**PRELIMINARY PROSPECTUS DATED MARCH 8, 2000**

**THIS IS A PRELIMINARY PROSPECTUS RELATING TO THESE SECURITIES, A COPY OF WHICH HAS BEEN FILED WITH THE BRITISH COLUMBIA SECURITIES COMMISSION, ALBERTA SECURITIES COMMISSION AND ONTARIO SECURITIES COMMISSION BUT HAS NOT YET BECOME FINAL FOR THE PURPOSE OF A DISTRIBUTION. INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THAT A RECEIPT IS OBTAINED FROM THE BRITISH COLUMBIA SECURITIES COMMISSION, ALBERTA SECURITIES COMMISSION AND ONTARIO SECURITIES COMMISSION FOR THE FINAL PROSPECTUS.**

***This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons authorized to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.***

***The securities have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws. Accordingly, the securities may not be offered or sold in the United States except in transactions exempt from registration under such laws and this prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of such securities within the United States.***

New Issue

# ACD SYSTEMS INTERNATIONAL INC.

## 1,875,000 Common Shares and 937,500 Common Share Purchase Warrants Issuable Upon Exercise of 1,875,000 Special Warrants

ACD Systems International Inc. (the “Corporation” or “ACD”) by this prospectus (“Prospectus”) hereby qualifies for distribution up to 1,875,000 common shares of the Corporation (“Common Shares”) and up to 937,500 common share purchase warrants of the Corporation (“Regular Warrants”) issuable upon exercise of 1,875,000 special warrants (“Special Warrants”). The Special Warrants were previously issued on February 22, 2000 pursuant to a special warrant indenture, dated as of February 22, 2000 (the “Special Warrant Indenture”) between the Corporation and Montreal Trust Company of Canada (the “Trustee”) to investors pursuant to exemptions available under the *Securities Act* (British Columbia), the *Securities Act* (Alberta) and the *Securities Act* (Ontario), and the respective regulations thereunder, as applicable.

| | **Number of Special Warrants** | **Price to Public** | **Agents' Commission (1)(2)(5)** | **Net Proceeds to Corporation (3)(4)(5)** |
|---|---|---|---|---|
| Per Special Warrant | 1 | $12.00 | $0.84 | $11.16 |
| Total Offering | 1,875,000 | $22,500,000 | $1,533,000(5) | $20,967,000 (3)(5) |

**Notes:**

(1) Octagon Capital Corporation and HSBC Securities (Canada) Inc. (collectively, the “Agents”) have been paid a commission of 7% of the gross proceeds of the sale of 1,825,000 Special Warrants. The commission of 7% was only payable on 1,825,000 of the 1,875,000 Special Warrants as a result of the placement by ACD of 50,000 Special Warrants to a United States resident for which no commission, or other compensation, was paid. No commission or fee will be payable to the Agents by the Corporation in connection with the distribution of the Common Shares and Regular Warrants issuable upon the exercise of the Special Warrants. See “Details of the Offering”.

(2) The Corporation has granted, or will grant, to the Agents 182,500 non-transferable agents' special warrants ("Brokers' Special Warrants") each exercisable without further consideration into one agents' option ("Brokers' Option"). Each Brokers' Option is exercisable at a price of $12.00 until February 22, 2002, into one Common Share ("Brokers' Option Share") and one-half of one Regular Warrant ("Brokers' Option Warrant"). Each whole Brokers' Option Warrant is exercisable into one Common share ("Brokers' Option Warrant Share") at a price of $13.00 until August 22, 2001. In the event that a receipt for this Prospectus is not obtained in each of the filing provinces on or before June 21, 2000, each Brokers' Option will be exercisable into 1.1 Brokers' Option Shares and 0.55 Brokers' Option Warrants. See "Plan of Distribution".

(3) After deducting the Agents' commission but before deducting expenses of this issue, estimated to be $180,000.

(4) The net proceeds will be available for immediate use by the Corporation. See "Details of the Offering".

(5) No commission, or other fee of any nature, including Brokers' Special Warrants, was paid for the sale of 50,000 Special Warrants to a resident of the United States. Therefore, the Agents' commission was payable on gross proceeds of $21,900,000.

(6) The Corporation is hereby qualifying for distribution up to 1,875,000 Common Shares and up to 937,500 Regular Warrants issuable on the exercise of 1,875,000 Special Warrants. The Corporation is also qualifying up to 187,500 Common Shares, and 93,750 Regular Warrants, if any, issuable if a receipt for this Prospectus is not obtained from the securities commissions of each of the Filing Provinces on or before Clearing Date (as defined herein). The Corporation is also qualifying 91,250 of the 182,500 Brokers' Options to be issued to the Agents upon the exercise of 182,500 Brokers' Special Warrants, and up to an additional 9,125 Brokers' Options which may be issued pursuant to the Brokers' Special Warrants, if any, issuable if a receipt for this Prospectus is not obtained from the securities commissions of each of the Filing Provinces on or before Clearing Date (as defined herein).

The issue price of $12.00 (Canadian Funds) per Special Warrant was determined by negotiation between the Corporation and the Agents based on the trading price of the Common Shares of the Corporation on the Canadian Venture Exchange (the "Exchange") and other market considerations. Each Special Warrant entitles the holder thereof to acquire (subject to adjustment as hereinafter provided), at no additional cost, one Common Share and one-half of one Regular Warrant on or before 5:00 p.m. ( Toronto time) on the earlier of: (i) five business days after the date upon which a receipt for this Prospectus ("Final Receipt") has been obtained from the securities commissions in the each of the provinces of British Columbia, Alberta and Ontario (the "Filing Provinces"); and (ii) February 22, 2001, (the time at which the first of such events occurs is hereinafter referred to as the "Expiry Time"). Any Special Warrant not exercised prior to the Expiry Time shall be deemed to be exercised by the holder thereof, without any further action on the part of the holder, immediately upon the Expiry Time. Each whole Regular Warrant will entitle the holder thereof to purchase one Common Share at a price of $13.00 until 5:00 p.m. (Toronto time) on August 22, 2001.

The Common Shares of the Corporation trade on the Exchange under the symbol "ASA". On February 1, 2000, the last trading day prior to the date which the private placement of the Special Warrants was announced, the closing price of the Common Shares on the Exchange (as reported by the Exchange) was $13.00 and on March 7, 2000 was $22.50. **There is no market through which the Regular Warrants qualified by this Prospectus may be sold and holders of Regular Warrants may not be able to dispose of the Regular Warrants on a timely basis.**

An application has been made to conditionally list the Common Shares issuable upon the exercise of Special Warrants and Regular Warrants on the Exchange. Listing is subject to the Corporation fulfilling all the listing requirements of the Exchange.

**The securities offered hereby are highly speculative due to the nature of the Corporation's business and its present stage of development and subscribers should be prepared to risk the loss of their entire investment. After giving effect to the exercise of the Special Warrants, but prior to the exercise of any Regular Warrants or the Brokers' Options, the effective price of $12.00 per Common Share for Special Warrants exceeds the net tangible book value per Common Share as at December 31, 1999 (taking into account Common Share issuances to March 7, 2000), by $10.95 (representing a dilution factor of 91.25%). The Corporation is unlikely to pay dividends on the Common Shares in the foreseeable future. See "Risk Factors" and "Dilution".**

The percentage of Common Shares beneficially owned, directly or indirectly, by promoters, directors, senior officers and control persons of the Corporation, collectively, is 78.8% of the Common Shares issued and outstanding prior to the exercise of Special Warrants and will be 72.1% after giving effect to the exercise of Special Warrants, assuming no Common Shares are issued pursuant to the exercise of the Brokers' Special Warrants or the Regular Warrants.

If a receipt for this Prospectus is not obtained from the securities commission of each of the Filing Provinces on or prior to 5:00 p.m. (Toronto time) on June 21, 2000 (the "Clearing Date"), each holder of Special Warrants in a Filing Province shall be entitled within ten business days from the Clearing Date, to receive, upon the exercise or deemed exercise of the Special Warrants, 1.1 Common Shares and 0.55 Regular Warrants for every Special Warrant then held by such holder (in lieu of one Common Share and 0.5 of a Regular Warrant otherwise receivable) at no additional cost (the "Penalty Provision"). See "Plan of Distribution and Description of Offered Securities".

The Special Warrants were sold to investors on a private placement basis pursuant to an agency agreement between the Corporation and the Agents (the "Agency Agreement") dated February 22, 2000, at a price of $12.00 per Special Warrant.

Definitive certificates representing the Common Shares and, if applicable, Regular Warrants, will be available for delivery within 15 days following the exercise of Special Warrants. Certain legal matters in connection with the offering will be passed upon for the Corporation by Armstrong Perkins Hudson, Barristers and Solicitors, Calgary, Alberta and for the Agents by Stikeman, Elliott, Barristers and Solicitors, Calgary, Alberta.


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## PROSPECTUS SUMMARY

*The following summary information must be read in conjunction with and is qualified in its entirety by the more detailed information appearing elsewhere in this prospectus.*

### The Business of The Corporation

The Corporation designs, develops, markets and supports software, including digital imaging and instant messaging products. ACD is engaged in the development of products for digital image management. The flagship product, ACDSee™, is a widely used digital image viewing and management software product. ACDSee's™ two primary components are a file browser and an image viewer. These components serve as a foundation for a wide range of features. ACD management estimates that there are in excess of 15 million users of ACDSee™ and believes the product is one of the most downloaded software products on the Internet.

Instant messaging software is ACD's second line of business. Like other instant messaging products, such as ICQ, ACDExpress™ Communicator provides direct and immediate text-based communication and file transfer capabilities between individual users. However, unlike competitive products, ACDExpress™ Communicator adds additional elements of security to instant messaging in order to satisfy demands of corporate and institutional users. As a result, ACD management believes ACDExpress™ Communicator is positioned to replicate the high growth rate of consumer-based instant messaging in the previously untapped business market.

ACD continues to focus on the Internet as a highly efficient distribution channel. In addition, the Corporation has a growing number of product bundling and OEM relationships with industry leaders such as Hewlett-Packard, Canon and Packard Bell NEC Europe. See "The Corporation", "Business of the Corporation."

### Details of The Offering

| | |
|---|---|
| **Offering:** | The Corporation is hereby qualifying for distribution up to 1,875,000 Common Shares and up to 937,500 Regular Warrants issuable on the exercise of 1,875,000 Special Warrants. The Corporation is also qualifying up to 187,500 Common Shares, and 93,750 Regular Warrants, if any, issuable if a receipt for this Prospectus is not obtained from the securities commissions of each of the Filing Provinces on or before Clearing Date. The Corporation is also qualifying 91,250 of the 182,500 Brokers' Options to be issued to the Agents upon the exercise of 182,500 Brokers' Special Warrants, and up to an additional 9,125 Brokers' Options which may be issued pursuant to the Brokers' Special Warrants, if any, issuable if a receipt for this Prospectus is not obtained from the securities commissions of each of the Filing Provinces on or before Clearing Date. See "Plan of Distribution and Description of Offered Securities" and "Description of Share Capital". |
| **Special Warrants:** | Each Special Warrant entitles the holder thereof to acquire one Common Share and one-half of one Regular Warrant at no additional cost until 5:00 p.m. (Toronto time) on the earlier of: (i) the date which is the fifth business day following the day upon which the Final Receipt for this Prospectus is issued by each of the appropriate regulatory body of each of the Filing Provinces; and (ii) February 22, 2001. Each whole Regular Warrant entitles the holder thereof to purchase one Common Share of the Corporation at $13.00 per Common Share on or before August 22, 2001. Any Special Warrants not exercised prior to the Expiry Time shall be deemed to have been exercised at the Expiry Time without any further action on the part of the holder. |
| **Offering Price:** | $12.00 (Canadian Funds) per Special Warrant. No additional amount is payable upon the exercise of the Special Warrants. |

**Penalty Provision:** If a receipt for this Prospectus is not obtained from the securities commission of each of the Filing Provinces, on or prior to June 21, 2000, each holder of Special Warrants shall be entitled to receive, upon the exercise or deemed exercise of the Special Warrants, 1.1 Common Shares and 0.55 Regular Warrants for every Special Warrant then held by such holder (in lieu of one Common Share and 0.5 of a Regular Warrant otherwise receivable) at no additional cost. See "Plan of Distribution and Description of Offered Securities".

**Use of Proceeds:** The net proceeds of the issuance of Special Warrants, after deducting the Agents' commission and expenses related to this Offering estimated at $180,000, are estimated to be approximately $20,787,000. The Corporation presently intends to use the net proceeds of the issuance of Special Warrants as follows:

| Description | Assuming No Exercise of Regular Warrants | Assuming Exercise of All Regular Warrants |
|---|---|---|
| Research and Development | $4,000,000 | $6,000,000 |
| Sales and Marketing | $6,000,000 | $9,500,000 |
| Acquisitions | $5,000,000 | $8,000,000 |
| Strategic Partnering Activities | $500,000 | $500,000 |
| Unallocated Working Capital | $3,287,000 | $6,974,500 |
| Branding | $2,000,000 | $2,000,000 |
| **Total** | **$20,787,000** | **$32,974,500** |

There may be circumstances where, for sound business reasons, a reallocation of funds may be necessary in order for the Corporation to achieve its business objectives. See "Use of Proceeds".

**Dividend Record and Policy:** The Corporation has not paid any dividends on its Common Shares to date and does not anticipate that it will pay any dividends in the foreseeable future.

## Selected Financial Data

The following selected financial information as at and for each of the three years ending March 31, 1999, 1998 and 1997 has been derived from the Corporation's audited Consolidated Financial Statements and Notes thereto. The Consolidated Financial Statements are included elsewhere in this Prospectus and are incorporated by reference hereto and should be read in conjunction herewith. The Financial Statements are prepared on the basis of Canadian GAAP and are expressed in Canadian dollars. All figures in the following table and management discussion and analysis are disclosed in thousands (dollars), except share data.

*Statements of Earnings and Retained Earnings*

| | Nine Months Ending December 31(unaudited) | | Years ending March 31 | | |
|---|---|---|---|---|---|
| | **1999** | **1998** | **1999** | **1998** | **1997** |
| Sales | $3,023.8 | $1,586.7 | $2,284.8 | $1,300.4 | $472.5 |
| Earnings before taxes | 967.5 | 569.5 | 823.3 | 521.1 | 129.7 |
| Net earnings | 575.5 | 394.5 | 574.3 | 521.1 | 129.7 |
| Earnings per share in dollars(1) | 0.03 | 3,945 | 0.19 | 5,211 | 1,297 |
| Weighted average number of common shares outstanding | 18,228,481 | 100 | 3,093,117 | 100 | 100 |

**Note:**
(1) Earnings per share amounts are not comparable between 1997 and 1998 to 1999 since the Corporation was a private company until April 11, 1999.

*Consolidated Balance Sheets*

| | Nine Months Ending December 31 (unaudited) | | As at March 31 | | |
|---|---|---|---|---|---|
| | **1999** | **1998** | **1999** | **1998** | **1997** |
| Current assets | $2,173.7 | $456.1 | $1,259.2 | $350.7 | $200.5 |
| Capital assets | 687.1 | 382.2 | 400.5 | 261.5 | 102.3 |
| Deferred software development costs | 937.6 | 412.0 | 454.8 | 267.0 | 99.0 |
| Current liabilities | 396.8 | 91.7 | 216.9 | 68.7 | 17.2 |
| Non-current liabilities | 427.1 | 672.3 | 529.2 | 678.5 | 771.5 |
| Shareholders' equity (deficit) | 3,015.6 | 529.3 | 1402.9 | 134.8 | (386.3) |

## Risk Factors

The business of the Corporation entails a degree of risk and consequently investment in the Common Shares should be considered highly speculative. Investors should not invest in the Common Shares unless they can afford to lose their entire investment. An investment in the Common Shares is subject to a number of risks, all of which should be carefully considered by a prospective investor. These risk factors include the competitive environment in which the Corporation operates, the Corporation's limited operating history, the dependence on acceptance of the Corporation's products and services, the importance of the development of new products, the Corporation's dependence upon the acceptance or continued popularity of certain operating systems (i.e., Microsoft's operating systems), the risks that may arise from potential future acquisitions, the Corporation's dependence upon its distribution arrangements, the Corporation's dependence on OEM partners, the Corporation's limited capital resources, the Corporation's limited trading history, the Corporation's limited liquidity and the volatility of the trading price of the Common Shares, the existence of significant principal shareholders, the risks associated with intellectual property matters, the risks arising from the Corporation's international operations, the possibility of variations in operating results, the Corporation's dependence upon certain key personnel, the risks associated with changes in technology, the uncertainty of future year 2000 issues, and the dilution that will be recognized by purchasers of securities. See "Risk Factors".

## GLOSSARY OF TECHNICAL TERMS

Certain capitalized words and terms used in this prospectus are defined below:

| | |
|---|---|
| **3D** | means three-dimensional; |
| **ACDS** | means automated catalogue and delivery systems; |
| **CD** | means Compact Disc. The standard 12 cm plastic disc created to store digital information in microscopic pits which can be read by a laser beam; |
| **CD-ROM** | means Compact Disc Read Only Memory. An optical storage technology that uses compact discs originally used for encyclopedias, dictionaries, and software libraries, but now often used in multimedia applications; |
| **Ethernet** | means a computer network topology that can send data between one computer and another; |
| **GUI** | means graphic user interface. That part of an operating system which permits Hypertext documents for use on the World Wide Web; |
| **HTML** | means Hyper Text Markup Language. The coding language used to create Hypertext documents for use on the World Wide Web; |
| **HTTP** | means Hyper Text Transfer Protocol. The protocol for moving Hypertext files across the Internet, and the most important protocol used in the World Wide Web; |
| **ITN** | means information transportation network; |
| **Internet** | means the worldwide network that connects thousands of public and private data networks and millions of users. The Internet is made up of well over 100,000 interconnected networks in more than 100 countries covering commercial, academic and government endeavors. Originally developed for the U.S. military, the Internet became widely used for academic and commercial research. Users had access to unpublished data and journals on a huge variety of subjects. Today, the Internet has become commercialized into a worldwide information highway, providing information on every subject known to humankind; |
| **Intranet** | means a local network connecting users in an organization; |
| **ISP** | means an organization that provides access to the Internet. Small Internet service providers (ISPs) provide service via modem and ISDN while the larger ones also offer private line hookups (T1, fractional T1, etc.). Customers are generally billed a fixed rate per month, but other charges may apply. For a fee, a Web site can be created and maintained on the ISP's server, allowing the smaller organization to have a presence on the Web with its own domain name; |
| **Java** | means a network-oriented programming language invented by Sun Microsystems, Inc. that is specifically designed for writing programs that can be safely downloaded to a PC through the Internet and immediately run without fear of viruses or other harm to your computer or files; |

| | |
|---|---|
| **LAN** | means the Local Area Network for personal computers, being multiple computers linked together to facilitate shared communications within one office or location. Most office computers are connected to a LAN, but may also be connected to the Internet, or a WAN; |
| **Linux** | means a version of UNIX that runs on x86, Alpha and PowerPC machines. Linux is essentially freeware; however, the full distribution of Linux along with proprietary add-ons and support are available for a fee from vendors such as Red Hat Software (www.redhat.com) and Caldera (www.caldera.com). The distribution CD ROMs include the complete source code as well as hundreds of tools, applets and utilities. Due to its stability, Linux has gained popularity with ISPs as the operating system for hosting Web servers; |
| **MP3** | means MPEG Audio Layer 3 an audio compression technology that is part of the MPEG-1 and MPEG-2 specifications. Developed in Germany in 1991 by the Fraunhofer Institute, MP3 compresses CD-quality sound by a factor of 12, while providing almost the same high fidelity. Greater compression ratios are also obtainable that provide reasonable sound quality. MP3 music files are played via software or a handheld device. MP3 has made it feasible to download quality audio from the Web very quickly, causing it to become a worldwide auditioning system for new musicians and labels. Copyrighted material is also offered for a fee, or sometimes for free, creating a major legal issue. Enthusiasts feel MP3 will revolutionize music distribution via the Web, since an entire audio CD (an hour of music) can be downloaded in five minutes; |
| **OEM** | means original equipment manufacturer; |
| **PC** | means a personal computer; |
| **PCS** | means product control system; |
| **SDK** | means Software Development Kit; |
| **Server** | means a computer, or a software package, that provides a specific kind of service to client software running on other computers. It can refer to a particular piece of software, such as a World Wide Web server, or to the machine on which the software is running; |
| **TCP/IP** | means Transmission Control Protocol/Internet Protocol. The protocols used to send messages, connect and communicate over local networks and the Internet; |
| **UNIX** | means a multiuser, multitasking operating system that is widely used as the master control program in workstations and especially servers. Myriads of commercial applications run on UNIX servers, and most Web sites run under UNIX. There are many versions of UNIX, and, except for the PC world, where Windows dominates, almost every hardware vendor offers it either as its primary or secondary operating system. Sun has been singularly instrumental in commercializing UNIX with its Solaris OS (formerly SunOS). HP, SCO, IBM and Digital have also been major UNIX vendors and promoters; |
| **WAN** | means wide area network, being a network that spans more than one office where multiple computers are linked together to share communications over a widely dispersed area. It is commonly used to describe the telephone company and Internet interfaces; |

| | |
|---|---|
| **Windows, Windows '95, '98, 2000 and NT** | means a computer operating system developed by Microsoft Corporation that provides a GUI and multi-tasking for use with personal computers and network servers; |
| **Web** | means a hypertextual, graphical, global, interconnected system for accessing information contained on Web Sites located on the Internet which facilitates the jumping from one Web Site to the next by, among other methods, clicking on highlighted words or icons; |
| **Web Site** | means a site located on the Web, through which information from a specific organization is made available for access by anyone in the world through the Web; and |
| **World Wide Web** | means the universe of hypertext servers (HTTP servers) which are the servers that allow text, graphics, sound files, etc. to be mixed together. |

## THE CORPORATION

The Corporation was incorporated as ACD Systems International Inc. by Certificate of Incorporation issued pursuant to the provisions of the *Business Corporations Act* (Alberta) ("ABCA") on January 21, 1999. By a Certificate of Amendment dated March 15, 1999, the Corporation removed its private company restrictions.

The Corporation's head office is located at 694 Sumas Street, Victoria, British Columbia, V8T 4S6 and its registered and records office is located at 1600, 407 - 2nd Street, S.W., Calgary, Alberta T2P 2Y3.

At a meeting held on August 13, 1999, the shareholders of the Corporation approved the acquisition of all of the issued and outstanding securities of ACD Systems Ltd.("ACD Ltd.") pursuant to an offer to purchase and a take over bid of the Corporation dated July 21, 1999 (the "Take Over Bid"). Upon completion of the Take Over Bid, ACD Ltd. became a wholly owned subsidiary of the Corporation.

ACD Ltd., was incorporated pursuant to the *Company Act* (British Columbia), on November 8, 1989 under the name "Deviant Enterprises Ltd". Pursuant to a Certificate of Name Change, ACD Ltd. changed its name to "ACD Systems Ltd." on April 28, 1993. ACD Ltd.'s principal place of business is also 694 Sumas Street, Victoria, British Columbia V8T 4S6. The registered office of ACD Ltd. is located at 3rd Floor, 736 Broughton Street, Victoria, British Columbia, V8W 1E1. ACD Ltd. is the sole shareholder of ACD Systems Inc., a Texas company ("ACD USA"). ACD USA is incorporated for the purpose of carrying on the business of ACD Ltd. in the United States. *Unless the context otherwise requires, the references to the "Corporation" or "ACD" contained in this prospectus includes ACD Systems International Inc., ACD Ltd. and ACD USA.*

### Acquisition of ACD Ltd.

The Common Shares were listed on The Alberta Stock Exchange on April 12, 1999 as a "junior capital pool" corporation. On August 13, 1999, the shareholders approved the acquisition of all of the issued and outstanding common shares of ACD Ltd. (the "ACD Ltd. Shares") as the Major Transaction of the Corporation (as that term is defined in the policies of the Alberta Securities Commission). Pursuant to the Take Over Bid, the Corporation issued an aggregate of 13,502,965 Common Shares at a deemed value of $0.275 per share to the former holders of all the ACD Ltd. Shares.

In conjunction with the acquisition of all the ACD Ltd. Shares, the Corporation also completed the sale of 396,000 Common Shares for net proceeds of $772,200, or $1.95 per share.

At the time of closing of the Major Transaction, the Corporation also granted 1,283,000 options to purchase Common Shares to eligible employees, directors, officers and consultants of the Corporation. The options to purchase Common Shares are exercisable at $0.275 per Common Share. The purpose for the grant of these options was to encourage the continued services of the recipients. In addition, the Corporation must offer competitive compensation packages in order to hire and retain quality employees. In the high technology industry, options to purchase securities are considered to be a fundamental element of a compensation package. See "Options to Purchase Securities".

## BUSINESS OVERVIEW

ACD designs, develops, markets and supports software, including digital imaging and instant messaging products. ACD is a leader in digital image management. The flagship product, ACDSee™ , is a widely used digital image viewing and management product. ACD management estimates that there are more than 15 million users worldwide of ACDSee™ and management believes it is one of the most widely Internet-downloaded software products on the Internet. In addition to exceptional performance and ease of use, the most recent version of ACDSee™ includes network communication technologies. These network communication capabilities were adapted from the Corporation's instant messaging expertise. ACDExpress™, the Corporation's main instant messaging product, is targeted at businesses looking for instant messaging and file transfer capabilities in a secure network environment.

ACDSee™ was successfully deployed via the Internet as shareware. The most recent version of this product, ACDSee™ version 3.0 ("ACDSee™ 3.0"), capitalizes on the existing base of previously downloaded and installed copies of ACDSee™ by instituting a sponsored shareware revenue model. Users, after a brief fully functional trial period, may either license the software for a fee, or continue to use it unrestricted in exchange for accepting advertising. ACD management believes the inclusion of advertising as an option for shareware users will increase the Corporation's revenue derived per user.

All current ACD products are built as platforms for third party development of plug-in enhancements, using ACD provided SDKs. ACD's strategy is to cement its current market position by encouraging independent software developers to adopt ACD as their foundation for innovative imaging software solutions. The Corporation's goal is to establish a community of ACD-based software developers in order to:

1. provide a constant, no-cost, flow of product innovation under the ACD brand. Independent software developers add features and functionality to ACD's core products without any requirement on the part of the Corporation to fund or otherwise provide resources for the development efforts; and

2. establish a firm leadership position among a critical group of individuals that advise and influence others in their technology purchases.

**Core Markets**

ACD's core technological competencies are in digital imaging and network-based communications. These competencies have spawned a number of products, as detailed in the subsequent section entitled "Current Products". ACD's digital image management products include ACDSee™ , Image Fox™, Pica View™ and ACDSee™ Image Server. The Corporation's Internet-based communications products include ACDExpress™ Communicator and ACDExpress™ Server.

The Company now intends to bring elements of these two competencies together to develop two new product lines. Specifically:

1. by combining digital image management with Internet-based communication, ACD intends to create a single effective tool for preparing documents with mixed media (e.g., text, video, images, audio etc.), transmission of the prepared document to others and viewing of the document at all stages of collaborative production. ACD's goal is to create one tool for editing, viewing, exchanging and communication purposes.

2. ACD intends to create software that will allow imaging and network functionality to be embedded in small appliances such as digital cameras, MP3 players, palm-based computers, etc.

**Digital Imaging**

Until recently, digital images, for reasons of cost and complexity, were largely used by professionals and major corporations and institutions. However, just as was seen with PCs, digital imaging capability is now feasible for individuals and small business. All PCs shipped today support multimedia and the cost of digital image creation devices (digital cameras, scanners etc.) is decreasing while image quality is rising.

First-time users of digital cameras soon encounter a host of issues associated with using digital images. Specifically:

1. in the absence of processing costs, users tend to take far more pictures than do film-based photographers. The

sheer volume of digital images presents organization and management issues that go far beyond the old practice of storing prints in a photo album. Further, storage capacity eventually becomes an issue as image volumes accumulate;

2. as digital image creation devices are more widely used by less sophisticated users, the need for simplicity in managing images increases. It is important to simplify the processes for downloading images from camera to computer, basic image management and routine image adjustment; and

3. digital camera resolution levels are increasing and are now almost indiscernible from film-based pictures. Higher image resolution means larger image file sizes, which tends to slow the time it takes for images to be viewed on the computer screen. Digital photography provides near instant gratification, but the impact is diminished if the image takes too long to appear on the computer monitor. ACD management believes the speed of image viewing quickly becomes a critical feature for digital image viewers.

ACDSee™ 3.0 is designed to be a simple to use and extremely fast digital image management product. ACD management believes strong demand for digital cameras will foster significant business opportunities for companies with solid digital imaging solutions.

According to Dataquest, a part of Gartner Group, Inc.'s Market Dynamics organization, ("Dataquest"), the worldwide digital camera installed base is estimated at 3 million units as of June 1999, with 1.8 million units shipped in 1998 alone.

Dataquest states "the leading motivator for purchase of a digital camera continues to be the Web: either for sharing pictures or for incorporating pictures in Web sites of small businesses." Processing costs are essentially non-existent with digital cameras. As a result, users tend to create far more images than they might otherwise do with a conventional film-based camera. ACD management believes the demand for products such as ACDSee™ will escalate with the overall increase in digital image quantity.

Just as the Web is driving digital camera demand, it is also poised to solve the growing need for digital image storage and archiving. Web-based image archiving, which provides consumers with the ability to store, manipulate and share images on-line, is projected by Lyra Research Inc., publisher of the Hard Copy Observer, to generate US$2.2 billion of revenue by 2002.

Strouds' 1999 Download Hall of Fame lists the 13 products that remained on Strouds' top 25 download list for at least 26 consecutive weeks. Strouds is a publisher of the Internet-based CWSApps list which contains data regarding current software for Windows operating systems. ACDSee™ 3.0 is among these 13 products, along with such software as Internet Explorer, Netscape Navigator, RealPlayer and WinZip.

**Network Communication**

Email is the predominant means of person to person communication on the Internet. Email involves sending a message to a server and then waiting until the intended recipient logs on to pick up their mail. Only when this happens does the message actually reach the recipient. The email sender has no assurances if, or when, the message was received by the intended recipient. Email is also the predominant means of transferring electronic files from person to person. However, limitations are commonly imposed on the size of files that may be attached to email messages. Moreover, with email-based file transfers necessarily involving at least temporary storage of content on the intermediary email server, all email attachments are susceptible to interception by third parties, rejection because of large file size, disappearance due to server failure and a host of other potential transmission errors and risks.

Instant messaging, on the other hand, allows for immediate two way communication and file transfer. An instant messaging system continuously shows who is currently online. If both the message sender and recipient are online, the communication and file transfer is direct and immediate.

Instant messaging on the Internet was pioneered by Mirabilis, LTD, the Israeli-based developer of ICQ ("I Seek You"). ICQ provides real-time text message exchange as well as file transfer capabilities. The product/service requires an Internet connection but is otherwise free. Messages are routed through ICQ servers on the Internet. ICQ's user base has grown from zero in late 1996 to in excess of 50 million users by December 1999. Overall the instant messaging market has grown by over 200% in the last year, from 25 million to 78 million users. Virtually all of this growth has taken place in the consumer market, as the business community has been reluctant to adopt instant messaging using inherently unsecured environments such as is the case with ICQ (as a result of all messaging being handled by ICQ servers, versus a corporation being able to maintain their instant messaging server on their own secure server).

Lucent Technologies estimates 1 trillion emails were sent in 1999 with a typical user generating about 13 messages per day. However, in the consumer market products like ICQ have started to displace a sizable percentage of email messaging. A typical ICQ user is connected to the service for an average of 2 hours and 35 minutes per day and uses the instant messaging software for an average of 69 minutes. This degree of usage is not yet found in business electronic communication.

IDC, a division of International Data Group, an IT, media and exposition company, projects that the number of email messages sent per day in the U.S. will grow from approximately 2.1 billion in 1998 to 7.9 billion in 2002. According to Forbes.Com, the internet site for Forbes Magazines, American businesses spent more than $40 billion sending and receiving close to 100 billion pieces of first class mail in 1999. A secure, business-class, instant messaging environment will provide business with another option for everyday communication and transfer of critical business documents.

ACDExpress™ Communicator is targeted at the high value, security-sensitive, business communication market. Shifting from an Internet concept, like ICQ, to an Intranet environment, allows business to control and secure instant messaging and file transfer. ACD separates the ACDExpress™ client and server software. Businesses wanting secure instant messaging and networked file exchange can purchase a dedicated ACDExpress™ Server installation, giving them complete control of their environment.

At present ACDExpress™ Communicator is a Windows NT based product. A Linux version is expected to be completed in the second quarter of calendar year 2000.

**Unifying Multimedia and Documents**

Documents have traditionally been predominantly text-based. Adding elements such as graphics, video, audio or images generally requires the use of additional tools such as image editors and managers, audio processors email systems, browsers, spreadsheets, etc. Getting all of these tools to work together is complex and can tax the skills of many computer users. ACD management believes there will be growing demand for multimedia documents that include interactive capabilities (e.g., recipients clicking on one element of the document, such as a picture, will cause a further action, such as playing an audio file). ACD management further believes that multimedia documents such as these will only come into common use when the software tools required to create the document are simplified and unified to the extent that they are no more difficult to use than a simple word processor.

ACD management believes that by using images as the central component of multimedia documents, and then providing the ability to easily embed other communication (e.g., text, audio, video, Internet links) into images, it is possible to establish a single, standardized and unified tool/approach for assembling, editing, viewing, exchanging and communicating interactive multimedia documents.

**Mobile Internet Protocols**

Data-based communication is beginning to extend beyond the traditional computer. Cellular telephones, handheld computers (e.g., Palm Pilot™) and similar small electronic appliances are emerging with built-in mobile communication capacities. The success of conventional cellular phones is largely tied to the wireless network's ability to track and accommodate users as they roam from area to area. This requires a software communication protocol solution.

A similar solution is required to accommodate roaming data communication needs for the new generation of smart small appliances. Essentially the challenge is one of putting the Internet on the move.

ACD has assembled a team of engineers to build upon the network communication expertise of ACDSee™ and ACDExpress™. The mandate is to develop mobile network protocols that are embedded in information appliances. Examples of devices that may require embedded mobile IP protocol applications include:

1. smart digital cameras that, rather than storing images in the camera for eventual download to a computer, automatically transmit images to the user's personal, web-based, image repository; or

2. intelligent MP3 players that can access a web-based song archive regardless of location and without the need for a computer.

ACD intends to market these products through strategic relationships with manufacturers of mobile appliances and/or their operating systems.

**Implementation Strategies**

ACD's implementation strategy is to continue to balance user-base growth with fiscal responsibility. Specific aspects of this strategy are:

1. an intensive branding campaign to solidify the ACD brand in core markets and as an emerging platform for Internet-based product development and distribution;

2. implementation of a sponsored shareware revenue model for ACDSee™ 3.0, the purpose of which is to begin systematic conversion of the existing 15 million user base into a source of revenues;

3. exploitation of ACD's current corporate customer base (over 12,000 corporate users of ACDSee™ ) through a campaign of direct contact and discussions with these customers. The campaign, which is designed to probe corporate usage patterns and needs for image management and instant messaging solutions, is expected by management to yield immediate additional sales opportunities for ACD products and to serve as a grassroots intelligence gathering operation for next generation ACD products;

4. continued focus on customizing ACD products in local languages to increase their appeal in international markets;

5. extensive use of OEM bundling arrangements with corporations such as Canon and Hewlett-Packard;

6. fostering a worldwide ACD-based software development community through the establishment of ACDSee™ as a foundation for 3rd party development platform using its software development kit; and

7. integration of existing expertise in digital image management and network-based communication for new series of products. These new products will then be directly marketed to existing users of ACD products.

The above noted implementation steps are, in essence, a unification of ACD's development and sales/marketing plans. ACD intends to intensify its focus on sales and marketing.

**Branding Strategies**

With 15 million users worldwide, ACD is already a fixture on a significant percentage of Internet-connected PC desktops. The Corporation intends, through a series of linked initiatives, to exploit its current market share for purposes of establishing ACD as the leading brand in digital image management and to further extend brand presence and market dominance into instant messaging and Internet-based mobile data communication solutions. The branding initiatives include:

1. direct brand awareness campaigns via print advertising, trade shows and strategic facilitation of trade journal articles;

2. bundling and OEM relationships with large, complementary manufacturers in the digital imaging and network communications markets. ACD will require prominent ACD branding as a condition of such relationships; and

3. establishment of global ACD-based software development communities focussed on plug-in enhancement creation for ACD's various foundation products. Branding is achieved by virtue of ACD's positioning as the platform for a whole new realm of grassroots software development in our target markets. ACD will leverage its large installed base and strike symbiotic relationships with a developer group that historically drives many Internet and software trends. Linux is an example of a brand that has succeeded via informal, but enthusiastic, support from individual software developers.

**Sponsored Shareware**

In the conventional shareware model, ACD management accepts that a relatively small percentage of users will register and pay for their software. Management estimates the current ACD user base to be 15 million for ACDSee™, although management further estimates that less than 5% of such users have paid software licensing fees to ACD. Traditionally, shareware users can continue to use a product without payment of registration fees or royalties if they are willing to accept the presence of "nag screens" or reduced product functionality.

ACDSee™ 3.0, released in December 1999, is a next generation shareware product. It introduces a new registration option to shareware users. In lieu of paying a registration fee to ACD, users may choose to accept advertising when using ACDSee™ 3.0. As a result, the software continues to be free from the end-user perspective, but still generates revenue for ACD from fees earned on advertisement placement and viewing. In essence, advertising serves to sponsor the end-users' continued use of products. Qualcomm Inc., the maker of the Eudora email product, has recently implemented a similar sponsored shareware revenue model.

After the trial period, the shareware options to sponsored shareware users of ACDSee™3.0 are:

1. pay a licensing fee to receive a fully registered version of the product (identical to the process currently employed in the shareware sector);
2. in lieu of paying a licensing fee, receive a fully registered version of the product in exchange for accepting advertising whenever the product is in use; or
3. forego use of the product and delete from the system.

It is the addition of this second option that is new. ACD expects payment will be made to ACD for every ad impression (i.e., every time an ad is displayed when ACDSee™ is being used). The amount received per displayed advertisement varies (especially between targeted and general ads), but even if the rate were US$0.01 per ad impression, extension over a 15 million user base will result in substantial advertising revenue potential.

The ACDSee™ 3.0 advertising option is not unlike television with commercials, whereas fully licensed software is more akin to pay-per-view television. The essential element of television advertising is the number of viewers. Only when audiences are large do advertisers pay top dollar. Advertisers also want to be able to tailor their ads to the anticipated audience. Shifting to the Internet world, ACDSee™ 3.0 meets all of these television/commercial requirements. Volumes (users and usage rate) are extremely high by Internet standards and the ad-enabling software solution allows for tailored, or customized ad packages.

Actual advertising revenue will depend upon the number of users that choose the ad-enabled option versus full commercial registration and upon the amount of actual usage (and therefore ad display frequency). It is also important that users are inspired to upgrade to the ad-enabled ACDSee™ 3.0. However, given the substantial volume of ACDSee™ 3.0 downloads since the December 1999 release, it appears the upgrade appeal is more than sufficient to facilitate the sponsored shareware implementation.

**Strategic Relationships**

An essential element of ACD's continuing market penetration strategy is to create strategic relationships with hardware manufacturers who will introduce the Corporation's software as an integral component of their technology. The Corporation has established strategic relationships with manufacturers of digital imaging products including Canon, Hewlett-Packard, Kodak, LuraTech and others.

As evidenced by its bundling relationships with Packard Bell NEC Europe and Hewlett-Packard, the Corporation believes hardware manufacturers (e.g., Manufacturers of PCs), are rapidly seeking digital imaging technologies to be bundled with their products. Accordingly, the Corporation recognizes that a significant market exists to bundle its present format of ACDSee™ 3.0 with computer hardware manufacturers in a similar manner as is contemplated with digital imaging camera manufacturers.

It is ACD's intention to enter into bundling agreements with digital imaging hardware manufacturers. The bundled version of the software that is supplied to the hardware manufacturer will be limited in scope, and will not be upgradeable, except through payment of a software upgrade fee. As a rule, ACD seeks a royalty and/or licence agreement providing for payment per non-upgradeable version supplied. However, there are instances where full or partial payment may be foregone for strategic business reasons, such as an increase in market share. The objective is to drive the consumer back to ACD to upgrade the software. Furthermore, it is the Corporation's objective to establish strong brand recognition by aligning with major manufacturers who have established market share and recognition in this new, emerging market. It is the Corporation's intention to strengthen its brand awareness through identification with OEMs who have established their own independent brand recognition. In so doing, the Corporation is able to obtain immediate credibility through association with these strategic partners.

The Corporation will also seek to identify and negotiate licensing agreements in foreign markets for retail distribution of its products. Retail licensing agreements will be offered to distributors in foreign markets that have a demonstrated ability to supply software products to retail markets and have shown the ability to service those markets. Accordingly, localization will become a significant factor in achieving strong licensing arrangements for the retail market in foreign jurisdictions. The Corporation is establishing quality assurance guidelines that will be used by its licensees in the adaptation of its technologies to digital imaging products supplied by them and/or personal computers delivered with the technology bundled therein.

**Software Development Kit Positioning**

Underlying ACDSee™ is an architecture designed to foster wide-spread plug-in development communities. Management intends that all ACD products will possess this feature and may constitute core platforms, on which all manner of new dynamic plug-in based features can be layered. Individual software developers utilize ACD's various software development kits to create these plug-ins. These small software developers are at the forefront of technology adoption and commonly serve as advisors when less sophisticated users are making purchase decisions. ACD's platform/plug-in approach benefits the Corporation at a number of levels: (a) it promotes branding, as ACD entrenches itself as the foundation for widespread communities; (b) it establishes loose partnerships with masses of technology purchase influencers; and (c) it provides a constant stream of innovation, at no cost to ACD (i.e., development cost is incurred by independent users of the ACD SDK), thereby helping to keep the products fresh and cutting edge.

The plug-in SDK positioning is also a potential revenue source for ACD. ACD management believes some of the plug-ins in the works may have substantial market value, although sometimes the target markets are quite specialized. However, the plug-in architecture is sufficiently streamlined that even specialized plug-ins can be produced on a timely and cost-effective basis.

## DETAILS OF ACD OPERATIONS

**Current Products**

ACD has two core software technologies, digital imaging and network communication. The digital imaging technology is used to encode, decode, view, manage, print, convert and enhance digital images that are stored on digital media like computer hard drives, CD ROM, floppy disks, digital camera memory cards, computer memory or the Internet. The network communication software technology allows users to exchange any binary data such as text, digital images, text documents, spreadsheets and voice (sound) over the Internet in a highly efficient and secure manner.

***Digital Imaging Products:***

<u>ACDSee ™ Version 3.0</u> – ACDSee™ Version 3.0, the Corporation's flagship product, is a digital image viewer, file manager, photo enhancer, and digital image sharing software for Windows 95, Windows 98, Windows NT, and Windows 2000. Although the software has a rich feature set, there are three basic aspects to the software. The first is the file browser, which allows a PC user to view the contents of the media on which the information is stored, perform functions on large groups of files at once such as preview, move, copy, delete, compare, and batch process. The second aspect of the software is the viewer. This allows full sized single or multiple images to be displayed to the end user. The viewer can be used in conjunction with other vendors software without using the file browser component. The third aspect is the plug-in architecture. Plug-ins encompass a wide range of features used to store, retrieve and relate additional information to image files, and share images over the World Wide Web. There are hundreds of different computer image file formats being used in the world today, and more are created every month. ACD and other companies will make plug-ins for ACDSee™ 3.0 to support the different image formats as they arise.

<u>ACDSee ™ Version 3.0 Software Development Kit (SDK)</u> –To create plug-ins for ACDSee™ 3.0, ACD has produced a Software Development Kit or SDK. The SDK is available to individuals and corporations to make plug-ins that extend the feature set of ACDSee™ 3.0 software. By providing an SDK, both ACD and outside programmers can apply the rich feature set of the file browser and viewer to their projects in a fraction of the time it would take to make the software from scratch. Plug-ins can be used within our entire line of imaging software with minor modifications.

<u>ImageFox™</u> – Image Fox stands for Image File Open Extension. This software is an addition to the Windows operating system. Once installed, most Microsoft system compliant software that uses the "File...Open" command will display the Image Fox interface during the "File...Open" procedure. Image Fox gives instant previews of the image file selected and

a compact set of features derived from ACDSee™ 3.0 software without opening another program window.

PicaView™ – Pica View is a Microsoft Explorer add-on. It provides digital image file viewing and managing features within the Explorer file manager. The program runs on Windows 95, Windows 98 and Windows NT operating systems.

ACDSee™ Image Server – ACDSee™ Image Server allows the rich feature set and all plug-ins designed for ACDSee™ 3.0 to be run as a service on a Windows NT platform. This allows the output from one instance of ACDSee™ Image Server software running on a Windows NT server to be directed to an application like a web browser or custom network interface running on an end user's machine. ACDSee™ Image Server commands can be embedded in standard HTML web pages. The ACDSee™ Image Server software will accept the command, find the original image, apply compression, decompression, conversion, translation or any plug-in feature to the original image and embed the result in a web page for easy viewing by the end user. This process eliminates many steps in the preparation and storage of images within a large archive of information that is accessed by Internet users. ACDSee™ Image Server reduces network and hardware costs while increasing the speed of the system for commonly viewed images files.

***Network Communication Products:***

ACDExpress™ Client Software – ACDExpress™ Communicator client software is an instant messaging and data routing program that runs on Windows 95, Windows 98, Windows NT and Windows 2000 operating systems. The software provides routing of digital information like text, digital images, Word documents, Excel Spreadsheets and voice (sound) in binary form between Internet connected computer users. This software contains a contact list manager, which maintains continuous connections between members of the list displayed on the computer screen. Messages and files are moved directly between users when both the sender and receiver are connected at the same time. This differs greatly from email, where information is always placed on an interim and usually public server until the recipient comes and gets it. Unlike email software, ACDExpress™ actively detects and displays those users that are currently connected to the network. ACDExpress™ Communicator opportunistically maintains network connections and pathways between participants to provide stable, fast and secure transmission of information between users. This process is fundamental to instant communication applications like internet voice communication.

ACDExpress™ Server – For the ACDExpress™ system to work, the ACDExpress™ Server software must be installed on a computer that is connected to the Internet or any TCP/IP network. ACDExpress™ Server is a stand alone software installation for Windows NT. The entire software server package resides on a CD ROM and can be installed in less than fifteen minutes without additional applications. This makes ACDExpress™ Server much different from other instant messaging software that use several other manufacturers' applications to support their structure. ACDExpress™ Server has an easy to use administrative interface for managing the accounts of system users. The software creates and manages its own database of user information and allows for fast searches by system users to locate other members of the corporation and add them to contact lists in the ACDExpress™ Communicator software.

**Marketing, Sales and Distribution**

To date, the Corporation has successfully utilized the Internet as a means to obtain sales and distribution of its principal product, ACDSee™ . The Corporation's initial strategy was to bundle its technology and product, as a shareware item, with Internet applications such as Netscape, resulting in significant distribution. The Corporation's products are available from more than 80 Internet download sites.

The Corporation intends to expand its existing marketing, sales and distribution strategies to include additional distribution channels. These initiatives will include print advertisements, television, video, DVD and other forms of audio visual representations, trade show attendance, data base mining and the continuation of strategies to expand its Internet distribution models.

Of particular significance to its current and ongoing marketing strategies is the localization of all ACDSee™ products for non-English speaking markets. The Corporation is in the process of localizing its current technology, which requires the removal or replacement of English language contacts in help files and translation of internal English language into foreign languages. It also involves the creation of foreign language splash screens, translation of shortcut icon names to create foreign language setup and the ability to create foreign language order pages. This process also involves the integration of marketing programs in these countries to ensure that these target market recognize the existence of this product in that market.

OEM and bundling arrangements are also an important part of the ACD marketing strategy. ACDSee™ 's status as a useful image management tool has led to a number of strategic relationships in the digital imaging market.

The Corporation has entered into a distribution and fulfilment agreement with Net Sales Inc. who has contracted to undertake direct contact with the customer and completion of fulfilment and delivery of the product.

**Competition**

The long-term success of any software product in the multimedia segment of the computer software industry is based principally on product features, performance, ease-of-use, reliability, hardware compatibility, brand name recognition, product reputation, levels of advertising, pricing, merchandising, training, quality of customer support, quality and timeliness of product upgrades, and the ability of the software developer to introduce and develop new products and to upgrade existing products. Accordingly, one of the main risks facing ACD's competitive position is the introduction of similar products aimed at the same target markets, at a competitive price, by competitors that have significantly greater resources. See "Risk Factors". ACD intends to minimize this risk by releasing new products targeted at emerging markets, by releasing product enhancements for popular software platforms and by rapidly developing a large and loyal distribution and user base.

ACD management considers the following companies to be the principal sources of current and future competition for the Corporation's software products:

*Digital Imaging*

Adobe Systems Incorporated ("Adobe")

Founded in 1982, Adobe builds software solutions for Web and print publishing. Its graphic design, imaging, dynamic media and authoring tools enable customers to create, publish and deliver visually-rich content for various types of media. Adobe's products are used by Web and graphic designers, professional publishers, document-intensive organizations, business users and consumers. According to Adobe, Adobe is the fourth largest U.S.-based personal software company, with annual revenues of $1 billion. It employs over 2,400 people worldwide and has operations in North America, Europe, the Pacific Rim, Japan and Latin America. Adobe's worldwide headquarters are in San Jose, California.

Adobe claims its Photoshop product is the world-standard image-editing solution for print and the Web. Photoshop is an integrated toolset for taking images from concept to completion in print and on the Web. Photoshop is available for both PC and Mac and is generally priced in excess of US$500 per unit.

Adobe Illustrator is Adobe's illustration software solution. It integrates with other Adobe products, including Photoshop, to create artwork for print, presentation and the Web.

Jasc Software, Inc. (“Jasc”)

Jasc provides Web designers and advanced users with leading Windows-based digital imaging and management solutions that, according to Jasc, are powerful, easy to use and affordable. Jasc distributes products via the Internet, retail outlets, catalogues and provides try-before-you-buy versions of its software via the Web.

Paint Shop Pro, Jasc’s flagship product, is a complete solution for creating web graphics and enhancing digital photos. Paint Shop Pro features include retouch/editing of photos and images, creation of Web graphics and animations, design of images for business communications and sharing of photos with family and friends. The product sells for approximately US$100 per unit.

Micrografx, Inc. (“Micrografx”)

Micrografx is a leading provider of software, solutions and services enabling customers to improve business processes. Micrografx’s imaging products are intended to assist customers in visualizing and illustrating key processes.

Picture Publisher is a graphics production/editing product. It includes a collection of royalty-free stock photos and clip art, Internet textures, fonts, effects and filters. Picture Publisher has 55 import/expert file formats, 40 web page templates and 30 interactive wizards and on-line tutorials.

Cerious Software Inc. (“Cerious”)

Cerious’ ThumbsPlus product includes database and thumbnail organization, imaging viewing and editing and folders/file organization. ThumbsPlus, which is a Windows only product, sells for approximately US$80 per unit.

Photodex Corporation

Photodex develops imaging and media applications which help computer users organize and use photo, clip art, fonts, video and sound files effectively and creatively. CompuPic Pro features picture CD creation, Web page construction, HTML page management, web site scanning, batch file conversions and advanced text functionality. CompuPic Pro sells for approximately US$100 per unit.

IXLA Ltd. (“IXLA”)

IXLA, with offices in the United States, Australia, Japan and Europe, provides software applications and Internet services for digital photography. IXLA’s products are intended to assist people in using images to communicate, whether the images come from digital cameras or scanners and whether they are published as greeting cards, calendars, photographic prints or web sites.

Current IXLA products include ixla Digital Camera Suite, ixla Explorer, ixla Web Easy, ixla Photo, ixla Artist and ixla Digital Camera Interface. IXLA’s products are published in a number of different languages, including English, Japanese, Korean, Chinese, French, German and Danish.

*Instant Messaging*

Competition in the instant messaging market is as follows:

America Online ("AOL")

AOL purchased Mirabilis (ICQ), a leading instant messaging solutions vendor, for US$287 M in cash, plus an additional US$120 M depending on growth targets approximately 1 year ago. AOL claims to have in excess of 50 million registered users in its buddy list.

Others

Pure play chat companies: Tribal Voice, Paralogic

Provider of community building software and hosting services: Koz Inc. – has success with newspaper sites with a focus on message boards but will incorporate chat and instant messaging.

Use of chat for online customer service: Business Evolution, Acuity (formerly iChat) and eShare

Talk City, an original player in chat and messaging, announced in 1998 that it had secured $34 M in equity financing from Hearst Corp., NBC and Cox Interactive Media. At the time, Talk City had 1.6 million regular visitors logging an average of 20 minutes per visit.

Activerse, with its Ding! Technology, has been working with Microsoft on a Rendezvous protocol – with a focus on multiparty conferences in corporate environments.

## ASSETS, PROPRIETARY RIGHTS AND OWNERSHIP

ACD Ltd. holds the proprietary rights for all the software code underlying its digital imaging and its network communications technologies.

The ACD Digital Imaging Technology refers to ACD Ltd.'s proprietary digital technologies embodied in the core imaging products. In its simplest format, the technology combines an image viewer and file browser within Windows 95 and 98 and Windows NT and 2000 applications. The technology permits the user to quickly decompress and to view images. Viewing, printing and annotating functions are combined with a proprietary and powerful database manager. The technology works in both a browser and viewer format.

The ACDX Network Communication Technology is the foundation of the ACDExpress™ products. It is a network communications protocol that enables the fast and simple communication of network protocols and permits users to exchange information rapidly. The ACDX Network Communication Technology is both a routing and network connection detection service. It is comprised of real time network communication protocols and network structure consisting of multiple server nodes. This redundant capability ensures uninterrupted service to a client. Client software utilizing the ACDX Network Communication Technology are able to create virtual dynamic network connections.

## FACILITIES AND EMPLOYEES

The Corporation leases approximately 7,200 square feet of office space at 694 Sumas Street, Victoria, British Columbia, which serves as its head office facility. The Corporation conducts its principal software development and marketing activities from its head office facility. The Corporation also maintains office space in Arlington, Texas.

The following table discloses the approximate number of full time employees and contractors of the Corporation as at the date of this Prospectus.

| | Full Time | Part Time |
|---|---|---|
| Management | 6 | Nil |
| Software Development | 29 | 1 |
| Marketing and Business Development | 24 | Nil |
| Operations | 14 | 1 |
| Total | 73 | 2 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Selected Summary Financial Information

The following selected financial information as at and for each of the three years ending March 31, 1999, 1998 and 1997 has been derived from the Corporation's audited Consolidated Financial Statements and Notes thereto. The Consolidated Financial Statements are included elsewhere in this Prospectus and are incorporated by reference hereto and should be read in conjunction herewith. The Financial Statements are prepared on the basis of Canadian GAAP and are expressed in Canadian dollars. All figures in the following table and management discussion and analysis are disclosed in thousands (dollars), except share data.

*Statements of Earnings and Retained Earnings*

| | **Nine Months Ending December 31(unaudited)** | | **Years ending March 31** | | |
|---|---|---|---|---|---|
| | **1999** | **1998** | **1999** | **1998** | **1997** |
| Sales | $3,023.8 | $1,586.7 | $2,284.8 | $1,300.4 | $472.5 |
| Earnings before taxes | 967.5 | 569.5 | 823.3 | 521.1 | 129.7 |
| Net earnings | 575.5 | 394.5 | 574.3 | 521.1 | 129.7 |
| Earnings per share in dollars(1) | 0.03 | 3,945 | 0.19 | 5,211 | 1,297 |
| Weighted average number of common shares outstanding | 18,228,481 | 100 | 3,093,117 | 100 | 100 |

**Note:**
(1) Earnings per share amounts are not comparable between 1997 and 1998 to 1999 since the Corporation was a private company until April 11, 1999.

*Consolidated Balance Sheets*

| | Nine Months Ending December 31 (unaudited) | | As at March 31 | | |
|---|---|---|---|---|---|
| | **1999** | **1998** | **1999** | **1998** | **1997** |
| Current assets | $2,173.7 | $456.1 | $1,259.2 | $350.7 | $200.5 |
| Capital assets | 687.1 | 382.2 | 400.5 | 261.5 | 102.3 |
| Deferred software development costs | 937.6 | 412.0 | 454.8 | 267.0 | 99.0 |
| Current liabilities | 396.8 | 91.7 | 216.9 | 68.7 | 17.2 |
| Non-current liabilities | 427.1 | 672.3 | 529.9 | 678.5 | 771.5 |
| Shareholders' equity (deficit) | 3,015.6 | 529.3 | 1,402.9 | 134.8 | (386.3) |

## Years ended March 31, 1999, 1998 and 1997

### Liquidity and Capital Resources

As at March 31, 1999 the Corporation had cash of $1,024 compared to $76 as at March 31, 1998 and $23 as at March 31, 1997.

Cash flow from operations increased from $106 in fiscal 1997 to $592 in fiscal 1998 and $1,152 in fiscal 1999 as a result of the growth in revenue. The Company capitalizes software development costs, net of applicable research and development credits, until the development project(s) is completed. The capitalized costs are then amortized over the lesser of 3 years or the estimated life of the project. In fiscal 1997, $99 of software development costs were capitalized with no amortization recorded in the year. Capitalized costs in fiscal 1998 were $215 with amortization of completed product in the amount of $45 expensed. In fiscal 1999, capitalized costs were $350, with amortization of $162 expensed.

The Corporation issued a total of 4,650,000 Common Shares from treasury in fiscal 1999 for gross proceeds of $495. Thus far in fiscal 2000 the Corporation has issued a total of 15,275,215 Common Shares from treasury for proceeds of $4,833, including deemed proceeds of $3,713.

### Results of Operations

ACD reported net earnings in each of fiscal 1997 through 1999. Fiscal 1997 net earnings were $130, or 27% of sales. In fiscal 1998, net earnings increased to $521, or 40% of sales. Net earnings further increased to $574 in fiscal 1999, although as a percentage of sales they declined to 25%. The decline in net earnings relative to sales was caused by the Corporation's investment in additional personnel and infrastructure in anticipation of subsequent growth. Net earnings in both of fiscal 1998 and 1997 did not include any income tax expense due to the existence of income tax loss carry forwards. Income tax expense rate for the year ended March 31, 1999 was 30.3% after giving effect to tax credits and the available small business deduction.

### Sales

Sales increased from fiscal 1997 to 1999 at a compound annual growth rate of 220% per annum. Virtually all sales were derived from software licensing, with the majority coming from the Corporation's ACDSee™ image management tool.

### Expenses

Total wages and benefits, including portions capitalized as software development increased from $208 in fiscal 1997 to

$431 in fiscal 1998 and $834 in fiscal 1999. The increases were primarily attributable to increased personnel as ACD added personnel to all areas of operations.

Selling expenses ranged from 10% to 12% of revenue (excluding payroll expense) for each of the 3 years. In fiscal 1999, the Corporation began building a structured sales and marketing department to supplement efforts by online distribution partners.

Office and administrative costs, other than wages and benefits, increased from $143 in fiscal 1997 to $190 in fiscal 1998 and $266 in fiscal 1999. These spending levels are equivalent to 30%, 15% and 12% of annual sales, for 1997, 1998 and 1999, respectively. The declining percentages demonstrate increasing efficiency and exploitation of infrastructure that was pre-built to handle increased activity levels.

The Corporation became taxable in fiscal 1999 and set up a total income tax provision of $249 or 30% of pre-tax income after giving effect to tax credits and the available small business deduction.

**Nine Months Ending December 31, 1999 and 1998**

**Liquidity and Capital Resources**

As at December 31, 1999, the Corporation had cash of $1,741 compared to $192 at December 31, 1998.

Cash flow from operations increased from $813 for the 9 months ending December 31, 1998 to $1,120 for the 9 months ending December 31, 1999, in spite of the significant investments in personnel made thus far in fiscal 2000. Intensive software development activities resulted in funds spent on development of $751 for the 9 months ending December 31, 1999 versus $241 for the comparable period in 1998.

The Corporation issued at total of 1,790,215 common shares from Treasury from April 1, 1999 to December 31, 1999 for net proceeds of $1,147. This includes 672,965 shares issued in connection with the conversion of a debenture outstanding.

Results of Operations

ACD continues to record earnings from operations. Pre-tax earnings of $967 for the 9 months ending December 31, 1999 were 70% higher than the corresponding period in 1998 ($570). Net earnings increased by 46% from $395 to $575. The higher income tax provision recorded in the nine months ended December 31, 1999, stemming from the Corporation's shift to public company status account for the narrowing of the percentage increase.

Sales

Year-to-date revenues are approximately double the prior year, rising to $3.02 million from $1.587 million.

Expenses

Wages and benefits, including portions capitalized as software development for the 9 months ending December 31, 1999 were $1,510, up from $603 in 1998. The increase results from ACD's investment in sales and marketing personnel along with the key development personnel hired to create the next generation of ACD's products.

Selling expenses, excluding labour, increased from $215 to $386 in conjunction with the increased size of the sales and marketing department.

Office and administrative costs, other than wages and benefits, increased from $161 for the 9 months ending December

31, 1998 to $369 for the same period in 1999. Spending was essentially unchanged when expressed as a percentage of period sales.

## PRINCIPAL HOLDERS OF VOTING SHARES

The following table sets forth the shareholdings of those persons who, as of the date of this Prospectus, own of record or are known to the Corporation to own beneficially, directly or indirectly, or exercise control or direction over, more than 10% of the issued and outstanding Common Shares both before and after giving effect to the exercise of the Special Warrants, without taking into consideration the Common Shares issuable upon the exercise of the Regular Warrants, or the Brokers' Options.

| Name and Municipality of Residence | Type of Ownership | Number and Percentage of Common Shares Owned as at the date of this Prospectus | Number and Percentage of Common Shares Owned After Giving Effect to the Exercise of Special Warrants(1) |
|---|---|---|---|
| Douglas Vandekerkhove<br>Victoria, British Columbia | registered and beneficial | 9,286,229(2)<br>(46.6%) | 9,286,229(2)<br>(42.5%) |
| John Fliczuk<br>Victoria, British Columbia | registered and beneficial | 3,086,500(3)<br>(15.4%) | 3,086,500(3)<br>(14.1%) |
| CDS & Co.<br>Toronto, Ontario | registered | 4,088,356(4)<br>(20.5%) | 4,088,356(4)<br>(18.7%) |
| David Hooper<br>Victoria, British Columbia | registered and beneficial | 2,018,916(3)<br>(10.1%) | 2,018,916(3)<br>(9.2%) |

**Notes:**

(1) Assumes there are 21,800,215 Common Shares outstanding as a result of the issuance of 1,875,000 Common Shares upon the exercise of the Special Warrants but does not include Common Shares issuable upon the exercise of the Brokers' Options or the Regular Warrants.

(2) 9,267,549 of these Common Shares are held pursuant to escrow agreements dated March 31, 1999 and August 13, 1999. See "Escrowed Securities".

(3) All of these shares are held in escrow pursuant to escrow agreements dated March 31, 1999 and August 13, 1999. See "Escrowed Securities".

(4) This is figure is as at March 1, 2000. Beneficial ownership of these Common Shares is not known.

The directors and senior officers of the Corporation currently collectively and beneficially own, directly or indirectly, 15,714,645 Common Shares of the Corporation, representing approximately 78.8% of the Corporation's issued and outstanding shares. After giving effect to the issuance of the Common Shares after the exercise of the Special Warrants, but not including Common Shares issuable upon the exercise of the Brokers' Options or the Regular Warrants, the directors and senior officers of the Corporation will collectively and beneficially own, directly or indirectly, 15,714,645 Common Shares of the Corporation, representing approximately 72.1% of the Corporation's issued and outstanding Common Shares. See "Directors and Officers".

## PROMOTERS

Messrs. Vandekerkhove, Fliczuk, Hooper, Winstanley and Richardson may be considered to be the promoters of the Corporation in that they took the initiative in founding and organizing the Corporation. Collectively the promoters control 15,714,645 Common Shares of the Corporation.

Mr. Vandekerkhove is the President, Chief Executive Officer and a director of the Corporation and owns, directly or indirectly, 9,286,299 Common Shares of the Corporation. Pursuant to the Take Over Bid, Mr. Vandekerkhove acquired 8,967,549 Common Shares of the Corporation. He also holds options to purchase 15,000 Common Shares in the Corporation, exercisable at $0.275 per share, and options to purchase 32,500 Common Shares in the Corporation, exercisable at $0.15 per share.

Mr. Fliczuk is the Executive Vice President, Chief Operating Officer and a director of the Corporation and owns, directly or indirectly, 3,086,500 Common Shares of the Corporation. Pursuant to the Take Over Bid, Mr. Fliczuk acquired 2,386,500 Common Shares of the Corporation.

Mr. Winstanley is the Vice President of Corporate Affairs and a director of the Corporation and owns, directly or indirectly, 700,000 Common Shares of the Corporation.

Mr. Hooper is a director of the Corporation and owns, directly or indirectly, 2,018,916 Common Shares of the Corporation. Pursuant to the Take Over Bid, Mr. Hooper acquired 1,318,916 Common Shares of the Corporation. He also holds options to purchase 11,250 Common Shares in the Corporation, exercisable at $0.275 per share.

Mr. Richardson is a director of the Corporation and owns, directly or indirectly, 623,000 Common Shares of the Corporation.

Certain of the promoters of the Corporation have received compensation from the Corporation. See "Compensation of Executive Officers and Directors".

## DIRECTORS AND OFFICERS

The following information provides a summary of the past and present principal occupations, within the last five years, of the directors and officers of the Corporation and the number of Common Shares, and options to acquire Common Shares, held before and after the completion of the Offering.

| Name, Age and Municipality of Residence | Position Held | Principal Occupation During Past Five Years | Number of Common Shares Beneficially Owned or over which control is exercised/ Percentage | |
|---|---|---|---|---|
| | | | Before | After[(1)] |
| Douglas Vandekerkhove, 35[(2)]<br>Victoria,<br>British Columbia | President, Chief Executive Officer and Director | From 1994 until the present, Mr. Vandekerkhove has been the President of ACD Ltd., a private British Columbia company carrying on the business of imaging and network communications software sales, programming and marketing activities. | 9,286,299<br>(46.6%)<br><br>32,500[(3)]<br><br>15,000[(4)] | 9,286,299<br>(42.5%)<br><br>32,500[(3)]<br><br>15,000[(4)] |
| John Fliczuk, 38<br>Victoria,<br>British Columbia | Executive Vice President, Chief Operating Officer and Director | From July 1993 to November, 1999, Mr. Fliczuk was the Chief Financial Officer of ACD Ltd. In October 1999, Mr. Fliczuk was made Chief Operating Officer of the Corporation. | 3,086,500<br>(15.4%) | 3,086,500<br>(14.1%) |
| Martin Winstanley, 46<br>Victoria,<br>British Columbia | Director, and Vice President, Corporate Affairs | From October 1998 to present, Mr. Winstanley has been Vice President Corporate Affairs of ACD Ltd. From August 1996 to October 1997, Mr. Winstanley was the President and Director of RX Systems Inc., a private company in the business of satellite communication services. From April 1992 to August 1996, Mr. Winstanley was Senior Vice President and Director of JCI Technologies Inc., a public company traded on The Alberta Stock Exchange engaged in the business of online employment, real estate and auto database search services. | 700,000<br>(3.5%) | 700,000<br>(3.2%) |

| Name, Age and Municipality of Residence | Position Held | Principal Occupation During Past Five Years | Number of Common Shares Beneficially Owned or over which control is exercised/ Percentage | |
|---|---|---|---|---|
| | | | Before | After[(1)] |
| David Hooper, 28[(2)]<br>Victoria,<br>British Columbia | Director | From June 1994 until present, Mr. Hooper has been the Senior Software Engineer for ACD Ltd. | 2,018,916<br>(10.1%)<br><br>11,250[(4)] | 2,018,916<br>(9.2%)<br><br>11,250[(4)] |
| Lee Richardson, 52[(2)]<br>Calgary, Alberta | Director | From May 1998 to present, Mr. Richardson has been the President of Lee Richardson Financial Corporation. From January 1994 through May 1997, Mr. Richardson was a Director of JCI Technologies Inc., a public traded company on The Alberta Stock Exchange. From July 1995 through 1998 Mr. Richardson was President, CEO and Director of Goldtex Resources Ltd., a publicly traded natural resource exploration company. Currently he is also the Chairman of the Advisory Board of the Calgary Institute for the Humanities at the University of Calgary, and is on the Faculty of the Banff Centre for Management. | 623,000<br>(3.1%) | 623,000<br>(2.8%) |
| Dr. Mantis Cheng, 45<br>Victoria,<br>British Columbia | Director | Since 1988 Dr. Cheng has been a professor with the department of Computer Science at the University of Victoria. | Nil<br>(0%)<br><br>50,000[(5)]<br><br>250,000[(6)] | Nil<br>(0%)<br><br>50,000[(5)]<br><br>250,000[(6)] |
| Mike Zelen, 37<br>Victoria, British Columbia | Chief Financial Officer | From November 1, 1999 to present Mr. Zelen has been Chief Financial Officer of the Corporation. From April 1999 to February, 2000, Mr. Zelen was the sole practitioner of a Victoria-based accounting and consulting practice specializing in business valuations, litigation support, investigative accounting, strategic planning and executive contract services. From February 1997 to March 1999, Mr. Zelen was the Chief Executive Officer of Morgan Media Inc., a privately-held educational software developer and distributor that is based in Sidney, British Columbia. Mr. Zelen was a Principal at Ernst & Young (subsequently KPMG as a result of a December 1996 merger) from November 1993 to February 1997. | Nil<br>(0%)<br><br>15,000[(5)] | Nil<br>(0%)<br><br>15,000[(5)] |

| Name, Age and Municipality of Residence | Position Held | Principal Occupation During Past Five Years | Number of Common Shares Beneficially Owned or over which control is exercised/ Percentage | |
|---|---|---|---|---|
| | | | Before | After[1] |
| Kevin Hawe, 43<br>Victoria, British Columbia | Vice President, Sales and Marketing | From June 1999 to present, Mr. Hawe has been the manager of sales and marketing for the Corporation. From October 1998 to June 1999, Mr. Hawe was Dealer Development Manager for Lions Gate Marketing. From January 1997 to August 1998, Mr. Hawe was a consultant in the food and beverage industry. From 1996 to January 1997, Mr. Hawe worked for JCI Technologies Ltd. From 1987 to 1996, Mr. Hawe was the sales and marketing manager of Trifour Systems Ltd., a database management firm. | Nil<br>(0%)<br><br>94,000[4]<br><br>70,000[5] | Nil<br>(0%)<br><br>94,000[4]<br><br>70,000[5 |

**Notes:**

(1) Assumes there are 21,800,215 Common Shares outstanding as a result of the issuance of 1,875,000 Common Shares upon the exercise of the Special Warrants but does not include Common Shares issuable upon the exercise of the Brokers' Options or the Regular Warrants.

(2) Member of Audit Committee.

(3) Indicates stock option entitling the holder to acquire Common Shares upon payment of $0.15, and granted by resolution of the directors dated January 21, 1999. See "Options to Purchase Securities".

(4) Indicates stock option entitling the holder to acquire Common Shares upon payment of $0.275, and granted by resolution of the directors dated August 13, 1999. See "Options to Purchase Securities".

(5) Indicates stock option entitling the holder to acquire Common Shares upon payment of $2.00 and granted by resolution of the directors dated November 24, 1999.

(6) Indicates stock option entitling the holder to acquire Common Shares upon payment of $2.15 and granted by resolution of the directors dated November 24, 1999.

Pursuant to the provisions of the *Business Corporations Act* (Alberta), the Corporation is required to have an audit committee. The general function of the audit committee is to review the overall audit plan and the Corporation's system of internal controls, to review the results of the external audit, and to resolve any potential dispute with the Corporation's auditors. The audit committee of the Corporation currently consists of Douglas Vandekerkhove, David Hooper and Lee Richardson.

***Aggregate Ownership of Voting Securities (not including stock options)***

As at the date hereof, the directors, senior officers, promoters and other members of management of the Corporation, as a group, own beneficially, directly or indirectly 15,714,645 Common Shares (78.8 % of the issued and outstanding Common Shares). After the exercise of the Special Warrants, the directors, senior officers, promoters and other members of management of the Corporation, as a group, will own beneficially, directly or indirectly 15,714,645 Common Shares (72.1% of the issued and outstanding Common Shares), assuming that no Common Shares are issued pursuant to the exercise of Brokers' Options or the Regular Warrants.

## MANAGEMENT AND KEY PERSONNEL

The senior management personnel of the Corporation are as follows:

***Douglas Vandekerkhove - President, Chief Executive Officer and Director***

From 1994 until the present, Mr. Vandekerkhove has been the President of ACD Ltd. From 1993 to present, Mr. Vandekerkhove has been the President of Axxess Mail Depot, a private British Columbia company. Axxess Mail Depot has been inactive since 1994, however prior to 1994 it was engaged in the business of research and development of electronic cataloguing software. From 1989 to 1994, Mr. Vandekerkhove was an investment manager for Gladcat Holdings, a private British Columbia company**.** In addition, from 1994 until present, Mr. Vandekerkhove has been the Secretary/Treasurer for Van Texas Investments Inc. and Van Dallas Enterprises Inc., both private companies. Van Texas Investments Inc. and Van Dallas Enterprises Inc. are both holding companies for stocks, bonds, and real estate. From 1983 to 1989, Mr. Vandekerkhove was Vice-President of Convenience Store Control and Development of Pay Less Gas Co., a private British Columbia company that operated over fifty gas stations, or convenience store/gas station combinations throughout western Canada. Recently, Mr. Vandekerkhove has conducted four sales of Common Shares totalling 181,250 shares at an average selling price of $5.35 per share without compliance with the special provisions governing "control persons" contained in securities legislation. Among other things, Mr. Vandekerkhove did not file the notice of intention to sell Common Shares seven days in advance of the sales. Upon realization that he had inadvertently not complied with these requirements, Mr. Vandekerkhove immediately voluntarily informed regulatory authorities of the details of the sales.

***John Fliczuk, B.Sc - Executive Vice President, Chief Operating Officer and Director***

From 1992 to present Mr. Fliczuk has been an officer of ACD Ltd. From April 1992 to January 1993, Mr. Fliczuk was employed as a Programmer Analyst at Inno Vision Consulting, a consulting firm that worked with Victoria, British Columbia, companies to analyse, develop, and implement database solutions for PC's. From June, 1991 to April 1992, Mr. Fliczuk was employed at the Office of the Auditor General located in Victoria, British Columbia, as an Audit Assistant. Mr. Fliczuk received his Bachelor of Science (computer science major, economics minor) from the University of Victoria in May 1991.

***Martin Winstanley. B.A., LL.B. - Vice President Corporate Affairs, Secretary and Director***

From October 1998 to present, Mr. Winstanley has been employed full time by ACD Ltd. From August 1996 to October 1997, Mr. Winstanley was the President of RX Systems Inc., a private company engaged in satellite communication services. From April 1992 to August 1996, Mr. Winstanley was Vice President and Director of JCI Technologies Inc., a public company traded on The Alberta Stock Exchange that was engaged in the business of online employment, real estate and auto database search services. Mr. Winstanley obtained his Bachelor of Arts from McGill University in 1979, and his Bachelor of Laws from Osgoode Hall Law School in 1983.

***Mike Zelen - B.Comm, CA, CBV, CFE - Chief Financial Officer***

From November 1999 to the present, Mr. Zelen has been the Chief Financial Officer of ACD Ltd. Mr. Zelen has also, from September 1999 to February 2000, been the Director of Finance for UWI Unisoft Wares Inc. ("UWI") of Victoria, British Columbia, a privately-held company that develops and markets electronic forms solutions for the Internet. From April 1999 to February, 2000, Mr. Zelen was the sole practitioner of a Victoria-based accounting and consulting practice specializing in business valuations, litigation support, investigative accounting, strategic planning and executive contract services. From February 1997 to March 1999, Mr. Zelen was the Chief Executive Officer of Morgan Media Inc., a privately-held educational software developer and distributor that is based in Sidney, British Columbia. Mr. Zelen was a Principal at Ernst & Young (subsequently KPMG as a result of a December 1996 merger) from November 1993 to February 1997. Mr. Zelen served in a similar capacity with Arthur Andersen & Co. from 1985 through November 1993. Mr. Zelen received his Bachelor of Commerce degree from the University of Calgary in 1985, obtained his Chartered Accountant designation in 1988 and became a Chartered Business Valuator and Certified Fraud Examiner in December 1992.

***David Hooper, B.Sc - Director***

From June 1994 until present, Mr. Hooper has been the Senior Software Engineer for ACD Ltd. Prior to obtaining his Bachelor of Science in 1995, Mr. Hooper worked as a co-op student with ACD Ltd. from May through August 1994. Mr. Hooper also worked for C.D. Power Measurement Ltd. from September through December 1993. C.D. Power

Measurement Ltd. is a publicly held Victoria based corporation that designs, manufactures and sells digital power monitoring devices. From May through August 1993, Mr. Hooper held a position as a co-op software engineer at Canada-France-Hawaii Telescope, a world-class international cooperative research telescope located on Mauna Kea, Hawaii. Mr. Hooper worked at the Xerox Research Centre of Canada in North York, Ontario, from January to April, 1992. As a co-op student at Xerox, Mr. Hooper performed software research and development work related to the image analysis of microscopic sections of colour photocopier pigments. Mr. Hooper obtained his Bachelor of Science degree (Honours) (computer science) with distinction from the University of Victoria in 1995. He is currently studying toward his Masters of Science in computing science from Simon Fraser University.

***Lee Richardson - Director***

Lee Richardson is the President of Lee Richardson Financial Corporation. From 1995 through April 1998, he was President, CEO and Director of Goldtex Resources Ltd., a publicly traded resource company that subsequently merged with Canadian Mountain Minerals Ltd. From January 1994 through May 1997, Mr. Richardson was a Director of JCI Technologies Inc. From 1988 to 1993, Mr. Richardson served as a member of parliament in the House of Commons, representing the riding of Calgary South-East. During Mr. Richardson’s term in the House of Commons, he was appointed Parliamentary Secretary to the Minister of Communications, and later Parliamentary Secretary to the Minister of Transport. In June of 1983, Mr. Richardson was appointed Deputy Chief of Staff in the Office of the Leader of The Opposition in Ottawa. Following the 1984 federal election, Mr. Richardson served as Deputy Chief of Staff in the Prime Minister’s Office, and Special Advisor to the Prime Minister on Western Affairs. From 1979 until 1983, Mr. Richardson was Director of the Premier’s Office in Alberta. He joined the government of Alberta in 1974 in the Department of Industry and Commerce and later was Secretary to the Cabinet, Energy and Economic Development Committees. Mr. Richardson served on the Board of Directors of the 1988 Calgary Winter Olympics. He received the Queen Elizabeth Medal in 1977, and the Canada Medal in 1992 - “in recognition of significant contribution to compatriots, community and to Canada.” Currently he is the Chairman of the Advisory Board of the Calgary Institute for the Humanities at the University of Calgary, and is on the Faculty of the Banff Centre for Management.

***Kevin Hawe – Vice-President, Sales & Marketing***

Kevin Hawe took over the management of all sales and marketing at ACD Ltd. in June of 1999. He immediately established consistent brand recognition and effective market penetration strategies for the entire ACD Ltd. product line in addition to developing and leading a dynamic marketing and sales force. He plays a key role in the sales success and organizational development of ACD Ltd. From October 1998, until joining ACD Ltd., Mr. Hawe was the Dealer Development Manager for Lions Gate Marketing, a member company of AIG, where he was responsible for acquiring the rights to a variety of insurance products, and their marketing, sales and field support. From January 1997 to August 1998, Mr. Hawe was a consultant in the food and beverage industry. During this time, he participated in the design and all phases of pre and post opening development and management of two successful establishments. In 1996, Mr. Hawe accepted a position as the General Manager of the AutoMatch Division of JCI Technologies Inc., which was a classified content Internet based business. From 1987 until 1996 Mr. Hawe worked as the Sales and Marketing Manager of Trifour Systems International Ltd. Trifour is a high tech firm specializing in database management and customer retention programs. Kevin has leadership experience in both public and private companies as an entrepreneurial owner and management executive. He has a varied background which includes hi-tech, customer retention, automotive, insurance, the hospitality industry, and direct marketing. This provides ACD Ltd. with a seasoned, hands on management executive with experience in a diverse range of business and management issues. Mr. Hawe completed his Business Administration Diploma at Camosun College in Victoria, British Columbia in May 1983.

***Dr. Mantis Cheng, - Ph.D. - Director and Technical Consultant***

Dr. Mantis Cheng received his B. Math, M. Math. and Ph.D. from the University of Waterloo in Mathematics and Computer Science. After spending one year as a visiting professor at the University of Waterloo, he has been with the Department of Computer Science, University of Victoria, since 1988. His primary research areas are distributed real time control systems, embedded systems, concurrency theories and internetworking engineering, with particular emphasis on performance and reliability issues. In addition to being a professor at the University of Victoria for the past ten years, Dr. Cheng had spent three years as a research scientist in the Computing Technology Laboratory of Nortel Networks (“Nortel”), Ottawa. Currently, he is a technical consultant to Nortel on two projects, OPTera Optical Router and Nortel IP Routing Software. His research topics with Nortel include performance issues in control software for the high-speed optical router, resilient protocols design and verification issues, distributed real time runtime systems, and internet routing and quality of services. In collaboration with Nortel. Dr. Cheng is currently a principal investigator in a project with the Federal Government-funded National Centre of Excellence called MITACS (Mathematics for Information Technology and Complex Systems). MITACS represents over 100 mathematicians working from three national mathematical institutes across Canada. Dr. Cheng's project is funded for $100K per year for four years on “verification and modelling issues in complex distributed and resilient protocols”. He is also heading a Nortel Initiative at the University of Victoria which stimulates TCP/IP collaborative research projects between Nortel and North American Universities. As a part of this initiative, he also received British Columbia's Advanced Systems Institute funding for developing quality of service monitor over IP.

At the University of Victoria, Dr. Cheng is a member of the Parallel and Distributed Systems Group, which works closely on multimedia applications with the SONY Computer Science Laboratory, Japan. He teaches operating systems, design and analysis of real time systems, design formalisms, and concurrency theories. He integrates both theories and practices in the classroom. As a recipient of the Wighton Teaching Fellowship, he set up a laboratory for embedded systems and microcontrollers, where students are involved in designing, implementing and testing mobile robots. Many of his graduate students are now working in telecommunication and embedded systems industries. Since December 1999, he has been working closely with the Corporation on developing next generation imaging and internet embedded applications.

***Ben Morris – Terracast™ Project Leader***

Mr. Morris is the developer of Terracast™, an extendable, modular CAD system featuring a number of unique engineering advancements. Mr. Morris spent five years developing various CAD systems. His initial CAD project was the DOS-based *Doom Construction Kit* (“DCK”), initially released in 1994 and updated for two years. DCK is used to create two-dimensional maps for technology created by ID Software and is still widely used. In 1996 Mr. Morris created *Worldcraft*, a 3-D CAD system used to develop content for ID Software’s next generation technology, *Quake*. *Worldcraft* features a clean user interface, direct 3-D and constructive, solid geometry modelling techniques. It gained popularity resulting from its ease of use, and is still widely used.

Mr. Morris has been employed by ACD Ltd. as the primary engineer and project leader for Terracast™ since January 1998. In May 1997, Mr. Morris was hired by Valve (LLC), of Seattle, Washington to continue work on *Worldcraft*, which had originally been purchased from Mr. Morris in 1994. Prior to 1994, Mr. Morris developed several other types of software, including medical software prototyping and telecommunications software design. Mr. Morris has an extensive background in software development and language creation, including eight years utilizing “C”, five years with “C++” and five years with Windows development.

Mr. Morris has entered into an employment contract with ACD Ltd. whereby he has agreed to work exclusively for the benefit of ACD Ltd., and he has further agreed that all intellectual property created during the term of his employment with ACD Ltd. is the property of ACD Ltd.

***Frank G. Lin, B.Sc - Project Leader***

Mr. Lin obtained his Bachelor of Science (Honours) (computer science) with distinction from the University of Victoria in 1997. He is currently obtaining his Masters of Science in computing science from the University of Waterloo. From May 1996 until present, Mr. Lin has been the Senior Software Developer for ACD Ltd. Prior to obtaining his Bachelor of Science degree, Mr. Lin worked as a co-op student with ACD Ltd. from May 1996 through April 1997. Mr. Lin also worked for Nortel from September through December 1995. Nortel is a world-class international corporation that designs, manufactures and sells telecommunication switches and network routers. As a junior software designer at Nortel, Mr. Lin participated in the design and development of the logging and command line user interface subsystems for the 10-Gigbits/sec OC-192 fibre optical switch's onboard controller. From January through April 1995, Mr. Lin held a position as a system administrator at Computer Science Department of the University of Victoria. Mr. Lin worked at the Computer Science Department of the University of Victoria as a junior software developer from May to August, 1994.

## Other Reporting Issuers

The following directors, officers or promoters of the Corporation or its subsidiaries, are or have within the past five years, been directors, officers or promoters of the following reporting issuers:

| Name | Reporting Issuers | Positions Held | Dates [1] |
|---|---|---|---|
| Martin Winstanley | JCI Technologies Inc. | Vice President and Director | April 1992 - August 1996 |
| Lee Richardson | Goldtex Resources Ltd. | President, Chief Executive Officer and Director | 1995 - April 1998 |
| | JCI Technologies Inc. | Director | January 1994 - May 1997 |

**Note:**
(1) Dates are approximate.

## COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

## Compensation of Directors

During the fiscal period ended March 31, 1999, the Corporation, or its subsidiaries, paid no compensation to directors for services rendered as directors.

Executive officers of the Corporation who also act as directors do not receive any additional compensation for services rendered in such capacity, other than as paid by the Corporation to such executive officers in their capacity as executive officers. See “Compensation of Executive Officers” below.

The Corporation currently has in effect a Stock Option Plan (the “Plan”) for its directors, officers, employees and consultants. The Plan is administered by the Board of Directors of the Corporation, which makes allocations to eligible persons after considering their present and potential contributions and other relevant factors. The Plan has been filed with the Exchange and was approved by the shareholders on January 21, 1999. See also “Options to Purchase Securities”.

During the fiscal period ended March 31, 1999, directors and executive officers of the Corporation were granted stock options as set forth below.

**OPTIONS GRANTED TO DIRECTORS AND EXECUTIVE OFFICERS DURING THE FISCAL PERIOD ENDED MARCH 31, 1999**

| Date of Grant | Number of Common Shares under Option | Exercise Price | Expiry Date |
|---|---|---|---|
| March 31, 1999 | 465,000 | $0.15 | March 31, 2004 |

**Notes:**

(1) Prior to the fiscal period ended March 31, 1999 directors and officers of the Corporation were issued stock options to acquire 465,000 Common Shares at the exercise price of $0.15 per Common Shares. A total of 432,250 Common Shares have been issued pursuant to the exercise of these options subsequent to March 31, 1999.

(2) Subsequent to March 31, 1999, the Corporation issued options to acquire 814,000 Common Shares at price of $0.275 per Common Share, options to acquire 170,000 Common Shares at a price of $2.00, and option to acquire 250,000 Common Shares at $2.15, to directors and officers. See “Options to Purchase Securities”.

During the fiscal period of the Corporation ended March 31, 1999, the Corporation employed 3 executive officers who act as chief executive officer or earned more than $100,000 per annum, as described below. The aggregate cash compensation (including salaries, fees (including director's fees), commissions, bonuses to be paid for services rendered during the most recently completed financial year, bonuses paid for services rendered in a previous year, and any compensation other than bonuses earned during the most recently completed financial year, the payment of which is deferred), paid to such executive officers and corporations controlled by them, by the Corporation for services rendered during the fiscal period ended March 31, 1999, was $369,684.

The following table sets forth a summary of the annual and long term compensation for services paid by the Corporation, or its subsidiaries, during the fiscal periods ended March 31, 1999, March 31, 1998 and March 31, 1997 to the President and Chief Executive Officer and all other individuals who have received annual compensation in excess of $100,000 (hereinafter the “Named Executive Officers”).

**SUMMARY COMPENSATION TABLE**

**Statement of Executive Compensation**

| Name and Principal Position | Year | Salary ($) | Annual Compensation: Performance Right ($) (Bonus) | Annual Compensation: Other Annual Compen-sation ($) | Long-Term Compensation: Awards: Securities Granted Under Option /SARS [1] Granted # | Long-Term Compensation: Awards: Restricted Shares or Restricted Share-Units | Long-Term Compensation: Payouts: LTIP [2] Payouts ($) | All other Compen-sation ($) |
|---|---|---|---|---|---|---|---|---|
| Douglas Vandekerkhove, President and Chief Executive Officer | April 1, 1996 - March 31, 1997 | $14,400 | Nil | Nil | Nil | Nil | Nil | Nil |
| | April 1, 1997 - March 31, 1998 | $34,470 | Nil | Nil | Nil | Nil | Nil | Nil |
| | April 1, 1998 - March 31, 1999 | $98,035 | Nil | Nil | 232,500/0 [3][4] | Nil | Nil | Nil |
| John Fliczuk Director | April 1, 1996 - March 31, 1997 | $52,177 | Nil | Nil | Nil | Nil | Nil | Nil |
| | April 1, 1997 - March 31, 1998 | $160,435 | Nil | Nil | Nil | Nil | Nil | Nil |
| | April 1, 1998 - March 31, 1999 | $153,593 | Nil | Nil | 116,250/0 [5][6] | Nil | Nil | Nil |
| David Hooper Director | April 1, 1996 - March 31, 1997 | $25,346 | Nil | Nil | Nil | Nil | Nil | Nil |
| | April 1, 1997 - March 31, 1998 | $61,416 | Nil | Nil | Nil | Nil | Nil | Nil |
| | April 1, 1998 - March 31, 1999 | $118,056 | Nil | Nil | 116,250/0 [5][7] | Nil | Nil | Nil |

**Notes:**

(1) "SARS" or "Stock appreciation right" means a right granted by the Corporation, as compensation for services rendered, to receive a payment of cash or an issue or transfer of securities based wholly or in part on changes in the trading price of publicly traded securities of the Corporation.

(2) "LTIP " or "long term incentive plan" means any plan which provides compensation intended to serve as incentive for performance to occur over a period longer than one financial year, but does not include option or stock appreciation right plans or plans for compensation through restricted shares or restricted share units.

(3) Includes stock options granted on March 31, 1999 entitling the holder to acquire 232,500 Common Shares at an exercise price of $0.15.

(4) Subsequent to March 31, 1999, Mr. Vandekerkhove was granted additional stock options to acquire 15,000 Common Shares at an exercise price of $0.275 per Common Share.

(5) Includes stock options granted on March 31, 1999 entitling the holder to acquire 116,250 Common Shares at an exercise price of $0.15.

(6) Subsequent to March 31, 1999, Mr. Fliczuk was granted additional stock options to acquire 100,000 Common Shares at an exercise price of $0.275 per Common Share.

(7) Subsequent to March 31, 1999, Mr. Hooper was granted additional stock options to acquire 55,000 Common Shares at an exercise price of $0.275.

Effective June 21, 1999, the Corporation entered into employment agreements with each of Douglas Vandekerkhove, John Fliczuk and David Hooper. Pursuant to these employment agreements, Douglas Vandekerkhove is entitled to be paid a salary of $150,000 per year, John Fliczuk is entitled to be paid a salary of $150,000 per year and David Hooper is entitled to be paid a salary of $105,600 per year. In addition, Mike Zelen, the Chief Financial Officer of the Corporation will be paid an annual salary of $100,000, and effective January 1, 2000, Martin Winstanley, Vice President, Corporate Affairs, will be paid an annual salary of $135,000 per year. See "Employment and Management Contracts".

Other than disclosed above, there were no other executive officers at the end of the most recently completed financial period whose salaries and bonuses exceeded $100,000 per year.

***Stock Options***

The Named Executive Officers of the Corporation were granted stock options to acquire 465,000 Common Shares during the fiscal period ended March 31, 1999. Subsequent to the year end, the Named Executive Officers were granted stock options to acquire 170,000 Common Shares. The following table sets forth stock options granted during the fiscal year ended March 31, 1999 to the Named Executive Officers (no stock options have been repriced since incorporation):

**OPTIONS GRANTED AND REPRICED DURING THE FISCAL YEAR ENDED MARCH 31, 1999**

| Name of Optionee | Number of Common Shares Reserved Under Option | % of Total Options Granted in Fiscal Year | Market Price as at Date of Grant Cdn$(2) | Exercise Price Per Common Share Cdn$ | Expiry Date |
|---|---|---|---|---|---|
| Douglas Vandekerkhove | 232,500(3) | 50% | $1.90 | $0.15 | March 31, 2004 |
| John Fliczuk | 116,250(4) | 25% | $1.90 | $0.15 | March 31, 2004 |
| David Hooper | 116,250(5) | 25% | $1.90 | $0.15 | March 31, 2004 |

**Notes**:
(1) On March 7, 2000, the closing price of the Common Shares on the Exchange was $22.50.
(2) These stock options were granted on March 31, 1999, which was prior to the commencement of trading of the Common Shares on the Exchange on April 12, 1999. The closing price of the Common Shares on April 12, 1999 was $1.90.
(3) Subsequent to March 31, 1999, Mr. Vandekerkhove was granted additional stock options to acquire 15,000 Common Shares at an exercise price of $0.275 per Common Share.
(4) Subsequent to March 31, 1999, Mr. Fliczuk was granted additional stock options to acquire 100,000 Common Shares at an exercise price of $0.275 per Common Share.
(5) Subsequent to March 31, 1999, Mr. Hooper was granted additional stock options to acquire 55,000 Common Shares at an exercise price of $0.275.

Further, subsequent to March 31, 1999, Mr. Winstanley was granted options to acquire 250,000 Common Shares at an exercise price of $0.275 effective August 16, 1999. The market price on the date of the grant was $2.21. Also, Mr Zelen was granted options to acquire 50,000 Common Shares made effective October 24, 1999, at an exercise price of $2.00. The market price on that date was $2.00.

The following table sets forth details of the fiscal year-end value of unexercised options on an aggregated basis held by the Named Executive Officers for the fiscal year ended March 31, 1999:

**AGGREGATED OPTION EXERCISES AND VALUES FOR THE FISCAL YEAR ENDED MARCH 31, 1999**

| Name | Securities Acquired on Exercise (#) | Aggregate Value Realized ($) | Unexercised Options at Most Recent Year End (#) Exercisable/Unexercisable | Value of Unexercised In-the-Money Options at Most Recent Year End (Cdn$)(1)(2)(3)(4) Exercisable/Unexercisable |
|---|---|---|---|---|
| Douglas Vandekerkhove | 0(6) | 0(6) | 232,500/0(3) | $406,875/0 |
| John Fliczuk | 0(7) | 0(7) | 116,250/0(4) | $203,438/0 |
| David Hooper | 0(8) | 0(8) | 116,250/0(5) | $203,438/0 |

**Notes:**
(1) Value of unexercised in-the-money options calculated using the closing price of Common Shares on the Exchange on April 12, 1999, less the exercise price of in-the-money stock options.

(2) These stock options were granted on March 31, 1999, which was prior to the commencement of trading of the Common Shares on the Exchange on April 12, 1999. The closing price of the Common Shares on April 12, 1999, was $1.90.

(3) Subsequent to March 31, 1999, Mr. Vandekerkhove was granted additional stock options to acquire 15,000 Common Shares at an exercise price of $0.275 per Common Share. The closing price of the Common Shares on the Exchange on August 16, 1999, the date of grant of these additional stock options, was $2.21.

(4) Subsequent to March 31, 1999, Mr. Fliczuk was granted additional stock options to acquire 100,000 Common Shares at an exercise price of $0.275 per Common Share. The closing price of the Common Shares on the Exchange on August 16, 1999, the date of grant of these additional stock options was $2.21.

(5) Subsequent to March 31, 1999, Mr. Hooper was granted additional stock options to acquire 55,000 Common Shares at an exercise price of $0.275 per Common Share. The closing price of the Common Shares on the Exchange on August 16, 1999, the date of grant of these additional stock options was $2.21.

(6) Subsequent to March 31, 1999, Mr. Vandekerkhove exercised stock options to acquire 200,000 Common Shares at an exercise price of $0.15 per Common Share. These stock options were exercised as to 50,000 Common Shares on November 23, 1999, as to 50,000 Common Shares on December 2, 1999, and as to 100,000 Common Shares on January 11, 2000. Based on the closing price, on the date of exercise, less the exercise price, the aggregate value realized upon these exercises was $985,000.

(7) Subsequent to March 31, 1999, Mr. Fliczuk exercised stock options to acquire 116,250 Common Shares at an exercise price of $0.15 per Common Share. These stock options were exercised on November 29, 1999. In addition, Mr. Fliczuk exercised stock options to acquire 100,000 Common Shares at an exercise price of $0.275 per Common Share on January 12, 2000. Based on the closing price, on the date of exercise, less the exercise price, the aggregate value realized upon these exercises was $1,099,513.

(8) Subsequent to March 31, 1999, Mr. Hooper exercised stock options to acquire 116,250 Common Shares at an exercise price of $0.15 per Common Share. These stock options were exercised as to 60,000 Common Shares on November 29, 1999, and as to 56,250 Common Shares on January 14, 2000. In addition, Mr. Hooper exercised stock options to acquire 43,750 Common Shares at an exercise price of $0.275 per Common Share on January 14, 2000. Based on the closing price, on the date of exercise, less the exercise price, the aggregate value realized upon theses exercises was $1,185,732.

Subsequent to March 31, 1999, Mr. Winstanley exercised options to acquire 250,000 Common Shares at an exercise price of $0.275 per Common Share. These options were exercised on January 17, 2000, as to 50,000 Common Shares and on March 2, 2000, as to 200,000 Common Shares. Based on the closing price, on the dates of exercise, less the exercise price, the aggregate value realized upon these exercises was $5,481,250.

Also, Mr. Zelen exercised options to acquire 35,000 Common Shares at an exercise price of $2.00 per Common Share. These options were exercised on February 9, 2000. Based on the closing price, on the date of exercise, less the exercise price, the aggregate value realized upon this exercise was $609,000.

***Long-term Incentive Plans***

The Corporation has not had and does not currently have any long term incentive plans, other than stock options to be granted from time to time by the board of directors under the provisions of the Plan. See "Options to Purchase Securities".

***Stock Appreciation Rights ("SAR") and Restricted Shares***

No stock appreciation rights or restricted shares were granted by the Corporation to, or exercised by, the Named Executive Officers of the Corporation during the year ended March 31, 1999 or subsequent to that date. Furthermore, no stock appreciation rights have been exercised.

***Stock Option and SAR Repricing***

The Corporation did not make any downward repricing of stock options or stock appreciation rights during the fiscal year ended March 31, 1999, or subsequent to that date.

***Pension and Retirement Plans and Payments made upon Termination of Employment***

The Corporation does not have in place any pension or retirement plan. The Corporation has not provided compensation, monetary or otherwise, during the preceding fiscal year, to any person who now acts or has previously acted as an officer of the Corporation, in connection with or related to the retirement, termination or resignation of such person and the Corporation has provided no compensation to such persons as a result of a change of control of the Corporation, its subsidiaries or affiliates. The Corporation is not party to any compensation plan or arrangement with any of the Named Executive Officers resulting from the resignation, retirement or the termination of employment of such person.

***Employment and Management Contracts***

The Corporation has entered into the following employment and consulting arrangements with directors and officers.

1. Pursuant to an employment agreement dated June 21, 1999, among the Corporation, ACD Ltd. and Douglas Vandekerkhove, the Corporation will pay Douglas Vandekerkhove the annual salary of $150,000 in exchange for his services. The term of the employment agreement is 3 years. Further, Douglas Vandekerkhove has agreed not to compete with the Corporation or ACD Ltd. in British Columbia, Alberta or Texas for a period of 1 year from the termination of the employment agreement.

2. Pursuant to an employment agreement dated June 21, 1999, among the Corporation, ACD Ltd. and John Fliczuk, the Corporation will pay John Fliczuk the annual salary of $150,000 in exchange for his services. The term of the employment agreement is 3 years. Further, John Fliczuk has agreed not to compete with the Corporation or ACD Ltd. in British Columbia, Alberta or Texas for a period of 1 year from the termination of the employment agreement.

3. Pursuant to an employment agreement dated June 21, 1999, among the Corporation, ACD Ltd. and David Hooper, the Corporation will pay David Hooper the annual salary of $105,600 in exchange for his services. The term of the employment agreement is 3 years. Further, David Hooper has agreed not to compete with the Corporation or ACD Ltd. in British Columbia, Alberta or Texas for a period of 1 year from the termination of the employment agreement.

4. Pursuant to an employment agreement dated June 21, 1999, among the Corporation, ACD Ltd. and Martin Winstanley, the Corporation will pay Martin Winstanley the annual salary of $64,800 in exchange for his services. The term of the employment agreement is 3 years. Further, Martin Winstanley has agreed not to compete with the Corporation or ACD Ltd. for a period of 1 year from the termination of the employment agreement in British Columbia, Alberta or Texas. Effective January 1, 2000, Martin Winstanley's salary was increased to $135,000 per year.

Each of the employment agreements for Messrs. Vandekerkhove, Fliczuk, Hooper and Winstanley also provides for the payment of 2 years salary to the employee in the event that:

(a) any person, association or company acquires or becomes the beneficial owner of, either directly or indirectly, more than fifty percent (50%) of the voting shares of ACD Ltd.;

(b) any resolution is passed or any action or proceeding is taken with respect to the liquidation, dissolution or winding-up of ACD Ltd.;

(c) ACD Ltd. amalgamates, consolidates, merges or otherwise economically or legally joins or becomes part of any body corporate, partnership, or other legal entity; or

(d) ACD Ltd. decides to convey, assign, sell, lease or otherwise dispose of all or a material portion of its assets.

5. Pursuant to an employment agreement dated June 1, 1999, among the Corporation, ACD Ltd. and Kevin Hawe, the Corporation will pay Kevin Hawe the annual salary of $65,000 in exchange for his services in the area of marketing and sales. Further, Kevin Hawe has agreed not to compete with the Corporation or ACD Ltd. for a period of 1 year from the termination of the employment agreement in British Columbia, Alberta or Texas.

6. Pursuant to a consulting agreement dated December 1, 1999, among the Corporation, ACD Ltd. and MacCheng Consulting Ltd., a corporation controlled by Dr. Mantis Cheng, the Corporation will pay MacCheng Consulting Ltd. a monthly fee of $5,000 for its services as a network communications consultant.

***Related Party Transactions***

The Corporation has not been party to any related party transactions except for as disclosed in "Business of the Corporation" and "Interests of Management and Others in Material Transactions and Related Party Transactions".

***Other Compensation of Directors and Officers***

Danny Dalla-Longa, a former director of ACD Ltd., received indirect compensation from the Corporation. The indirect compensation was paid by the Corporation to Emerging Equities Inc. (the "JCP agent") in connection with the Corporation's initial public offering. Mr. Dalla-Longa was a principal and director of the JCP agent at the time of the payment of the compensation. Pursuant to an agency agreement dated March 15, 1999, a corporate finance fee of $12,000 was paid to the JCP agent, and an option to acquire 195,000 Common Shares at $0.15 per Common Share was granted to the JCP agent.

Mike Zelen, the Chief Financial Officer of the Corporation, received a fee of $7,000 for the preparation of a valuation report which was required to be disclosed in the Take Over Bid. This fee was paid to Mr. Zelen in July of 1999 prior to his involvement, or anticipated involvement, with the Corporation as an officer.

## OPTIONS TO PURCHASE SECURITIES

The directors and shareholders of the Corporation have adopted the Plan for its directors, officers, consultants and employees.

Pursuant to the Plan, the board of directors of the Corporation may allocate non-transferable options to purchase Common Shares to directors, officers, employees and consultants of the Corporation and its subsidiaries. The aggregate number of shares to be issued upon exercise of all options granted under the Plan and the aggregate number of shares to be issued to any one individual upon exercise of options granted under the Plan shall not exceed the maximum number of shares permitted to be issued under the rules of any stock exchange on which the Common Shares are then listed or other regulatory body having jurisdiction.

The Plan provides that the exercise price of the shares covered by each option shall be determined by the board of directors or a committee thereof and shall not be less than the price permitted by any stock exchange on which the Common Shares are then listed or by any regulatory body having jurisdiction.

As at the date of this prospectus, options to purchase a total of 2,488,000 Common Shares have been granted pursuant to the Plan, to directors, officers, consultants and employees of the Corporation and ACD Ltd., of which 1,302,750 are currently outstanding. The outstanding options to purchase Common Shares are set forth in the following table:

| Name of Optionee | Number of Common Shares Reserved Under Option | Effective Date of Grant | Expiry Date | Market Price as at the Effective Date of Grant [(1)] Cdn$ | Exercise Price Per Common Share Cdn$ |
|---|---|---|---|---|---|
| Douglas Vandekerkhove[(2)] | 32,500<br>15,000 | March 31, 1999<br>August 16, 1999 | March 31, 2004<br>August 16, 2004 | $1.90[(1)]<br>$2.21[(3)] | $0.15<br>$0.275 |
| David Hooper[(4)] | 11,250 | August 23, 1999 | August 23, 2004 | $2.21[(3)] | $0.275 |
| Dr. Mantis Cheng[(4)] | 50,000<br>250,000 | October 22, 1999<br>November 24, 1999 | October 22, 2004<br>November 24, 2004 | $2.00<br>$2.15 | $2.00<br>$2.15 |
| Mike Zelen[(5)] | 15,000 | October 22, 1999 | October 22, 2004 | $2.00 | $2.00 |
| Kevin Hawe[(5)] | 94,000<br>70,000 | August 16, 1999<br>October 22, 1999 | August 16, 2004<br>October 22, 2004 | $2.21[(3)]<br>$2.00 | $0.275<br>$2.00 |
| Employees and Consultants[(6)] | 460,000[(7)(8)] | August 13, 1999[(7)(8)] | Five years from the Date of Grant[(7)] | Note 7 | $0.275 |
| Employees and Consultants[(6)] | 305,000[(9)] | December 10, 1999 | December 9, 2004 | $5.95 | $5.95 |

**Notes:**

(1) On March 7, 2000, the closing price of the Common Shares on the Exchange was $22.50. These stock options were granted on March 31, 1999, which was prior to the commencement of trading of the Common Shares on the Exchange on April 12, 1999. The closing price of the Common Shares on April 12, 1999, was $1.90.

(2) Executive officers who are also directors.

(3) The closing price of the Common Shares on August 16, 1999, was $2.21. The stock options and the exercise price were reserved by press release dated April 9, 1999.

(4) Directors of the Corporation who are not executive officers hold options to acquire 311,250 Common Shares.

(5) Individuals who are executive officers only hold options to acquire 249,000 Common Shares.

(6) Employees and Consultants of the Corporation.

(7) The stock options were granted by resolutions of the directors dated August 13, 1999 and November 24, 1999. Does not include stock options to acquire 4,000 Common Shares which were issued August 18, 1999, and canceled effective October 15, 1999, or options to acquire 20,000 Common Shares which were exercised on February 9, 2000. The date of grant for these stock options are as follows:
   - (a) 30,000 of these stock options were granted on August 16, 1999, on which the closing market price was $2.21.
   - (b) 296,000 of these stock options were granted on August 18, 1999, on which the closing market price was $2.20.
   - (c) 30,000 of these stock options were granted on August 19, 1999, on which the closing market price was $2.20.
   - (d) 26,000 of these stock options were granted on August 20, 1999, on which the closing market price was $2.17.
   - (e) 23,000 of these stock options were granted on August 23, 1999, on which the closing market price was $2.16.
   - (f) 5,000 of these stock options were granted on August 24, 1999, on which the closing market price was $2.11.
   - (g) 35,000 of these stock options were granted on August 31, 1999, on which the closing market price was $2.10.
   - (h) 15,000 of these stock options were granted effective October 22, 1999, on which the closing market price was $1.95.

(8) In order to encourage the ongoing services of employees and consultants, these options have varying vesting provisions as follows:
   - (a) 168,500 of these stock options vest on August 13, 2000;
   - (b) 15,000 of these stock options vest on November 24, 2000;
   - (c) 76,500 of these stock options vest on August 13, 2001;
   - (d) 50,000 of these stock options vest on August 13, 2002;
   - (e) 90,000 of these stock options vest as follows:
     - (i) 23,333 Option Shares on or after the achievement of a Net ACDX Project Profit of $200,000;
     - (ii) a further 33,333 Option Shares on or after the achievement of a Net ACDX Project Profit of $700,000; and
     - (iii) the remaining 33,334 Option Shares on or after the achievement of a Net ACDX Project Profit of $1,700,000;
   - (f) 30,000 of these stock options vest as follows:
     - (i) 9,999 Option Shares on or after the achievement of a Net ACDX Project Profit of $200,000;
     - (ii) a further 9,999 Option Shares on or after the achievement of a Net ACDX Project Profit of $700,000; and
     - (iii) the remaining 10,002 Option Shares on or after the achievement of a Net ACDX Project Profit of $1,700,000;
   - (g) 30,000 of these stock options vest as follows:
     - (i) 15,000 Option Shares on or after the achievement of a Net Terracast Project Profit of $200,000; and
     - (ii) the remaining 15,000 Option Shares on or after the achievement of a Net Terracast Project Profit of $700,000;

(9) In order to encourage the ongoing services of employees and consultants, these options have vesting provisions as follows:
   - (a) 50,825 on or after June 10, 2000;
   - (b) 50,825 on or after Dec. 10, 2000;
   - (c) 50,825 on or after June 10, 2001;
   - (d) 50,825 on or after Dec. 10, 2001;
   - (e) 50,825 on or after June 10, 2002; and
   - (f) 50,875 on or after Dec. 10, 2002.

As at the date hereof, an aggregate of 1,302,750 Common Shares are reserved for the exercise of the options described above.

## INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS

No individual who is or, at any time during the most recently completed financial period, was a director, executive officer or senior officer of the Corporation, nor their associates, is or has been at any time since the beginning of the last completed financial period, indebted to the Corporation, nor has any such individual been indebted to any other entity where such indebtedness is the subject of a guarantee, support agreement, letter of credit or similar arrangement or understanding, provided by the Corporation.

## DESCRIPTION OF SHARE CAPITAL

The authorized capital of the Corporation consists of an unlimited number of Common Shares and Preferred Shares. As of the date hereof, there are a total of 19,925,215 Common Shares outstanding (see "Capitalization").

### Common Shares

The Corporation is authorized to issue an unlimited number of Common Shares without nominal or par value of which, as at the date hereof, 19,925,215 are issued and outstanding as fully paid and non-assessable, 1,302,750 are reserved for issuance upon the exercise of stock options granted to directors, officers, employees and consultants (see "Options to Purchase Securities").

The holders of the Common Shares are entitled to dividends, if, as and when declared by the board of directors, to one vote per share at meetings of the shareholders of the Corporation and, upon liquidation, to receive such assets of the Corporation as are distributable to the holders of the Common Shares. All of the Common Shares to be outstanding on completion of this Offering will be fully paid and non-assessable.

### Preferred Shares

The Corporation is authorized to issue an unlimited number of preferred shares, none of which, as at the date hereof, are issued and outstanding. The preferred shares may be issued from time to time in one or more series, each consisting of a number of preferred shares as determined by the board of directors of the Corporation who also may fix the designations, rights, privileges, restrictions and conditions attaching to the shares of each series of preferred shares. The preferred shares of each series shall, with respect to payment of dividends and distribution of assets in the event of voluntary or involuntary liquidation, dissolution or winding-up of the Corporation or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, rank on a parity with the preferred shares of every other series and shall be entitled to preference over the common shares and the shares of any other class ranking junior to the preferred shares.

## USE OF PROCEEDS

The estimated net proceeds of the sale of Special Warrants of $20,787,000 after deducting the Agents' commission and estimated expenses of this Offering of $180,000 are intended to be used as follows:

| Description | Assuming No Exercise of Regular Warrants | Assuming Exercise of All Regular Warrants |
|---|---|---|
| Research and Development | $4,000,000 | $6,000,000 |
| Sales and Marketing | $6,000,000 | $9,500,000 |
| Acquisitions | $5,000,000 | $8,000,000 |
| Strategic Partnering Activities | $500,000 | $500,000 |
| Unallocated Working Capital | $3,287,000 | $6,974,500 |
| Branding | $2,000,000 | $2,000,000 |
| **Total** | **$20,787,000** | **$32,974,500** |

**Notes:**

(1) These activities are currently planned and budgeted for by the Corporation. The Corporation may at any time choose not to invest in these activities, as the Corporation deems appropriate.

(2) These figures are management's best estimates of funds required.

There may be circumstances where, for sound business reasons, a reallocation of funds may be necessary in order for the Corporation to achieve its stated business objectives.

In addition, while the Corporation has based the cost estimates indicated above on management's experience, to the extent the Corporation is able to structure the proposed programs in a manner management of the Corporation considers to be more advantageous to the Corporation and which will not require the full use of the specifically allocated proceeds as set out above, the unused portion of such proceeds will be used to provide additional working capital to fund ongoing operations.

If the Agents exercise the Brokers' Option and the Brokers' Option Warrants, the Corporation will receive an additional $3,376,250 which will be added to the Corporation's working capital. See "Plan of Distribution and Description of Offered Securities".

## CAPITALIZATION

The following table sets forth the capitalization of the Corporation, as at December 31, 1999 and March 3, 2000 both before and after giving effect to the exercise of 1,875,000 Special Warrants as herein described.

| Capital | Authorized | Outstanding as at December 31, 1999 (unaudited)(2)(3) | Outstanding as at March 3, 2000 (unaudited)(2)(5) | Outstanding as at March 3, 2000 after giving effect to the exercise of Special Warrants (unaudited)(1)(2)(4)(5)(6)(7) |
|---|---|---|---|---|
| Common Shares | Unlimited | $1,731,027 (19,270,215 Common Shares) | $1,939,496 (19,925,215 Common Shares) | $24,439,496 (21,800,215 Common Shares) |
| Preferred Shares | Unlimited | Nil | Nil | Nil |
| Special Warrants | 1,875,000 | N/A | 1,875,000 | Nil |
| Regular Warrants | 937,500 | Nil | Nil | 937,500 |
| Long Term Debt | N/A | $119,142 | $106,887 | $106,887 |

**Notes:**

(1) Dollar values reflect deductions for issue costs of the Common Shares.

(2) See "Description of Share Capital" for a general description of the material rights restrictions and conditions attached to the Common Shares, the Preferred Shares, the Special Warrants and the Regular Warrants.

(3) As at December 31, 1999, the Corporation had retained earnings (unaudited) of $1,284,584.

(4) After deduction of the Agents' commission and expenses of the offering of 1,875,000 Special Warrants as herein described.

(5) Does not include 1,302,750 Common Shares which have been reserved for issuance pursuant to the exercise of stock options granted to officers, directors, employees and consultants.

(6) Assumes all Special Warrants will be exercised into 1,875,000 Common Shares. Does not include 937,500 Common Shares that may be issued on exercise of the Regular Warrants, or any Common Shares issuable pursuant to the Penalty Provision or the Brokers' Options.

(7) This long term debt relates to the Debenture payable to Douglas Vandekerkhove. The Debenture is secured by the assets of ACD Ltd. and bears interest at 8.75% per annum calculated semi-annually and is repayable in blended monthly payments of $7,519 until repaid. The original principal amount was $471,076 of which $235,538 was converted into 672,965 ACD Ltd. shares on August 1, 1999. After the conversion, the amended principal amount of the debenture is $219,020. The Debenture is no longer convertible.

## PRIOR SALES OF SECURITIES

The following table sets forth all Common Shares issued by the Corporation since incorporation.

| Date of Issue | Number of Common Shares Issued | Price or Deemed per Share | Gross Proceeds or Deemed Gross Proceeds | Manner of Issuance | Nature of Consideration |
|---|---|---|---|---|---|
| January 21, 1999 | 2,700,000(1) | $0.075 | $202,500 | Private Placement | cash |
| March 31, 1999 | 1,950,000(2) | $0.15 | $292,500 | Prospectus | cash |
| April 14, 1999 | 97,500(3) | $0.15 | $14,625 | Exercise of JCP agent's Option | cash |
| August 13, 1999 | 13,502,965 | $0.275 | $3,713,315 (deemed) | Take Over Bid | exchange for ACD Ltd. Shares |
| August 13, 1999 | 396,000(4) | $1.95 | $772,200 | Private Placement | cash |
| August 27, 1999 | 40,000(3) | $0.15 | $6,000 | Exercise of JCP agent's Option | cash |
| September 1, 1999 | 50,000 | $0.275 | $13,750 | Exercise of Options | cash |
| September 6, 1999 | 57,500(3) | $0.15 | $8,625 | Exercise of JCP agent's Option | cash |
| November 23, 1999 | 200,000 | $0.275 | $55,000 | Exercise of Options | cash |
| November 23, 1999 | 50,000 | $0.15 | $7,500 | Exercise of Options | cash |
| November 29, 1999 | 176,250 | $0.15 | $26,438 | Exercise of Options | cash |
| December 2, 1999 | 50,000 | $0.15 | $7,500 | Exercise of Options | cash |

| Date of Issue | Number of Common Shares Issued | Price or Deemed per Share | Gross Proceeds or Deemed Gross Proceeds | Manner of Issuance | Nature of Consideration |
|---|---|---|---|---|---|
| January 11, 2000 | 100,000 | $0.15 | $15,000 | Exercise of Options | cash |
| January 12, 2000 | 100,000 | $0.15 | $15,000 | Exercise of Options | cash |
| January 14, 2000 | 56,250 | $0.15 | $8,438 | Exercise of Options | cash |
| January 14, 2000 | 43,750 | $0.275 | $12,031 | Exercise of Options | cash |
| January 17, 2000 | 100,000 | $0.275 | $27,500 | Exercise of Options | cash |
| February 9, 2000 | 35,000 | $2.00 | $70,000 | Exercise of Options | cash |
| February 9, 2000 | 20,000 | $0.275 | $5,500 | Exercise of Options | cash |
| March 3, 2000 | 200,000 | $0.275 | $55,000 | Exercise of Options | cash |
| Total | 19,925,215 | | | | |

**Notes:**

(1) All of these Common Shares were placed in escrow pursuant to an escrow agreement, and are releasable as to one-third, on a *pro rata* basis on each of August 13, 2000, August 13, 2001 and August 13, 2002. See "Escrowed Shares."

(2) Issued pursuant to a prospectus dated March 15, 1999.

(3) Issued pursuant to the partial exercise of an option granted to the JCP agent under the agency agreement governing the Corporation's initial public offering.

(4) These Common Shares were issued for a net price per Common Share of $1.95. Subscribers introduced to the Corporation by the JCP agent paid a price per Common Share of $2.15, of which $0.20 was a commission for the JCP agent's services in that regard.

## TRADING HISTORY

The Common Shares of the Corporation were listed and posted for trading on the Exchange on April 12, 1999, and are currently trading under the symbol "ASA". The following table sets forth the monthly high and low closing prices, and volume of the Common Shares for the periods noted as reported by the Exchange.

| Month | High ($) | Low ($) | Volume of Common Shares |
|---|---|---|---|
| April, 1999 | 2.90 | 1.90 | 3,927,728 |
| May, 1999 | 3.45 | 2.61 | 342,210 |
| June, 1999 | 3.30 | 2.60 | 319,700 |
| July, 1999 | 2.75 | 2.15 | 138,150 |
| August, 1999 | 2.50 | 2.10 | 224,500 |
| September, 1999 | 2.30 | 2.00 | 69,933 |
| October, 1999 | 2.09 | 1.90 | 98,500 |
| November, 1999 | 2.92 | 2.00 | 473,476 |
| December, 1999 | 7.00 | 2.70 | 1,416,370 |
| January, 2000 | 18.25 | 6.50 | 1,399,588 |
| February, 2000 | 25.50 | 13.00 | 1,205,617 |
| March, 2000 (to March 7, 2000) | 24.50 | 22.50 | 94,460 |

The last day preceding the date of this prospectus on which there was trading in the Common Shares was March 7, 2000. The closing trading price on that day was $22.50.

## DIVIDEND RECORD AND POLICY

To date, the Corporation has not paid dividends on its Common Shares. The intention of the Corporation is to retain earnings to finance future growth and accordingly the Corporation has no present intention to pay dividends on its Common Shares.

## ESCROWED SECURITIES

The Corporation currently has 15,547,530 Common Shares held in escrow with Montreal Trust Company of Canada. These Common Shares are subject to the following 4 escrow agreements.

1. 2,700,000 Common Shares are subject to a time release escrow agreement dated March 15, 1999 among the Corporation, Montreal Trust Company of Canada, Douglas Vandekerkhove, John Fliczuk, David Hooper, Martin Winstanley and Lee Richardson. These Common Shares are eligible for release on a *pro rata* basis as to one third on each of August 13, 2000, August 13, 2001 and August 13, 2002.

2. A further 8,097,966 Common Shares are subject to a time release escrow agreement dated August 13, 1999, among the Corporation, Montreal Trust Company of Canada, Douglas Vandekerkhove, John Fliczuk and David Hooper. These Common Shares are eligible for release on a *pro rata* basis as to one third on each of August 13, 2000, August 13, 2001 and August 13, 2002.

3. A further 4,584,730 Common Shares are subject to a performance release escrow agreement dated August 13, 1999, among the Corporation, Montreal Trust Company of Canada, Douglas Vandekerkhove, John Fliczuk, David Hooper and Tracy Vandekerkhove. These Common Shares are eligible for release on the basis of one Common Share for each $0.275 in net income generated by ACD Ltd., as demonstrated by audited financial statements or by an audited statement of cash flow.

   Any release from escrow under this agreement shall be made pursuant to a written application, which application shall be accompanied by evidence of the cash flow of ACD Ltd. in a form satisfactory to the Exchange. Applications for release may only be made once per every 6 months and may only relate to Cash Flow received in the preceding two fiscal quarters, or the fiscal quarters of the Corporation since the last release from escrow pursuant to this agreement, whichever is greater. All Common Shares released from escrow shall, unless otherwise directed by the Exchange, be distributed *pro rata*. The maximum number of Common Shares which may be released from escrow in any one calendar year, shall be one third of the original number of Common Shares held in escrow.

4. A further 164,834 Common Shares are subject to a time release escrow agreement dated August 14, 1999, among the Corporation, Montreal Trust Company of Canada, First Marathon Securities Ltd. in trust for the JCP agent, Danny Dalla-Longa and First Marathon Securities Ltd. in trust for James Hartwell. These Common Shares are eligible for release on a *pro rata* basis as to one third on each of August 13, 2000, August 13, 2001 and August 13, 2002. The JCP agent has made an application to the Canadian Venture Exchange to have the 70,000 Common Shares held in escrow for First Marathon Securities Ltd. in trust for the JCP agent to be released.

The following table outlines the number of securities of the Corporation deposited in escrow with Montreal Trust Company of Canada as at the date of this prospectus.

| Designation of Class of Securities | Number of Securities Held in Escrow | Percentage of Class of Securities held in Escrow |
|---|---|---|
| Common Shares | 15,547,530[(1)(2)(3)(4)] | 78.0% |

**Notes:**

(1) Pursuant to an escrow agreement dated March 15, 1999, 2,700,000 Common Shares shall be released from escrow as to one-third thereof on August 13, 2000, 2001, and 2002, subject to the consent of the Executive Director of the Alberta Securities Commission.

(2) Pursuant to escrow agreements dated August 13, 1999, 8,097,966 Common Shares shall be released from escrow as to one-third thereof on August 13, 2000, 2001, and 2002, subject to the consent of the Exchange.

(3) Pursuant to a performance escrow agreement dated August 13, 1999, a further 4,585,000 Common Shares shall be released from escrow as to one share for each $0.275 of cash flow generated by ACD Ltd.

(4) Pursuant to an escrow agreement dated August 14, 1999, an additional 164,834 Common Shares shall be released from escrow as to one third thereafter on August 13, 2000, 2001, and 2002.

## VOTING TRUST AGREEMENT

In order to comply with the requirements imposed by the Exchange for the Major Transaction, Douglas Vandekerkhove, John Fliczuk and David Hooper have entered into a voting trust agreement dated (the "Voting Trust Agreement") August 13, 1999. Pursuant to the Voting Trust Agreement, Douglas Vandekerkhove, John Fliczuk and David Hooper have placed an aggregate of 1,000,000 Common Shares in a voting trust whereby they may not exercise voting rights on the 1,000,000 Common Shares when their aggregate Common Share holdings, together with those of Related Parties are greater than 80% of the issued and outstanding Common Shares.

## INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Other than as follows, management of the Corporation is not aware of any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, of any director or senior officer, any person or company who owns of record, or is known by the Corporation to own beneficially, directly or indirectly, more than 10% of the Common Shares of the Corporation or any associate or affiliate of the foregoing persons or companies in any transaction within the three years prior to the date hereof or in any proposed transaction that has materially affected or will materially affect the Corporation.

1. The acquisition by the Corporation of all of the ACD Ltd. Shares was a non-arm's length transaction. Douglas Vandekerkhove and John Fliczuk were directors, officers and principal shareholders of both the Corporation and ACD Ltd. In addition, David Hooper was a director and shareholder of ACD Ltd. and a director, officer and shareholder of the Corporation. Further, Martin Winstanley was an officer of ACD Ltd. and a director, officer and shareholder of the Corporation.

2. Effective February 29, 2000, ACD Ltd. is indebted to Douglas Vandekerkhove, the President, and a director of the Corporation, in the amount of $182,886.86, plus interest, pursuant to a loan made by Mr. Vandekerkhove to ACD Ltd., which loan is secured by the Debenture. The Debenture requires the payment of principal and interest in equal monthly installments of $7,519.55 and is secured with the assets of the ACD Ltd. The interest rate of the Debenture is established as the rate of the Royal Bank of Canada prime in effect as at March 30, 1999, plus 2% (8.75%). The principal amount of $235,537.75 of the Debenture was converted into 672,965 ACD Ltd. Shares at the option of Douglas Vandekerkhove, on August 1, 1999, at a conversion price of $0.35 per Common Share. The balance of the Debenture is not convertible.

3. Danny Dalla-Longa, of Calgary, Alberta, is a former director of ACD Ltd. and was a former principal, and director of the JCP agent Pursuant to an agency agreement dated March 15, 1999, the Corporation engaged the JCP agent to act as agent for its initial public offering. As agent, the JCP agent received a fee of $12,000 and options to purchase up to 195,000 Common Shares at $0.15 per share. In addition, the JCP agent received 70,000 Common Shares under the Take Over Bid in exchange for ACD Ltd. Shares which were owned by the JCP agent.

4. Pursuant to the Take Over Bid:

(a) 8,967,549 Common Shares in the capital of the Corporation were issued to Douglas Vandekerkhove, who is an officer and director of the Corporation and an officer and director of ACD Ltd. These Common Shares were issued on a one-for-one basis for ACD Ltd. Shares and at a deemed price of $0.275 per Common Share;

(b) 2,386,500 Common Shares in the capital of the Corporation were issued to John Fliczuk who is an officer and director of the Corporation and an officer and director of ACD Ltd. These Common Shares were issued on a one-for-one basis for ACD Ltd. Shares and at a deemed price of $0.275 per Common Share; and

(c) 1,318,916 Common Shares in the capital of the Corporation were issued to David Hooper who is a director of the Corporation and an officer and director of ACD Ltd. These Common Shares were issued on a one-for-one basis for ACD Ltd. Shares and at a deemed price of $0.275 per Common Share.

## PLAN OF DISTRIBUTION AND DESCRIPTION OF OFFERED SECURITIES

On February 22, 2000, the Corporation completed the private placement of an aggregate of 1,875,000 Special Warrants pursuant to certain prospectus exemptions under applicable securities legislation, at a price of $12.00 per Special Warrant, for gross proceeds of $22,500,000, in accordance with the Agency Agreement among Octagon Capital Corporation, HSBC Securities (Canada) Inc. and the Corporation. Pursuant to the Agency Agreement, the Agents, on a private placement basis, offered to sell, on a reasonable best efforts agency basis, up to 1,875,000 Special Warrants at a price of $12.00 per Special Warrant. In addition, the Agency Agreement required the Corporation to pay the Agents a fee of 7% of the gross proceeds of the sale of Special Warrants, such that the Agents received an aggregate fee of $1,533,000 and Brokers' Special Warrants. The Agents will receive no additional fees in connection with the distribution of Common Shares and Regular Warrants under this Prospectus.

### Special Warrants

The Corporation is hereby qualifying for distribution up to 1,875,000 Common Shares and up to 937,500 Regular Warrants issuable on the exercise of 1,875,000 Special Warrants. The Corporation is also qualifying for distribution up to 187,500 additional Common Shares and 93,750 additional Regular Warrants, if any, issuable on the exercise of the Special Warrants pursuant to the Penalty Provision. The Special Warrants were issued pursuant to the Special Warrant Indenture, between the Corporation and the Trustee. Each Special Warrant entitles the holder thereof to acquire one Common Share and one-half of one Regular Warrant, at no additional cost, until 5:00 p.m. (Toronto time) on the earlier of: (i) the date which is the fifth business day following the date upon which a Final Receipt has been issued for the Prospectus by each of the appropriate bodies in each of the Filing Provinces; and (ii) February 22, 2001. Any Special Warrants not exercised by the Expiry Time shall be deemed to have been exercised immediately upon the Expiry Time, without any further action on the part of the holder. Since the date of issuance, no Special Warrants have been exercised. Each whole Regular Warrant comprising part of the Special Warrants will entitle the holder thereof to acquire one additional Common Share at any time on or before 5:00 p.m. (Toronto time) on August 22, 2001 at an exercise price of $13.00 per Common Share.

Pursuant to the Special Warrant Indenture, the Corporation agreed that in the event that a receipt for this Prospectus is not obtained from each of the Securities Commissions dated on or prior to the Clearing Date, each holder of Special Warrants in a Filing Province shall be entitled within ten business days from the Clearing Date, to receive, upon the exercise or deemed exercise of the Special Warrants, 1.1 Common Shares and 0.55 Regular Warrants for every Special Warrant then held by such holder (in lieu of one Common Share and 0.5 of a Regular Warrant otherwise receivable) at no additional cost.

All of the Special Warrants issued and outstanding are fully paid and non-assessable, and the Common Shares and Regular Warrants issuable upon the exercise of the Special Warrants will, when issued in accordance with the terms and conditions of the Special Warrant Indenture, be fully paid and non-assessable. Holders of Special Warrants who wish to exercise their Special Warrants and acquire Common Shares and Regular Warrants thereunder should complete the exercise forms on the special warrant certificates and deliver the certificates and the executed exercise forms to the Trustee at its principal office in Calgary, Alberta.

**Any Common Shares and Regular Warrants issued in exchange for Special Warrants exercised prior to the issuance of a receipt by the securities commission of the province in which the holder is resident will be subject to resale restrictions under applicable securities legislation.**

**The Special Warrants and the Common Shares and Regular Warrants to be issued upon the exercise of the Special Warrants have not been, and will not be, registered under the *Securities Act of 1933*, as amended (the "U.S. Securities Act"), and accordingly, may not be offered or sold within the United States or to a U.S. person except in certain transactions exempt from the registration requirements of the U.S. Securities Act. The Agents have agreed that, except for transactions exempt from the registration provisions of the U.S. Securities Act, they will not offer or deliver the Common Shares and Regular Warrants offered hereby within the United States. In addition, until 40 days after the commencement of the distribution of Common Shares and Regular Warrants hereunder, any offer or sale of Common Shares or Regular Warrants within the United States by any dealer (whether or not participating in the distribution hereunder) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act.**

The foregoing is subject to the detailed provisions of the Special Warrant Indenture. Copies of the Special Warrant Indenture may be reviewed at the locations identified under "Material Contracts".

**Regular Warrants**

The Regular Warrants will be issued in registered form under, and will be governed by, a share purchase warrant indenture, dated as of February 22, 2000, (the "Regular Warrant Indenture") between the Corporation and the Trustee, as trustee thereunder. The Corporation has appointed the principal offices of the Trustee in Calgary, Alberta, as the location at which Regular Warrants may be surrendered for exercise or exchange.

Each whole Regular Warrant will entitle the holder thereof to acquire one additional Common Share at an exercise price of $13.00 per Common Share until 5:00 p.m. (Toronto time) on August 22, 2001.

The Regular Warrants will contain provisions to the effect that, in the event of any subdivision, consolidation, change, reclassification, or alteration of the Common Shares, or in the event of the consolidation, amalgamation, or merger of the Corporation with another corporation, a proportionate adjustment or change will be made in the number and kind of securities issuable on exercise of the Regular Warrants.

The Regular Warrant Indenture also provides that the exercise price per Common Share is subject to adjustment in certain events including:

(a) the subdivision, redivision, change, reduction, combination, consolidation of the Common Shares or the issue of Common Shares or securities convertible or exchangeable into Common Shares to all or substantially all of the holders of Common Shares by way of a stock dividend, other than an issue of Common Shares to such holder as a "dividend paid in the ordinary course" (as defined in the Regular Warrant Indenture);

(b) the issue of rights or warrants to all or substantially all the holders of Common Shares entitling them within a period of no longer than 45 days after such date of issue to acquire Common Shares at less than 95% of the "current market price" (as defined in the Regular Warrant Indenture) of the Common Shares; and

(c) the distribution to all or substantially all of the holders of Common Shares of the any other class of any corporation or of rights, options, or warrants (other than those referred to above) or of evidences of indebtedness or of assets, excluding "dividends paid in the ordinary course of business" (as defined in the Regular Warrant Indenture).

No adjustment to the exercise price of the Regular Warrants will be required to be made unless the cumulative effect of such adjustments would change the exercise price of the Regular Warrants by at least one (1%) percent.

"Current market price" is defined in the Regular Warrant Indenture to mean at any date the simple average closing price per Common Share for the 20 trading days immediately preceding such date on the Exchange or on the principal stock exchange on which the Common Shares are then listed.

The Corporation has also covenanted in the Regular Warrant Indenture that, during the period in which the Regular Warrants are outstanding, it will give notice to the Trustee and holders of Regular Warrants of certain stated events at least fourteen (14) days prior to the record date of such event.

The Corporation shall not be required, upon the exercise of any Regular Warrants, to issue fractions of Common Shares. In lieu of fractional Common Shares, the Corporation shall pay to the holder who would otherwise be entitled to receive fractional Common Shares, an amount equal to the "Current Market Price" multiplied by an amount equal to the fractional interest of Common Shares such holder would otherwise be entitled to receive upon such exercise, provided that the Corporation shall not be required to make any payment that is less than $5.00.

Reference is made to the Regular Warrant Indenture for the full extent of the attributes of the Regular Warrants. A copy of the Regular Warrant Indenture will be available for examination at the head office of the Corporation during the period of distribution and for a period of 30 days thereafter.

The foregoing is subject to the detailed provisions of the Regular Warrant Indenture. Copies of the Regular Warrant Indenture may be reviewed at the locations identified under "Material Contract".

**Common Shares**

The Corporation is qualifying a maximum of 1,875,000 Common Shares pursuant to this Prospectus. The holders of the Common Shares are entitled to dividends, if, as and when declared by the board of directors, to one vote per share at meetings of the shareholders of the Corporation and, upon liquidation, to receive such assets of the Corporation as are distributable to the holders of the Common Shares. All of the Common Shares to be outstanding on completion of this Offering will be fully paid and non-assessable. See "Description of Share Capital".

**Brokers' Special Warrants**

Pursuant to the Agency Agreement, the Corporation is obligated to issue to the Agents 182,500 Brokers' Special Warrants which number is equal to ten (10%) percent of the number of Special Warrants sold in all jurisdictions, except for the United States. Each Brokers' Special Warrant will entitle the holder to acquire, at any time up to 5:00 p.m. on February 22, 2002 upon exercise and without payment of additional consideration, one Brokers' Options.

**Brokers' Options**

Pursuant to the Agency Agreement and the Brokers' Special Warrants, the Corporation is obligated to issued 182,500 Brokers' Options. The Corporation is hereby qualifying 91,250 of the 182,500 Brokers' Options to be issued to the Agents upon the exercise of 182,500 Brokers' Special Warrants, and up to an additional 9,125 Brokers' Options which may be issued pursuant to the Brokers' Special Warrants, if any, issuable if a receipt for this Prospectus is not obtained from the securities commissions of each of the Filing Provinces on or before Clearing Date. Each Brokers' Option will entitle the holder to acquire, upon exercise, one Common Share (previously defined as "Brokers' Option Share") and one half of one Regular Warrant (previously defined as "Brokers' Option Warrant") (subject to adjustment in certain events) at a price of $12.00 per Brokers' Option exercised at any time until 5:00 p.m. (Toronto time) on February 22, 2002. Each whole Brokers' Option Warrant will be exercisable by the holder into one Common Share (previously defined as "Brokers' Option Warrant Share") at a price of $13.00 per Brokers' Option Warrant Share until 5:00 p.m. (Toronto time) on August 22, 2001. In the event that a receipt for a Prospectus is not obtained from the Securities Commission or similar regulatory authority in each of the Filing Provinces on or before June 21, 2000, the holder shall be entitled to receive, upon the exercise or deemed exercise of each Brokers' Option, 1.1 Brokers' Option Shares and 0.55 Brokers' Option Warrants.

**Allocation of Purchase Price**

The price of each Special Warrant is allocated on a reasonable basis between the Common Share and the one-half of one Regular Warrant that form the Special Warrant. Revenue Canada Taxation has taken the position that the allocation must be the same for the Corporation and the subscriber. The Corporation will allocate $12.00 of the Special Warrant price to the Common Share, and $0.00 of the Special Warrant price to the one-half of one Regular Warrant. This allocation is considered by the Corporation to be reasonable; however, such allocation will not be binding on Revenue Canada, Taxation.

## DILUTION

The dilution of the investment of the subscribers for the Common Shares issuable on exercise of the Special Warrants, based on the net tangible book value of the assets of the Corporation before the sale of the Special Warrants, and after giving effect to issuances of Common Shares on exercise of the Special Warrants, but without giving effect to the exercise of Regular Warrants or issued and outstanding stock options, is set forth below.

| | |
|---|---|
| Offering Price | $12.00 |
| Net tangible book value before the sale of Special Warrants (1) | $2,036,816 |
| Net tangible book value after the sale of Special Warrants (2)(3) | $22,823,816 |
| Net tangible book value per Common Share prior to sale of Special Warrants | $0.10 |
| Net tangible book value per Common Share after the sale of Special Warrants | $1.05 |
| Dilution to subscribers per Common Share issuable on exercise of Special Warrants | $10.95 |
| Percentage of dilution per Common Share issuable on exercise of Special Warrants | 91.25% |

**Notes:**

(1) Based on the December 31, 1999 (unaudited) balance sheet (adjusted for Common Share issuance to March 7, 2000) included in this Prospectus.

(2) Includes Common Shares issuable on exercise of Special Warrants. Assumes the Penalty Provision does not apply and no exercise of Regular Warrants, the Brokers' Options, or stock options.

(3) After deducting Agents' commission and the estimated related expenses of the sale of the Special Warrants.

## PUBLIC AND INSIDE OWNERSHIP

Upon completion of this Offering, the 21,800,215 Common Shares (assuming the exercise of Special Warrants only) then outstanding will be distributed as set forth below:

| Group | Number of Common Shares Held After the Exercise of Special Warrants[(1)] | Percentage of Total Issued Shares After the Exercise of Special Warrants[(1)] | Number of Common Shares Held After the Exercise of Special Warrants and Regular Warrants[(1)] | Percentage of Total Issued Shares Held After the Exercise of Special Warrants and Regular Warrants [(1)] |
|---|---|---|---|---|
| Directors, officers, insiders and promoters as a group (including escrowed securities) | 15,714,645 | 72.1% | 15,714,645 | 69.1% |
| **Subtotal** | 15,714,645 | 72.1% | 15,714,645 | 69.1% |
| Agents[(2)] | 3,720 | 0.01% | 3,720 | 0.01% |
| Public | 6,081,850 | 27.8% | 7,019,350 | 30.9% |
| **Total** | 21,800,215 | 100% | 22,737,715 | 100% |

**Notes:**
(1) Prior to giving effect to any Common Shares which may be issuable upon the exercise of outstanding stock options.
(2) Upon exercise of the Brokers' Special Warrants, the Agents will hold the Brokers' Option entitling them to acquire up to 182,500 Common Shares at a price of $12.00 per Common Share, and 91,250 Brokers' Option Warrants entitling the Agents to acquire 91,250 Common Shares at a price of $13.00 per Common Share.

## RELATIONSHIP BETWEEN ISSUER AND PROFESSIONAL PERSONS

Except for 13,000 Common Shares held by lawyers of Armstrong Perkins Hudson, no "professional person" as defined in the Rules to the *Securities Act* (British Columbia) named in this prospectus as having prepared or certified any part or all of it and, no responsible solicitor or any partner of a responsible solicitor's firm, holds any beneficial interest, direct or indirect, in any securities or property of the Corporation or of an associate or affiliate of the Corporation and no such person is expected to be elected, appointed or employed as a director, senior officer or employee of the Corporation or of an associate or affiliate of the Corporation and no such person is a promoter of the Corporation or an associate or affiliate of the Corporation.

## MATERIAL CONTRACTS

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

1. Agency Agreement dated February 22, 2000 among the Corporation, Octagon Capital Corporation and HSBC Securities (Canada) Inc. See "Plan of Distribution and Description of Offered Securities".

2. Special Warrant Indenture dated February 22, 2000 between the Corporation and Montreal Trust Company of Canada.

3. Regular Warrant Indenture dated February 22, 2000 between the Corporation and Montreal Trust Company of Canada.

4. Bundling License Agreement dated January 6, 2000 between Hewlett-Packard Company and ACD Ltd.

5. Time Release Escrow Agreement dated August 14, 1999, among Danny Dalla-Longa, First Marathon Securities Ltd. in trust for the JCP agent, First Marathon Securities in trust for James Hartwell, Montreal Trust Company of Canada and the Corporation. See "Escrowed Securities".

6. Voting Trust Agreement dated August 13, 1999, among Douglas Vandekerkhove, David Hooper, John Fliczuk and the Corporation. See “Voting Trust Agreement”.

7. Performance Release Escrow Agreement dated August 13, 1999 among Douglas Vandekerkhove, David Hooper, John Fliczuk, Tracy Vandekerkhove, Montreal Trust Company of Canada and the Corporation. See “Escrowed Securities”.

8. Time Release Escrow Agreement dated August 13, 1999 among Douglas Vandekerkhove, David Hooper, John Fliczuk, Montreal Trust Company of Canada and the Corporation. See “Escrowed Securities”.

9. Bundling License Agreement dated July 8, 1999, between Packard Bell NEC Europe B.V. and ACD Ltd.

10. Non-Exclusive Licensing Agreement dated April 14, 1999 between Canon Systems Globalization Inc. and ACD Ltd.

11. Escrow Agreement dated as of March 15, 1999 among the Corporation, Montreal Trust Company of Canada and those shareholders that executed such Escrow Agreement. See “Escrowed Securities”.

12. Transfer Agency and Registrarship Agreement dated as of February 12, 1999 between the Corporation and Montreal Trust Company of Canada.

Copies of these contracts will be available for inspection during normal business hours at the head office of the Corporation at 694 Sumas Street, Victoria, British Columbia, V8T 4S6, at the offices of Armstrong Perkins Hudson, Barristers and Solicitors, at 1600 Canada Place, 407 - 2nd Street S.W., Calgary, Alberta, T2P 2Y3, at the offices of the Alberta Securities Commission at 410, 300 - 5th Avenue S.W., Calgary, Alberta, T2P 3C4, and at the offices of Octagon Capital Corporation at 181 University Avenue, Suite 406, Toronto, Ontario, M5H 3M7 during the course of the distribution and for a period of 30 days thereafter.

## RISK FACTORS

**Investment in the Common Shares offered under this prospectus involves a significant degree of risk. Prospective investors should carefully review the following factors, together with other information contained elsewhere in this prospectus.**

### Dependence on Key Personnel

The loss of the services of any of the executive officers, software developers or other key employees of the Corporation could have a material adverse effect on the business, operating results or financial condition of the Corporation. The success of the Corporation is highly dependent upon its continuing ability to identify, hire, train, retain and motivate highly qualified management, technical and sales and marketing personnel. Competition for such personnel is intense and there can be no assurance that the Corporation will be able to attract, assimilate or retain such personnel in the future.

### Competitive Industry

The software industry is highly competitive and is characterized by rapidly advancing technology. The Corporation believes that the principal competitive factors in the industry are technological innovation, functionality, performance and reliability of the technology, depth and breadth of products and experience, availability and productivity of qualified personnel, service, reputation, pricing and the ability to provide integrated solutions. In order to maintain and improve its position in the industry, the Corporation must continue to enhance its current products and to develop or acquire new products and product extensions.

**Dependence on OEM Partners**

The Corporation has entered into, and intends to continue to enter into, relationships with OEMs of both hardware and software for the distribution of its products. Such OEMs are not, and will not be, within the Corporation's control. There can be no assurance that any OEMs will continue their current relationships with the Corporation on the same basis, or that the Corporation will be successful in securing relationships with additional OEMs. Further, there can be no assurance that OEM partners will not experience delays in launching their products, which could adversely affect the Corporation.

**Lack of Trading History, Limited Liquidity and Volatility of Trading Price**

There can be no assurance that a liquid market for the Common Shares will develop or be sustained. The trading price of the Common Shares may be highly volatile and it could be subject to wide fluctuations in response to quarterly variations in operating results, announcements of technological innovations or new products by the Corporation or its competitors, changes in financial estimates by securities analysts or other events or factors. Further, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many high technology companies and that often have been unrelated to the operating performance of such companies.

**Proprietary Technology and Intellectual Property Rights**

The Corporation relies principally on trade secret and trademark law, as well as confidentiality procedures, nondisclosure agreements and other contractual arrangements, to protect its proprietary technology. There can be no assurance that such measures will be adequate to protect the Corporation from infringement by others of its technologies or that the Corporation will be effective in preventing misappropriation of its proprietary rights. In addition, the laws of some foreign countries do not protect the Corporation's proprietary rights to the same extent as do the laws of Canada.

Litigation may be necessary to protect the Corporation's intellectual property rights to determine the scope of the proprietary rights of others or to defend against claims of infringement. Although the Corporation is not currently involved in any such litigation with respect to intellectual property rights, infringement claims against software developers are likely to increase as the number of functionally similar products in the market increases. There can be no assurance that third-party claims, with or without merit, alleging infringement will not be asserted against the Corporation in the future. Such assertions can be time consuming and expensive to defend and could require the Corporation to discontinue the use of certain software or processes, to cease the manufacture, use and sale of infringing products and services, to incur significant litigation costs and expenses and to develop or acquire non-infringing technology or to obtain licenses for the alleged infringing technology. There can be no assurance that the Corporation would be able to develop or acquire alternative technologies or to obtain such licences or, if such licences were obtainable, that the terms thereof would be commercially acceptable to the Corporation

The market for the Corporation's products is characterized by rapid technological developments, evolving industry standards and customer demands as well as the possibility of new and competitive product introductions and enhancements.

**Ability to Manage Growth**

The Corporation expects its business and the industry in which it competes to continue to undergo rapid change. The Corporation plans to significantly expand its distribution and marketing capabilities, solutions capabilities and personnel infrastructure. The Corporation's business strategy contemplates rapid growth. If the Corporation experiences rapid growth, its ability to be profitable may depend, among other things, on its ability to manage a large number of people on a world-wide basis. The failure of the Corporation's management to respond effectively to and manage changing technological and business conditions could have a material adverse impact on the Corporation's ability to successfully expand into new markets and develop additional software solutions.

**Absence of Dividends**

The Corporation does not plan to pay dividends on its Common shares for the foreseeable future. The Corporation currently intends to retain any earnings for reinvestment in its business and payment of indebtedness.

**Reliance Upon Future Financing**

In order to maintain adequate liquidity, and in order to fund its research and development program, the Corporation will be reliant upon securing financing which may come from a combination of equity or other financings, or indirectly from government assistance. There can be no assurances as to the achievability of obtaining financing. Failure to complete these financings as envisaged may compromise the ability of the Corporation to achieve its corporate objectives.

**Technological Obsolescence**

The software industry is highly competitive. Industry participants rely upon innovation and product development to maintain a competitive advantage. There is a high rate of obsolescence with respect to software. As a result, there can be no assurances as to the ability of the Corporation to establish a position at, and to remain at the leading edge of software development, through re-investment in human resources, plant, equipment and the constant development of software technology.

**International Operations**

The Corporation expects that it may derive a significant percentage of its revenue from sales outside of North America. These revenues are subject to the risks normally associated with international operations, including currency conversion risks, taxation, slower and more difficult accounts receivable collection, greater difficulty and expense in administering business abroad and in complying with foreign laws. In addition, while U.S. and Canadian copyright law, international conventions and international treaties provide some protection against unauthorized duplication of software, the laws of some foreign jurisdictions do not protect proprietary rights to the same extent as the laws of the United States and Canada. Software piracy has been, and can be expected to be, a persistent problem for the software industry, and these problems are particularly acute in certain international markets.

**Changes in Technology**

The market for the Corporation's products is characterized by rapid technological developments, evolving industry standards and customer demands as well as the possibility of new and competitive product introductions and enhancements.

**Foreign Exchange Exposure**

Sales to customers outside Canada represented the majority of the Corporation's revenues for the fiscal year ended March 31, 1999. The Corporation expects that a similar portion of its revenues will be derived from its international business. However, a majority of the Corporation's operating expenses and capital expenditures continue to be denominated in Canadian dollars. As a result, the Corporation is exposed to fluctuation in the exchange rates between the Canadian dollar and the currency in which a particular sale is transacted. The Corporation's foreign sales are predominantly concluded in U.S. dollars, through its wholly owned U.S. subsidiary, ACD USA. The Corporation does not hedge the risks associated with fluctuations in foreign exchange rates. An increase in the value of the Canadian dollar relative to foreign currencies could have a material adverse effect on the Corporation's operating margins.

**Year 2000 Computer Systems Integrity**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

The effects of the Year 2000 Issue may be experienced after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Corporation or the Corporation's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation or the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

**Dilution**

Subscribers will suffer immediate dilution with respect to the offering price per Common Share compared to the net tangible book value per Common Share. See "Dilution".

**Principal Shareholders**

Upon completion of the distribution of the Common Shares under this Prospectus (assuming the Brokers' Options and the Regular Warrants are not exercised), the present directors, executive officers, other insiders and their respective affiliates collectively will own beneficially approximately 72.1% of the outstanding Common Shares. In particular, Douglas Vandekerkhove will own beneficially an aggregate of 9,286,299 Common Shares, representing approximately 42.5% of the voting securities of the Corporation. As a result, Douglas Vandekerkhove would be able to exercise significant influence over all matters requiring shareholder approval, including the election of directors and the approval of significant corporate transactions.

## LEGAL PROCEEDINGS

There are no legal proceedings involving the Corporation or its assets as of the date of this Prospectus which management of the Corporation believes to be material to the Corporation, nor are any such proceedings known by the Corporation to be contemplated.

## LEGAL MATTERS

Certain legal matters in connection with this Offering will be passed upon on behalf of the Corporation by Armstrong Perkins Hudson, Barristers and Solicitors, Calgary, Alberta and on behalf of the Agents by Stikeman, Elliott, Barristers and Solicitors, Calgary, Alberta.

## AUDITOR, REGISTRAR AND TRANSFER AGENT

The auditor of the Corporation is KPMG LLP, Chartered Accountants, Victoria, British Columbia.

The transfer agent and registrar for the Common Shares is Montreal Trust Company of Canada at 600, 333 - 7th Avenue S.W., Calgary, Alberta, T2P 2Z1.

## CONFLICTS

Certain directors of the Corporation may become associated with other reporting issuers which may give rise to conflicts of interest. In accordance with the ABCA, directors who have a material interest or any person who is a party to a material contract or a proposed material contract with the Corporation are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Corporation. Some of the directors of the Corporation have either other employment or other business or time restrictions placed on them and accordingly, these directors of the Corporation will only be able to devote part of their time to the affairs of the Corporation.

## PURCHASERS' STATUTORY RIGHTS

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

## CONTRACTUAL RIGHT OF ACTION FOR RESCISSION

In the event that a holder of a Special Warrant, who acquires a Common Share and one-half of one Warrant upon the exercise or deemed exercise of a Special Warrant as provided for in this Prospectus, is or becomes entitled under applicable securities legislation to the remedy of rescission by reason of this Prospectus or any amendment thereto containing a misrepresentation, the holder shall be entitled to rescission not only of the holder's exercise of its Special Warrant but also of the private placement transaction pursuant to which the Special Warrant was initially acquired, and shall be entitled, in connection with such rescission, to a full refund of all consideration paid to the Corporation on the acquisition of the Special Warrant. In the event the holder is a permitted assignee of the interest of the original Special Warrant subscriber, such permitted assignee was the original subscriber. The foregoing is in addition to any other right or remedy available to a holder of the Special Warrant under section of the *Securities Act* (British Columbia), section 168 of the *Securities Act* (Alberta) and section 130 of the *Securities Act* (Ontario).

## FINANCIAL STATEMENTS

The following auditors' report and financial statements are included in the prospectus:

1. auditors' report dated May 13, 1999 on the consolidated balance sheets of the Corporation as at March 31, 1999 and 1998 and the consolidated statements of earnings and retained earnings and cash flows for the Corporation for each of the years in the three year period ending March 31, 1999.

2. unaudited consolidated balance sheet of the Corporation as at December 31, 1999 and the consolidated statements of earnings and retained earnings and cash flows for the Corporation for the nine month periods ended December 31, 1999 and 1998.

Consolidated Financial Statements of

# ACD SYSTEMS INTERNATIONAL INC.

Nine months ended December 31, 1999 and 1998 and
years ended March 31, 1999, 1998 and 1997

# AUDITORS' REPORT

To the Directors of
ACD Systems International Inc.

We have audited the consolidated balance sheets of ACD Systems International Inc. as at March 31, 1999 and 1998 and the consolidated statements of earnings and retained earnings and cash flows for each of the years in the three year period ended March 31, 1999. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 1999 and 1998 and the results of its operations and its cash flows for each of the years in the three year period ended March 31, 1999 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Victoria, Canada

May 13, 1999

(except note 14 which is as of •)

## REVIEW ENGAGEMENT REPORT TO THE DIRECTORS

We have reviewed the consolidated balance sheet of ACD Systems International Inc. as at December 31, 1999 and the consolidated statements of earnings and retained earnings and cash flows for the nine month periods ended December 31, 1999 and 1998. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and consequently we do not express an audit opinion on these consolidated financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these consolidated financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Victoria, Canada

January 26, 2000

(except note 14 which is as of •)

# ACD SYSTEMS INTERNATIONAL INC.

Consolidated Balance Sheets

December 31, 1999 and March 31, 1999 and 1998

| | | December 31, 1999 | March 31, 1999 | March 31, 1998 |
|---|---|---|---|---|
| | | (Unaudited) | | |
| **Assets** | | | | |
| Current assets | | | | |
| Cash | $ | 1,741,459 | 1,024,394 | 76,018 |
| Accounts receivable | | 26,984 | 25,293 | 17,896 |
| Prepaid expenses | | 210,545 | 6,666 | - |
| Tax credits recoverable | | 173,933 | 180,471 | 236,014 |
| Security deposit | | 20,790 | 22,425 | 20,790 |
| | | 2,173,711 | 1,259,249 | 350,718 |
| Capital assets (note 3) | | 687,069 | 400,513 | 261,506 |
| Deferred software development costs (note 4) | | 937,586 | 454,800 | 267,000 |
| Trademarks (note 5) | | 41,209 | 35,093 | 2,714 |
| | $ | 3,839,575 | 2,149,655 | 881,938 |
| **Liabilities and Shareholders' Equity** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | $ | 320,822 | 126,677 | 68,659 |
| Current portion of debenture (note 6) | | 76,000 | 90,228 | - |
| | | 396,822 | 216,905 | 68,659 |
| Debenture (note 6) | | 119,142 | 327,862 | - |
| Payable to shareholder (note 6) | | - | - | 678,483 |
| Deferred income taxes | | 308,000 | 202,000 | - |
| Shareholders' equity: | | | | |
| Share capital (note 7) | | 1,731,027 | 641,773 | 1 |
| Equity portion of convertible debenture | | - | 52,000 | - |
| Retained earnings | | 1,284,584 | 709,115 | 134,795 |
| | | 3,015,611 | 1,402,888 | 134,796 |
| Commitment (note 12) | | | | |
| Contingency (note 13) | | | | |
| | $ | 3,839,575 | 2,149,655 | 881,938 |

See accompanying notes to consolidated financial statements.

Approved by the Directors:

"Martin Winstanley" Director "Mantis Cheng" Director

# ACD SYSTEMS INTERNATIONAL INC.

Consolidated Statements of Earnings and Retained Earnings

Nine months ended December 31, 1999 and 1998 and years ended March 31, 1999, 1998 and 1997

| | | December 31, 1999 | December 31, 1998 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|
| | | (Unaudited) | (Unaudited) | | | |
| Sales | $ | 3,023,765 | 1,586,670 | 2,284,836 | 1,300,362 | 472,546 |
| Expenses: | | | | | | |
| Wages and benefits | | 883,725 | 402,611 | 558,551 | 281,834 | 97,089 |
| Selling expenses | | 385,898 | 215,023 | 290,326 | 157,199 | 47,917 |
| Office and administration | | 368,609 | 160,967 | 266,483 | 190,109 | 143,199 |
| Computer services | | 87,099 | 54,796 | 67,863 | 38,215 | 31,354 |
| Interest on debenture | | 23,580 | - | - | - | - |
| Amortization | | 307,385 | 183,755 | 278,293 | 111,864 | 23,322 |
| | | 2,056,296 | 1,017,152 | 1,461,516 | 779,221 | 342,881 |
| Earnings before income taxes | | 967,469 | 569,518 | 823,320 | 521,141 | 129,665 |
| Income taxes expense (recovery) (note 9): | | | | | | |
| Current | | 152,000 | (15,000) | 47,000 | - | - |
| Deferred | | 240,000 | 190,000 | 202,000 | - | - |
| | | 392,000 | 175,000 | 249,000 | - | - |
| Net earnings | | 575,469 | 394,518 | 574,320 | 521,141 | 129,665 |
| Retained earnings (deficit), beginning of period | | 709,115 | 134,795 | 134,795 | (386,346) | (516,011) |
| Retained earnings (deficit), end of period | $ | 1,284,584 | 529,313 | 709,115 | 134,795 | (386,346) |
| Earnings per share (note 10) | $ | 0.030 | 3,945 | 0.19 | 5,211 | 1,297 |

See accompanying notes to consolidated financial statements.

# ACD SYSTEMS INTERNATIONAL INC.

Consolidated Statements of Cash Flows

Nine months ended December 31, 1999 and 1998 and years ended March 31, 1999, 1998 and 1997

| | | December 31, 1999 | December 31, 1998 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|
| | | (Unaudited) | (Unaudited) | | | |
| Cash provided by (used in): | | | | | | |
| Operations: | | | | | | |
| Net earnings | $ | 575,469 | 394,518 | 574,320 | 521,141 | 129,665 |
| Items not involving cash: | | | | | | |
| Amortization | | 307,385 | 183,755 | 278,293 | 111,864 | 23,322 |
| Deferred income taxes | | 240,000 | 190,000 | 202,000 | - | - |
| Change in non-cash operating working capital (note 11) | | (3,252) | 44,973 | 97,863 | (41,240) | (47,329) |
| | | 1,119,602 | 813,246 | 1,152,476 | 591,765 | 105,658 |
| Investing: | | | | | | |
| Software developments costs | | (750,787) | (241,000) | (331,000) | (213,500) | (144,000) |
| Additions to capital assets | | (435,327) | (205,961) | (267,619) | (226,422) | (78,397) |
| Additions to trademarks | | (13,967) | (20,850) | (38,860) | (1,277) | - |
| Proceeds from sale of capital assets | | 11,238 | - | - | - | - |
| Recovery of costs by tax credits | | 106,000 | - | - | - | 45,000 |
| Security deposit | | - | - | - | | (20,790) |
| | | (1,082,843) | (467,811) | (637,479) | (441,199) | (198,187) |
| Financing: | | | | | | |
| Increase (decrease) in payable to shareholder | | - | (207,407) | (678,483) | (92,988) | 105,666 |
| Increase (decrease) in convertible debenture | | (39,411) | - | 470,090 | - | - |
| Proceeds from shares issued | | 911,638 | - | 787,700 | - | - |
| Share issue costs | | (191,921) | (22,040) | (145,928) | - | - |
| | | 680,306 | (229,447) | 433,379 | (92,988) | 105,666 |
| Increase in cash | | 717,065 | 115,988 | 948,376 | 57,578 | 13,137 |
| Cash, beginning of period | | 1,024,394 | 76,018 | 76,018 | 18,440 | 5,303 |
| Cash, end of period | $ | 1,741,459 | 192,006 | 1,024,394 | 76,018 | 18,440 |

Cash is defined as cash in bank less bank indebtedness.

See accompanying notes to consolidated financial statements.

**1. Significant accounting policies:**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Information as at December 31, 1999 and for the nine month periods ended December 31, 1999 and 1998 is unaudited. The following is a summary of the significant accounting policies used in the preparation of the consolidated financial statements.

(a) Basis of presentation and consolidation:

The consolidated financial statements include the accounts of ACD Systems International Inc. (the "Company") and its wholly-owned subsidiaries ACD Systems Ltd. and ACD Systems Inc.

The Company designs, develops, markets and supports digital communication solutions, including digital imaging and instant messaging.

(b) Revenue recognition:

The Company's revenues are derived from the sale of software. The Company recognizes revenue when the software has been delivered and licenses for the software have been distributed to the purchaser.

(c) Capital assets:

Capital assets are recorded at cost less any tax credits received and are amortized at rates which will reduce the original cost to the estimated residual value over the useful life of each asset. Amortization is provided using the following basis and annual rates:

| Asset | Basis | Rate |
|---|---|---|
| Computer hardware | Declining balance | 30% |
| Office equipment | Declining balance | 20% |
| Prototype equipment | Declining balance | 20% |
| Leasehold improvements | Straight-line | 5 years |
| Application software | Declining balance | 100% |
| Vehicles | Declining balance | 30% |

**1. Significant accounting policies (continued):**

(d) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated at the closing period end rate of exchange.

Non-monetary items and any related amortization of such items are translated at the rates of exchange in effect when the assets were acquired or obligations incurred.

All other revenue and expense items are translated at the rate of exchange in effect on the dates on which such transactions occur. The gains or losses resulting from the translation of these amounts have been reflected in earnings.

(e) Deferred software development:

Costs of project development, net of any applicable research and development tax credits, are capitalized until project completion and are then amortized over the lesser of three years and the estimated life of the project.

(f) Trademarks:

Expenditures to obtain trademarks are recorded at cost and are amortized on a straight-line basis over a five year period.

(g) Income taxes:

The Company records income taxes on the tax allocation basis. Under this method, income taxes relating to earnings currently recognized for accounting purposes, but deferred for income tax purposes, are fully provided for.

The deferred income taxes so provided for result primarily from timing differences in the recording of amortization for capital assets and deferred software development costs for accounting purposes versus their deductibility for income tax purposes.

(h) Measurement uncertainty:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Items requiring the use of significant estimates include the recoverability of deferred software development costs and tax credits. Actual results could differ from these estimates.

**1. Significant accounting policies (continued):**

(i) Financial instruments:

The carrying amounts of cash, accounts receivable, security deposit, accounts payable and accrued liabilities approximate their fair value due to their short term nature to maturity. Due to the related party nature of the convertible debenture, it is not possible to determine its fair value.

(j) Stock-based compensation plans:

The Company uses stock-based compensation for certain employees. No compensation expense is recognized for these plans when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital. If stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock option canceled is charged to retained earnings.

(k) Statement of cash flows:

The Company adopted the new recommended disclosure for cash flows for the 1999 fiscal period. As such, certain items have been reclassified for the purposes of converting the statement of changes in financial position to a statement of cash flows.

**2. Acquisition of ACD Systems Ltd.:**

On August 13, 1999 the Company acquired all the issued and outstanding common shares of ACD Systems Ltd. by issuing 13,502,965 common shares at a deemed value of $0.275 per share to the former shareholders of ACD Systems Ltd. The acquisition is being recorded using continuity of interest accounting and accordingly all prior period financial statements of the Company have been restated to include the historical results of ACD Systems Ltd. since its formation.

**2. Acquisition of ACD Systems Ltd. (continued)**

The following presents the summary balance sheet of ACD Systems International Inc. at the date of the acquisition, August 13, 1999. The Company had no operations prior to the acquisition.

| | ACD Systems International Inc. at August 13, 1999 |
|---|---|
| | (unaudited) |
| Current assets | $ 395,500 |
| Other assets | 79,900 |
| | $ 475,400 |
| Current liabilities | $ 43,000 |
| Shareholders' equity | 432,400 |
| | $ 475,400 |

**3. Capital assets:**

| December 31, 1999 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Computer hardware | $ 730,269 | $ 246,396 | $ 483,873 |
| Office equipment | 111,248 | 31,709 | 79,539 |
| Prototype equipment | 2,270 | 2,270 | - |
| Leasehold improvements | 165,349 | 55,424 | 109,925 |
| Application software | 60,555 | 46,823 | 13,732 |
| | $ 1,069,691 | $ 382,622 | $ 687,069 |

### 3. Capital assets (continued):

| March 31, 1999 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Computer hardware | $ 384,575 | $ 156,098 | $ 228,477 |
| Office equipment | 78,086 | 20,599 | 57,487 |
| Prototype equipment | 2,270 | 2,270 | - |
| Leasehold improvements | 111,209 | 26,081 | 85,128 |
| Application software | 58,826 | 42,627 | 16,199 |
| Vehicles | 22,222 | 9,000 | 13,222 |
| | $ 657,188 | $ 256,675 | $ 400,513 |

| March 31, 1998 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Computer hardware | $ 233,660 | $ 90,518 | $ 143,142 |
| Office equipment | 38,718 | 11,148 | 27,570 |
| Prototype equipment | 2,270 | 1,515 | 755 |
| Leasehold improvements | 66,270 | 8,333 | 57,937 |
| Application software | 26,427 | 13,214 | 13,213 |
| Vehicles | 22,222 | 3,333 | 18,889 |
| | $ 389,567 | $ 128,061 | $ 261,506 |

### 4. Deferred software development costs:

| | December 31, 1999 | March 31, 1999 | March 31, 1998 |
|---|---|---|---|
| Deferred software development costs, beginning of period | $ 454,800 | 267,000 | 99,000 |
| Development costs incurred: | | | |
| Wages and benefits | 626,500 | 275,000 | 149,500 |
| Overhead and direct costs | 152,286 | 75,000 | 64,000 |
| Recovery of costs by tax credits | (106,000) | - | - |
| | 1,127,586 | 617,000 | 312,500 |
| Amortization for the period | 190,000 | 162,200 | 45,500 |
| Deferred software development costs, end of period | $ 937,586 | 454,800 | 267,000 |

**5. Trademarks:**

| | | December 31, 1999 | March 31, 1999 | March 31, 1998 |
|---|---|---|---|---|
| Cost | $ | 59,319 | 45,353 | 6,493 |
| Accumulated amortization | | 18,110 | 10,260 | 3,779 |
| Net book value | $ | 41,209 | 35,093 | 2,714 |

**6. Debenture:**

In February 1999, advances from shareholder of $471,076 were exchanged for a convertible debenture. The remaining balance of the advances from shareholder of $207,407 was paid in full. The debenture has a stated interest rate of 8.75% per annum, calculated semi-annually and is repayable in blended monthly installments of $7,519 until repaid. The debenture is secured by the assets of the Company.

A maximum of 50% of the original debenture was convertible, at the debenture holder's option upon certain events occurring, to common shares at $0.35 per share. The estimated fair value of the conversion privilege was $52,000 at the time of issue and was recorded as equity. The fair value of the Company's obligation to make future payments was $419,076, with an effective interest rate of $12.5%.

On August 1, 1999, the conversion option was fully exercised and the debenture payable amount of $235,538 was converted to 672,965 common shares.

## 7. Share capital:

Authorized:
Unlimited number of common shares
Unlimited number of preferred shares

Issued:

| | ACD Systems International Inc. Common shares | ACD Systems Ltd. Common shares | Issue price per share | |
|---|---|---|---|---|
| March 31, 1998 | - | 100 | $ 0.01 | $ 1 |
| Private placement | - | 11,999,900 | 0.0002 | 2,200 |
| Private placement | 2,700,000 | - | 0.075 | 202,500 |
| Private placement | - | 830,000 | 0.35 | 290,500 |
| Initial public offering | 1,950,000 | - | 0.15 | 292,500 |
| | 4,650,000 | 12,830,000 | | 787,701 |
| Less issue costs | | | | 145,928 |
| March 31, 1999 | 4,650,000 | 12,830,000 | | 641,773 |
| Private placement | 396,000 | - | 1.95 | 772,200 |
| Conversion of debenture* | - | 672,965 | 0.35 | 235,537 |
| Share exchange on acquisition | 13,502,965 | (13,502,965) | - | - |
| Options exercised | 195,000 | - | 0.15 | 29,250 |
| Directors' options exercised | 276,250 | - | 0.15 | 41,438 |
| Directors' options exercised | 250,000 | - | 0.275 | 68,750 |
| | 19,270,215 | - | | 1,788,948 |
| Less issue costs | | | | 57,921 |
| December 31, 1999 | 19,270,215 | - | | $1,731,027 |

* Conversion includes original equity portion of convertible debenture.

## 8. Stock-based compensation plans:

The Company has two stock-based compensation plans: a fixed stock compensation plan and a performance-based stock option plan which are described as follows:

i) Fixed stock option plan:

At December 31, 1999 the Company has a fixed stock-based compensation plan, whereby the Company may from time to time allocate non-transferable options to purchase common shares to directors, officers, employees and consultants of the Company and its subsidiaries. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant.

**8. Stock-based compensation plans (continued):**

A summary of the status of the Company's fixed stock-based plan as of December 31, 1999, March 31, 1999 and 1998, and changes during the periods then ended is presented below (at weighted-average exercise prices):

| | December 31, 1999 | | March 31, 1999 | | March 31, 1998 | |
|---|---|---|---|---|---|---|
| | Shares (000) | Price | Shares | Price | Shares | Price |
| | (Unaudited) | | | | | |
| Outstanding, beginning of period | 660 | $ 0.15 | - | $ - | - | $ - |
| Granted | 1,873 | 1.56 | 660 | 0.15 | - | - |
| Exercised | (721) | 0.19 | - | - | - | - |
| Canceled | (4) | 0.28 | - | - | - | - |
| Outstanding, end of period | 1,808 | 1.65 | 660 | 0.15 | - | - |
| Options exercisable at period-end | 109 | | 660 | | - | |

As of December 31, 1999, the options outstanding have a weighted-average remaining contractual life of 4.8 years. The ranges of exercise prices are as follows: 1.2 million options at $0.15 - $0.275; 400,000 options at $2.00 - $2.15 and 300,000 options at $5.95.

ii) Performance-based stock option plan:

At December 31, 1999 the Company has a performance stock-based option plan, whereby the Company may allocate from time to time non-transferable options to purchase common shares to employees and consultants of the Company and its subsidiaries based on the attainment of certain project profitability criteria. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant.

## 8. Stock-based compensation plans (continued):

A summary of the status of the performance stock-based option plan as at December 31, 1999, March 31 1999 and 1998, and changes during the periods then ended is presented below (at weighted-average exercise prices):

| | December 31, 1999 | | March 31, 1999 | | March 31, 1998 | |
|---|---|---|---|---|---|---|
| | Shares (000) | Price | Shares | Price | Shares | Price |
| | (Unaudited) | | | | | |
| Outstanding, beginning of period | - | $ - | - | $ - | - | $ - |
| Granted | - | - | - | - | - | - |
| Exercised | 150 | 0.28 | - | - | - | - |
| Canceled | - | - | - | - | - | - |
| Outstanding, end of period | 150 | 0.28 | - | - | - | - |
| Options exercisable at period-end | - | | - | | - | |

As at December 31, 1999, the 150,000 options outstanding under the performance stock-based option plan have an exercise price of $0.275 and a remaining contractual life of 4.6 years.

## 9. Income taxes:

The Company's provision for income taxes is comprised of:

| | December 31, 1999 | December 31, 1998 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|
| Provision for income taxes based on combined basic Canadian federal and provincial income tax rate of 45.6% | $ 440,000 | 256,000 | 376,000 | 238,000 | 59,000 |
| Increase (decrease) in taxes resulting from: | | | | | |
| Small business deduction | - | (24,000) | (32,000) | - | - |
| Application of losses carried forward and other credits | (49,000) | (88,000) | (129,300) | (274,000) | (59,000) |
| Income earned by foreign subsidiary | 1,000 | 8,000 | 19,500 | 2,000 | - |
| Other | - | 23,000 | 14,800 | 34,000 | - |
| Actual provision for income taxes | $ 392,000 | 175,000 | 249,000 | - | - |

## 10. Earnings per share:

Earnings per share have been calculated based upon:

| Period ended: | Weighted average number of shares |
|---|---|
| December 31, 1999 | 18,228,481 |
| December 31, 1998 | 100 |
| March 31, 1999 | 3,093,117 |
| March 31, 1998 | 100 |
| March 31, 1997 | 100 |

## 11. Supplemental cash flow information:

| | December 31, 1999 | December 31, 1998 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|
| | (Unaudited) | (Unaudited) | | | |
| Change in non-cash operating working capital: | | | | | |
| Accounts receivable | $ (1,691) | (3,214) | (7,397) | (3,465) | (7,849) |
| Prepaid expenses | (203,879) | - | (6,666) | - | - |
| Tax credits recoverable | 6,538 | 13,824 | 55,543 | (93,531) | (45,000) |
| Security deposits | 1,635 | - | (1,635) | - | - |
| Accounts payable and accrued liabilities | 194,145 | 34,363 | 58,018 | 55,756 | 5,520 |
| | $ (3,252) | 44,973 | 97,863 | (41,240) | (47,329) |

**12. Commitment:**

Committed minimum payments under operating leases for premises are estimated as follows:

| | December 31, 1999 |
|---|---|
| Fiscal year ending: | |
| 2000 | $ 110,000 |
| 2001 | 70,000 |
| 2002 | 5,000 |

**13. Contingency:**

Uncertainty due to the Year 2000 Issue:

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

**14. Subsequent event:**

On February 22, 2000 the Company issued 1,875,000 special warrants for net proceeds to the Company of $20,967,000. Each special warrant entitles the holder to acquire, at no additional cost, one common share and one-half of one regular warrant. Each whole regular warrant will entitle the holder thereof to purchase one common share at a price of $13.00 until August 22, 2001.

**15. Comparative figures:**

Certain comparative figures have been reclassified to conform with the current financial statement presentation.

**DATED:** March 8, 2000

**CERTIFICATE OF THE CORPORATION**

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

| | |
|---|---|
| *"Douglas Vandekerkhove"* | *"Mike Zelen*" |
| Douglas Vandekerkhove<br>Chief Executive Officer | Mike Zelen<br>Chief Financial Officer |

**ON BEHALF OF THE BOARD**

| | |
|---|---|
| *"David Hooper"* | *"Martin Winstanley"* |
| David Hooper<br>Director | Martin Winstanley<br>Director |

**DATED:** March 8, 2000

## CERTIFICATE OF THE PROMOTERS

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

*"Douglas Vandekerkhove"*

Douglas Vandekerkhove

*"John Fliczuk"*

John Fliczuk

*"David Hooper"*

David Hooper

*"Martin Winstanley"*

Martin Winstanley

*"Lee Richardson"*

Lee Richardson

**DATED:** March 8, 2000

## CERTIFICATE OF THE AGENTS

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 IX of the *Securities Act* (British Columbia), Part VIII of the *Securities Act* (Alberta) and Part XV of the *Securities Act* (Ontario), and the respective regulations thereunder.

**OCTAGON CAPITAL CORPORATION**

*"John P. Palumbo"*

Per:________________________________________

**John P. Palumbo**

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

**HSBC SECURITIES (CANADA) INC.**

*"Daniel Hachey"*

Per:________________________________________

**Daniel Hachey**

The following includes the name of every person having an interest, either directly or indirectly, to the extent of not less than 5% in the capital of HSBC Securities (Canada) Inc.: A wholly-owned subsidiary of a Canadian Chartered Bank.