 84,492 | 91,044 |
| | 979,973 | 450,862 | 464,859 | 284,492 | 229,505 |
| INCREASE (DECREASE) IN CASH POSITION | 258,540 | 34,517 | (41,748) | 37,544 | 1,132 |
| (BANK INDEBTEDNESS) CASH POSITION, BEGINNING OF PERIOD | (3,072) | 38,676 | 38,676 | 1,132 | — |
| CASH POSITION (BANK INDEBTEDNESS), END OF PERIOD | $ 255,468 | $ 73,193 | $ 3,072 | $ 38,676 | $ 1,132 |

## MEDCOMSOFT INC.

## NOTES TO THE FINANCIAL STATEMENTS
## (Information as at April 30, 1998 and 1997
## and for the ten month periods then ended is unaudited)

### 1. NATURE OF BUSINESS

MedcomSoft ("the Company") is incorporated under the laws of the Province of Ontario and carries on business as a developer and distributor of software. The Company intends to develop and distribute software. Activities to date have involved primarily product research and development, establishing facilities and hiring employees.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with generally acceptable accounting principles:

*Capital assets*

Capital assets are recorded at cost. Amortization is calculated at rates estimated to be sufficient to amortize the cost of the Capital assets over their useful lives. The rates used are as follows:

| | |
|---|---|
| Computer equipment | 30% declining balance basis |
| Office equipment | 20% declining balance basis |
| Software | 100% straight line basis |

*Revenue recognition*

The Company recognizes revenue from support service agreements on a monthly basis over the term of the agreement. Revenue from the sale of software is recognized when the product is delivered to and accepted by the customer and upon fulfillment by the Company of all significant obligations under the terms of sale.

*Research and development*

The Company expenses all research and development costs in the year incurred.

*Investment tax credits*

Investment tax credits arising from qualifying scientific research and experimental development costs are recorded as a reduction of operating expenses when there is reasonable assurance that the credits will be received. The Company considers reasonable assurance to exist when the claims have been approved by Revenue Canada.

*Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles necessarily 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 balance sheet date and the reported amounts of revenues and expenses for the periods presented. Actual results may differ from such estimates.

*Stock division*

On March 10, 1998, the Company divided the 1,177.8 issued and outstanding common shares on a 12,735.61-for-one basis into 15,000,001 common shares (Note 9). The effect of such stock division has been retroactively reflected in the accompanying financial statements.

### 3. CAPITAL ASSETS

| | April 30 | | | | June 30 | |
|---|---|---|---|---|---|---|
| | 1998 | | | 1997 | 1997 | 1996 |
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value | Net Book Value | Net Book Value |
| | (unaudited) | | | | | |
| Computer equipment | $57,808 | $13,909 | $43,899 | $45,266 | $53,466 | $38,598 |
| Office equipment | 2,220 | 217 | 2,003 | 389 | 389 | — |
| Software | 16,132 | 11,076 | 5,056 | 10,451 | 10,451 | 6,976 |
| | $76,160 | $25,202 | $50,958 | $56,106 | $64,306 | $45,574 |

## NOTES TO THE FINANCIAL STATEMENTS
### (Information as at April 30, 1998 and 1997 and for the ten month periods then ended is unaudited) (continued)

### 4. DUE TO RELATED PARTY

Included in accounts payable and accruals is an amount due to a corporate shareholder controlled by a director and officer of the Company, Advanced Medical Computer Systems & Management Inc. ("AMCS"), relating to rental payments, wages and telephone costs incurred by AMCS on behalf of the Company, on normal commercial terms. The amounts are as follows:

| | April 30 | | June 30 | | |
|---|---|---|---|---|---|
| | 1998 | 1997 | 1997 | 1996 | 1995 |
| | (unaudited) | | | | |
| AMCS | $55,560 | $32,505 | $34,976 | $ 9,573 | $ — |

During the period ending June 30, 1995 the Company received from AMCS $89,261 in return for granting it the unlimited licence and marketing rights in relation to the development and distribution of a product known as *DB Soft*. As well during 1995 the Company received $107,500 in consulting fees from AMCS in relation to technology consulting.

### 5. SHAREHOLDERS' LOANS PAYABLE

Subsequent to June 30, 1997, shareholders' loans payable were reduced by way of cash payments to $133,182. These loans were converted into 260,188.5 common shares at $0.51 per share.

### 6. LOAN PAYABLE

Subsequent to June 30, 1997, after further loan advances were made by a director of the Company, the remaining loan payable of $483,000 was subsequently converted into 984,207.9 common shares at the rate of $0.49 per share.

### 7. DEBENTURE PAYABLE

The $200,000 debenture was converted into 120 common shares at the rate of $1,666.67 per share in October 1996. Subsequent to this, the shares were converted into 1,528,273 common shares due to the share division as stated in Note 9.

### 8. DUE TO ADVANCED MEDICAL COMPUTER SYSTEMS & MANAGEMENT INC.

In each of the fiscal years ending June 30, 1996 and 1995, AMCS made cash advances totalling $175,536 to the Company. Subsequent to June 30, 1997 the amount due to AMCS was converted into 357,743.3 common shares at the rate of $0.49 per share.

### 9. SHARE CAPITAL

| | Number of Shares | Value |
|---|---|---|
| Balance — June 30, 1995 and 1996 | 900 | $ 138,461 |
| Issued | | |
| For cash | 16 | 100,000 |
| Upon conversion of debenture payable | 120 | 200,000 |
| Balance — June 30, 1997 | 1,036 | 438,461 |
| Issued | | |
| For cash | 16 | 100,000 |
| Upon conversion of shareholder loan (Note 5) | 20.43 | 133,182 |
| Upon conversion of loan payable (Note 6) | 77.28 | 483,000 |
| Upon conversion of AMCS advance (Note 8) | 28.09 | 175,536 |
| Share division | 14,998,823.20 | — |
| Balance — April 30, 1998 | 15,000,001 | $1,330,179 |

On March 10, 1998, the Company divided the 1,177.8 issued and outstanding common shares on a 12,735.61-for-one basis into 15,000,001 common shares.

Pursuant to an agency agreement dated February 25, 1998, the Company issued a non-assignable broker compensation warrant entitling Rampart Securities Inc. (the "Agent") to acquire, for no additional consideration, broker's warrants entitling the Agent to acquire at any time prior to February 25, 2000 up to 53,333 common shares of the Company, at a price of $0.75 per share.

Pursuant to an agency agreement dated March 23, 1998, the Company issued to the Agent a non-assignable broker compensation warrant entitling the Agent to acquire, for no additional consideration, broker's warrants entitling the Agent to acquire at any time prior to March 24, 2000 up to 46,666 common shares of the Company, at a price of $0.75 per share.

## 10. SPECIAL WARRANTS

Private placement of Initial Special Warrants — on February 25, 1998, the company completed a private placement of 533,333 special warrants at a price of $0.75 for gross proceeds of $400,000.

Each special warrant entitles the holder to acquire one common share. The special warrants expire the earlier of:

(a) Five business days following the date upon which receipt for the final prospectus has been issued by the Securities Commission.

(b) February 25, 1999.

If a receipt for the prospectus dated on or before the 150th day following February 25, 1998 is not obtained from the Quebec Securities Commission, the holder shall be entitled to an additional 0.1 common shares for each special warrant.

Second Special Warrants — On March 24, 1998, the Company completed a private placement of 466,666 special warrants at a price of $0.75 for gross proceeds of $350,000.

Each Second Special Warrant entitles the holder to acquire one common share. The Second Special Warrants expire the earlier of:

(a) Five business days following the date upon which receipt for the final prospectus has been issued by the Securities Commission.

(b) March 24, 1999.

If a receipt for the prospectus dated on or before August 21, 1998 is not obtained from the Ontario Securities Commission, the holder shall be entitled to an additional 0.1 common shares for each Special Warrant.

The Special Warrants are outstanding as at April 30, 1998.

## 11. INVESTMENT TAX CREDITS RECOVERABLE

For the year ended June 30, 1997, the Company made a claim for investments tax credits on account of qualified scientific research and development expenditures amounting to $112,840. However, these claims have not yet been reviewed by taxation authorities and the amount that may ultimately be received by the Company may be different. The benefit of this claim has not been recorded in the accounts. The Company has not made any claims for the current 10 month period ended April 30, 1998 and as a result no amount has been reflected in the current period financial statements. As at June 30, 1997, the Company had a total of $471,554 unclaimed subsection 37(1) expenditures which can be carried forward indefinitely for the reduction of future taxable income. The Company has investment tax credits for the reduction of future income taxes payable amounting to $12,391 which, if not utilized, will expire as follows:

| Amount | Expiry Date |
|---|---|
| $9,735 | 2006 |
| 2,656 | 2007 |
| $12,391 | |

## 12. COMMITMENTS

The Company is committed to equipment and vehicle lease payments in the amount of $48,208 per annum expiring June, 2001. The Company is also committed to sublease payments of $16,145 per annum for the premises, payable to Advanced Medical Computer Systems & Management Inc. (a corporate shareholder).

## 13. INCOME TAXES

The potential tax benefits arising from losses available have not been recognized in these financial statements. The Company has losses available as at June 30, 1997, for the reduction of future taxable income in the amount of $557,000 which expire as follows:

| Amount | Expiry Date |
|---|---|
| $122,000 | 2003 |
| 435,000 | 2004 |
| $557,000 | |

The Company had, at June 30, 1997, a total of $471,554 of unclaimed subsection 37(1) expenditures which can be carried forward indefinitely for the reduction of future income tax payable (Note 11).

### 14. SUBSEQUENT EVENT

On June 3, 1998, the Board of Directors approved the filing of a preliminary prospectus relating to the offering of a minimum of 1,250,000 common shares and a maximum of 1,666,667 common shares at a price of $1.20 per share. In addition, the prospectus will also qualify the distribution of 999,999 common shares pursuant to the initial and second special warrants as described in Note 10.

As additional compensation, the Company has agreed to grant Rampart Securities Inc. (the "Agent") non-assignable options (the "Compensation Options") to purchase up to that number of common shares equal to 10% of the number of common shares distributed within the minimum and maximum offered at any time within two years after the offering at $1.20 per share.

The Company has agreed to grant to the Agent an option exercisable for a period of 60 days after closing of the offering (the "Over-Allotment Option") to acquire up to that number of common shares equal to 10% of the number of common shares distributed within the minimum and maximum offered to cover the number of common shares over-allotted as at the close of business on the second trading day after the closing of the Offering at $1.20 per share.

### 15. CONTINGENCY

An action was commenced against the Company in September 1995 of approximately $20,000 alleging breach of contract. Management believes this claim is without merit and any liability possibly arising will have no material effect on the financial statements of the Company.

### 16. EARNINGS PER SHARE

Fully diluted earnings per share has not been disclosed as the effect of the dilution is anti-dilutive on earnings per share.

### 17. COMMITMENT

MedcomSoft and AMCS entered into an agreement dated March 20, 1997. This agreement provided for the transfer of AMCS's network switching technology, EDT and healthcard validation technology, in addition to its market know-how and marketing information, to MedcomSoft in exchange for MedcomSoft providing upgraded *MedWorks* to all of AMCS's customers and to provide a *MedWorks* license to all AMCS customers that were then using certain AMCS software products for a period of five years from the date of the agreement. AMCS is responsible for support of its customer and has the right to receive any maintenance, support or utilization fees from its customers related to the use of the *MedWorks* software.

## CERTIFICATE OF THE COMPANY AND THE PROMOTER

Dated: July 24, 1998

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part XV of the *Securities Act* (Ontario), and the respective regulations thereunder. To our knowledge, this prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed, as required by the *Securities Act* (Quebec) and the regulations thereunder.

MEDCOMSOFT INC.

| | |
|---|---|
| "DR. SAMI AITA" | "BRYAN NELSON" |
| DR. SAMI AITA | BRYAN NELSON |
| Chief Executive Officer | Chief Financial Advisor |

On Behalf of the Board of Directors

| | |
|---|---|
| "PETER LANGER" | "ANDRÉ CLAIRE" |
| PETER LANGER | ANDRÉ CLAIRE |
| Director | Director |

PROMOTER

"DR. SAMI AITA"
DR. SAMI AITA

## CERTIFICATE OF THE AGENT

Dated: July 24, 1998

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part XV of the *Securities Act* (Ontario), and the respective regulations thereunder. To our knowledge, this prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed, as required by the *Securities Act* (Quebec) and the regulations thereunder.

RAMPART SECURITIES INC.

"BARRY H. KASMAN"
BARRY H. KASMAN

The following includes the names of every person or company having an interest, either directly or indirectly, to the extent of not less than five percent in the capital of Rampart Securities Inc.: Rampart Mercantile Inc.

BOWNE
PRINTED IN CANADA
T12219-7