This is a preliminary prospectus relating to these securities, a copy of which has been filed with the securities commission or other regulatory authority in the provinces of British Columbia and Ontario, but which has not become final for the purpose of a distribution or a distribution to the public. Information contained herein is subject to completion or amendment. These securities may not be sold to, nor may offers to buy be accepted from, residents of such provinces prior to the time a receipt for the final prospectus is obtained from the appropriate securities commission or other regulatory authority.

Preliminary prospectus dated May 14, 1999

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

Initial Public Offering and Secondary Offering

CREO PRODUCTS INC.

C$ ●

5,000,000 Common Shares

Creo Products Inc. is selling 4,000,000 of its Common Shares and the selling shareholders named in this prospectus are selling 1,000,000 Common Shares. Creo will not receive any proceeds from the sale of Common Shares by the selling shareholders. The underwriters named in this prospectus may purchase up to an additional 750,000 Common Shares from the selling shareholders under certain circumstances. The Common Shares are being offered for sale in the provinces of British Columbia and Ontario and in the United States.

There is currently no public market through which the Common Shares may be sold. The offering price of the Common Shares will be determined by negotiation between Creo, the selling shareholders and the underwriters. It is currently estimated that the public offering price per share will be between $13.00 and $15.00. **The offering price of each Common Share offered hereunder exceeds the net tangible book value thereof as at March 31, 1999, after giving effect to this offering, by $●, resulting in dilution of ●%. See ''Dilution.''**

Prior to investing in the Common Shares, prospective purchasers should consider carefully the risks described under ''Risk Factors.''

Price: C$ ● per Common Share

	Price to the Public	Underwriting Commission	Net Proceeds to Creo (1)	Net Proceeds to Selling Shareholders (1)
Per Common Share (2)	C$ ●	C$ ●	C$ ●	C$ ●
Total (2)(3)	C$ ●	C$ ●	C$ ●	C$ ●

Notes:

(1) Before deducting the expenses of this offering, estimated at C$1,250,000, payable by Creo (on its own behalf and on behalf of the selling shareholders).

(2) The Price to the Public, Underwriting Commission, Net Proceeds to Creo and Net Proceeds to Selling Shareholders for Common Shares sold in Canada are payable in Canadian dollars and are the approximate equivalent of the Price to the Public and related amounts for Common Shares sold in the United States based on the prevailing U.S.—Canadian dollar exchange rate as at the date of this prospectus.

(3) The selling shareholders have granted to the underwriters an option to acquire up to an aggregate of 750,000 additional Common Shares at the Price to the Public to cover over-allotments, if any. The over-allotment option expires 30 days after the date of this prospectus. If the over-allotment option is exercised in full, the total Price to the Public, Underwriting Commission and Net Proceeds to Selling Shareholders will be C$ ●, C$ ●, and C$ ●. Creo will not receive any proceeds from the exercise of the over-allotment option. This prospectus also qualifies the distribution of the Common Shares issuable upon the exercise of the over-allotment option. See ''Underwriting.''

The underwriters, as principals, conditionally offer the Common Shares, subject to prior sale, if, as and when issued and sold by Creo and sold by the selling shareholders and delivered to the underwriters and accepted by them in accordance with the conditions contained in the underwriting agreement referred to under ''Underwriting'', and subject to the approval of certain legal matters on behalf of Creo by Getz Prince Wells, Canadian counsel to Creo, and Wilson Sonsini Goodrich & Rosati, United States counsel to Creo, and on behalf of the underwriters by Osler, Hoskin & Harcourt, Canadian counsel to the underwriters, and Munger, Tolles & Olson LLP, United States counsel to the underwriters.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that certificates evidencing the Common Shares will be available for delivery at closing, which will take place on or about ● , 1999, but in any event not later than ● , 1999.

In this prospectus, references to $ and U.S.$ are to United States dollars and references to C$ are to Canadian dollars.

You should rely only on the information contained in this prospectus. Creo has not authorized anyone to provide you with different information. Creo is not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information provided by this prospectus is accurate as at any date other than the date of this prospectus.

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All dollar amounts in this prospectus are expressed in United States dollars, except where we indicate otherwise. Unless we indicate otherwise, all references to ''U.S.$'' or ''$'' are to U.S. dollars and all references to ''C$'' are to Canadian dollars. As at May 13, 1999, the noon buying rate in New York City for cable transfers in Canadian dollars was U.S.$1.00 = C$1.4598.

This prospectus contains trademarks and registered trademarks of Creo and other companies.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Because this is only a summary, it does not contain all of the information that may be important to you. You should read the entire prospectus carefully and consider the information under ''Risk Factors'' and in our financial statements and the notes relating to these financial statements, together with the information included elsewhere in this prospectus, before deciding to invest in our Common Shares. Except where otherwise noted, the information in this prospectus takes into account a 2-for-1 stock split effected in May 1999 and is based upon information as at March 31, 1999. Except where otherwise indicated, all dollar amounts in this prospectus are expressed in United States dollars. Except where otherwise indicated, all information in this prospectus assumes no exercise of the underwriters' over-allotment option. In this prospectus, except where otherwise indicated, ''Creo,'' ''we,'' ''us'' and ''our'' refer to Creo Products Inc. and its subsidiaries.

Our Company

Creo is a leading developer, manufacturer and distributor of comprehensive ''computer-to-plate'' (CTP) digital solutions that automate the prepress phase of commercial printing. ''Prepress'' refers to the process by which master printing plates are created prior to actual printing. Our CTP technology transfers digitized text, graphic images and line artwork directly from desktop publishing computer systems onto printing plates, eliminating several labor-intensive, complex and costly steps in the conventional prepress process. We offer a comprehensive line of precision imaging equipment, including scanners, proofing devices and plate imagers, as well as workflow management software. A key component of our CTP solutions is our patented thermal imaging head, which splits the output of a single high-power laser into 240 separate beams to create precise images on heat-sensitive printing plates. Our CTP technology enables printers to use printing presses more profitably, while improving their ability to meet customer demands for tighter deadlines, better and more consistent color quality, shorter print runs, and greater customization of print jobs.

We were the first to develop and commercialize a fully integrated high-speed CTP solution, and our innovations have established thermal imaging as the industry standard for CTP. Since 1994, more than 900 of our CTP imaging systems have been installed in 29 countries, which is more than twice the number of installations of any of our competitors. Eight of the ten largest commercial printers in North America are adopting Creo systems as their CTP solutions. Creo systems are currently used to print high-circulation glossy magazines, including *Glamour*, *Newsweek*, *Scientific American*, *Sports Illustrated* and *Time*, as well as other documents such as color brochures and catalogs.

We are a leader in developing innovative prepress technology. We are at the forefront of research and development of next-generation digital prepress technology, including digital offset press (DOP) products which transfer digital data directly onto a printing press. We currently hold 30 U.S. and foreign patents, and have 39 U.S. and foreign patent applications pending.

Our Market Opportunity

Our CTP solutions address the prepress needs of commercial printers. Commercial printing is the largest segment of the printing industry and commercial printers are the largest purchasers of prepress capital equipment. Commercial printers use high-speed lithographic offset printing presses, which require a set of master printing plates, to produce multiple copies of high-quality color materials.

The worldwide market for prepress imaging equipment has been estimated by industry sources to exceed $3 billion annually. Although many of the largest commercial printers have begun to adopt CTP solutions, we believe the market is still developing. We believe that less than 20% of commercial printers in the world currently use CTP solutions. According to industry estimates, CTP unit shipments worldwide are expected to grow at a compound annual growth rate of approximately 20% from 1999 through 2003.

Conventional prepress requires highly skilled workers to perform a series of complex, time-consuming and labor-intensive manual tasks to create each printing plate. The complexity of conventional prepress limits the ability of commercial printers to respond to the changing demands of their customers. Conventional prepress suffers from many shortcomings that limit printers' ability to make last-minute changes and to tailor output to specific customer requirements on a cost-effective basis. These shortcomings include process variability, the use of costly films, paper and hazardous chemicals and idle time for expensive commercial presses. Growing demand for tighter deadlines, better and more consistent color quality, shorter print runs, and greater customization of print jobs has meant that printers using conventional prepress incur costs that they cannot readily pass on to their customers.

The Creo Solution

Our CTP solutions consist of a comprehensive range of products that allow printers to eliminate numerous steps from the conventional prepress process by directly transferring computer-generated data onto plates, eliminating the need to create and process film. We believe that our solutions save time, eliminate waste, improve accuracy and color consistency, reduce costs and increase press utilization, thereby improving operating margins for our customers. The principal features of our solution are:

- *End-to-End Prepress Solution.* The Creo solution integrates a complete range of Creo products that address the entire prepress process.

- *Open Architecture and Connectivity.* The Creo solution supports industry-standard file formats, readily interfaces with a broad range of proprietary data formats, accommodates a wide variety of input media and is adaptable to emerging file formats and standards such as Adobe Portable Document Format.

- *Modularity, Scalability and Versatility.* The Creo solution is modular and scalable, with components that can be assembled in a variety of configurations to meet the needs of customers with varying print volume and press size.

- *Knowledgeable and Comprehensive Customer Support.* We offer comprehensive pre-sale evaluation, installation, system integration, training and post-sale support through what we believe is the most knowledgeable and experienced field service organization in our industry.

Our Relationship with Heidelberg

An important part of our growth strategy has been establishing strategic alliances with major industry participants. In October 1997, we formed a joint venture with Heidelberger Druckmaschinen AG (Heidelberg), to develop, manufacture, market and distribute our CTP solutions worldwide. Heidelberg is the world's largest press manufacturer, with offices in more than 160 countries. Heidelberg has substantial international marketing and distribution channels for commercial printing presses and prepress equipment, and an extensive customer support and service organization. In the six months ended March 31, 1999, our product revenue from the joint venture was $27.1 million, which represented 34.8% of our total revenue. We have also entered into a separate agreement with Heidelberg to collaborate on the development of DOP technology.

Our Strategy

Our objective is to maintain our position as a leading developer and supplier of innovative digital prepress products and technologies. We plan to:

- *Expand Our Technology Leadership.* We intend to continue to make significant investments in the research and development of innovative, next-generation, market-leading technologies such as DOP, as well as to apply our existing technologies to new markets such as packaging printing.

- *Focus on Customer Success.* We will continue to offer world-class service and support while working closely with our customers to ensure that our systems generate clear economic benefits.

- *Expand and Leverage Strategic Business Alliances.* We will continue our strategy of establishing collaborative relationships with leading commercial printers, manufacturers of printing presses, plates and consumables, and others in the commercial printing industry in order to broaden our distribution, product development and manufacturing capabilities.

- *Expand Our Global Market Presence.* We intend to expand our market penetration geographically, with a focus on small to mid-size commercial printers.

Our Background

Creo was incorporated under the Canada Business Corporations Act on May 30, 1985. We have two operating subsidiaries: Creo Inc., incorporated under the laws of the State of Washington, through which we conduct sales, marketing and service functions in the United States; and Creo Products N.V., incorporated under the laws of Belgium, which performs similar functions for us in Europe. We also have two non-operating subsidiaries: Creo Products ULC, an unlimited liability company incorporated under the laws of Nova Scotia, Canada; and Creo SRL, a Society with Restricted Liability organized under the laws of Barbados.

Our principal office is located at 3700 Gilmore Way, Burnaby, British Columbia, Canada, V5G 4M1, and our telephone number is (604) 451-2700.

THE OFFERING

Common Shares offered by Creo	4,000,000 shares
Common Shares offered by the selling shareholders	1,000,000 shares
Total	5,000,000 shares
Common Shares to be outstanding after the offering	32,027,854 shares (1)
Use of proceeds	We intend to use the proceeds of this offering for working capital and other general corporate purposes. See ''Use of Proceeds.''

(1) Excludes 4,595,232 Common Shares issuable upon the exercise of options outstanding as at March 31, 1999, at a weighted average exercise price of C$11.75 per share, and 24,598 Common Shares issuable upon exercise of warrants outstanding as at March 31, 1999, at an exercise price of $9.38 per share.

RISK FACTORS

An investment in our shares is subject to certain risk factors that you should carefully consider. These risk factors include the following: our CTP solutions may not gain broad market acceptance; our joint venture with Heidelberg may not be successful or may be terminated; the market in which we operate is highly competitive; our operating results may fluctuate; we depend on third-party suppliers; our products may contain defects; we may not be able to establish or maintain necessary relationships with third parties; we may not be able to adapt to rapid technological change; third-party funding of our research and product development activities may decline; we depend on key personnel; we have limited protection of our intellectual property and proprietary technology; we may not be able to manage our growth effectively; we are subject to risks associated with our international operations; currency fluctuations will cause translation gains and losses; we face Year 2000 risks; we are controlled by our principal shareholders; we will have discretion as to the use of the net proceeds from this offering; there has been no prior public market for our Common Shares; the market price for our Common Shares could be volatile; you will incur immediate and substantial dilution; the substantial number of Common Shares that will be eligible for sale in the near future may adversely affect the market price of our Common Shares; we are subject to risks associated with potential acquisitions; there are provisions in our Articles of Incorporation and by-laws and Canadian law which could materially and adversely affect our shareholders; and we do not plan to pay cash dividends. See ''Risk Factors.''

SUMMARY SELECTED FINANCIAL DATA

The following table sets forth our summary financial data. You should read this information together with our consolidated financial statements, the notes to those statements beginning on page F-1 of this prospectus, and the information under ''Selected Financial Data,'' ''Capitalization'' and ''Management's Discussion and Analysis of Financial Condition and Results of Operations.'' Our consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles, which differ in certain respects from United States generally accepted accounting principles. All dollar amounts set forth below are stated in U.S. dollars.

	Year Ended September 30,					Six Months Ended March 31,	
	1994	1995	1996	1997	1998	1998	1999
	(in thousands, except per share data)						
Amounts under Canadian GAAP							
Statement of Operations Data:							
Total revenue	$ 6,089	$19,835	$47,938	$95,583	$128,848	$ 59,249	$ 78,057
Gross profit	1,500	4,968	16,172	41,949	57,631	26,060	37,369
Earnings (loss) from operations	(3,312)	(8,074)	(7,360)	8,287	19,346	8,847	13,715
Net earnings (loss)	(2,560)	(5,323)	(7,243)	5,837	11,090	5,126	7,631
Basic earnings (loss) per share	$ (0.17)	$ (0.30)	$ (0.34)	$ 0.26	$ 0.44	$ 0.21	$ 0.28
Fully diluted earnings (loss) per share	$ (0.17)	$ (0.30)	$ (0.34)	$ 0.24	$ 0.41	$ 0.19	$ 0.25
Shares used in per share calculation							
Basic	15,075	17,848	21,209	22,769	25,025	24,998	27,276
Fully diluted	15,075	17,848	21,209	30,428	30,502	30,499	32,648

	As at March 31, 1999	
	Actual	As Adjusted
	(in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	$ 37,150	$ 88,380
Working capital	59,039	110,269
Total assets	136,890	188,120
Shareholders' equity	89,742	140,972

	Year Ended September 30,					Six Months Ended March 31,	
	1994	1995	1996	1997	1998	1998	1999
	(in thousands, except per share data)						
Amounts under U.S. GAAP							
Net earnings (loss)	$(2,469)	$ (5,231)	$ (6,938)	$ 6,081	$ 10,358	$ 4,394	$ 7,631
Basic earnings (loss) per share	$ (0.16)	$ (0.29)	$ (0.33)	$ 0.27	$ 0.41	$ 0.18	$ 0.28
Diluted earnings (loss) per share	$ (0.16)	$ (0.29)	$ (0.33)	$ 0.25	$ 0.38	$ 0.16	$ 0.27
Shares used in per share calculation							
Basic	15,075	17,848	21,209	22,769	25,025	24,998	27,276
Diluted	15,075	17,848	21,209	24,191	27,036	27,433	28,067

USE OF PROCEEDS

Based on an assumed initial public offering price of $14.00 per share, the net proceeds to Creo from the sale of the 4,000,000 Common Shares that we are offering will be approximately $51,230,000, after deducting underwriting commissions and discounts and Creo's estimated expenses in connection with this offering. We will not receive any proceeds from the sale of Common Shares by the selling shareholders.

The principal purposes of this offering are to increase our working capital, to create a public market for our Common Shares, to facilitate future access by Creo to public equity markets, and to provide us with increased visibility and credibility. We intend to use the net proceeds primarily for general corporate purposes, including working capital. If the opportunity arises, we may use a portion of the net proceeds to acquire or invest in related businesses, products and technologies. We have no commitments or agreements with respect to any material acquisition of, or investment in, any third party. Creo has the right to purchase a substantial majority of the capital stock of Creo Ltd., a former subsidiary for approximately $18.0 million. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.'' Pending any use of the net proceeds for the above purposes, we intend to invest the funds in short-term, interest-bearing, investment grade securities.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock. We currently expect to retain any future earnings for developing and expanding our business, and therefore we do not currently expect to pay cash dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth (1) the actual capitalization of Creo as at March 31, 1999 and (2) such capitalization on an as adjusted basis to give effect to the sale of 4,000,000 Common Shares offered by Creo at an assumed initial public offering price of $14.00 per share, and the receipt of net proceeds therefrom.

	As at March 31, 1999	
	Actual	As Adjusted
	(in thousands)	
Long-term debt, less current portion (1)	$ 6,512	$ 6,512
Shareholders' equity:		
Common Shares: unlimited voting Common Shares, without par value, 28,027,854 shares issued and outstanding, actual; 32,027,854 shares issued and outstanding, as adjusted (2)	78,917	130,147
Preferred Shares: unlimited preferred shares, no shares issued and outstanding, actual and as adjusted	—	—
Retained earnings	10,825	10,825
Total shareholders' equity	89,742	140,972
Total capitalization	$96,254	$147,484

(1) The long-term debt, which bears interest at 8.05% per annum and matures February 4, 2002, is secured by a first mortgage on certain properties located in Delta and Burnaby, British Columbia.

(2) Excludes 4,595,232 Common Shares issuable upon the exercise of options outstanding as at March 31, 1999, at a weighted average exercise of C$11.75 per share, and 24,598 Common Shares issuable upon exercise of warrants outstanding as at March 31, 1999, at an exercise price of $9.38 per share.

DILUTION

If you invest in our Common Shares, your interest will be diluted by an amount equal to the difference between the public offering price per Common Share and the net tangible book value per Common Share after this offering. We calculate net tangible book value per Common Share by dividing the net tangible book value (total assets less intangible assets and total liabilities) by the number of outstanding Common Shares.

The net tangible book value of Creo as at March 31, 1999 was $89.7 million or approximately $3.20 per Common Share. After giving effect to the sale of the 4,000,000 Common Shares offered by Creo under this prospectus, at an assumed initial public offering price per Common Share of $14.00, and after deducting underwriting commissions and discounts and Creo's estimated expenses in connection with this offering, the net tangible book value of Creo as at March 31, 1999 would have been $141.0 million or approximately $4.40 per Common Share. This represents an immediate increase in net tangible book value of $1.20 per Common Share to existing shareholders and an immediate dilution of $9.60 per Common Share to new investors. The following table illustrates this dilution on a per Common Share basis:

Assumed initial public offering price per Common Share		$14.00
Net tangible book value per Common Share at March 31, 1999	$3.20	
Increase in net tangible book value per Common Share attributable to new investors	1.20	
Net tangible book value per Common Share after the offering		4.40
Dilution in net tangible book value per Common Share to new investors		$ 9.60
Dilution as a percentage of offering price		68.6%

The following table summarizes on a pro forma basis as at March 31, 1999 the differences between the number of Common Shares purchased from Creo, the total consideration paid and the average price per share paid by existing shareholders and by the new investors in the offering, before deducting the underwriting discounts and commissions and estimated offering expenses payable by Creo, at an assumed initial public offering price of $14.00 per share.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing shareholders	28,027,854	88%	$ 78,917,000	58%	$ 2.82
New investors	4,000,000	12%	56,000,000	42%	$14.00
Total	32,027,854	100%	$134,917,000	100%	$ 4.21

Sales of Common Shares in the offering by the selling shareholders will reduce the number of shares held by existing shareholders as at March 31, 1999, to 27,027,854 shares or 84.4% of the total number of Common Shares outstanding after the offering (26,277,854 shares or 82.0% if the underwriters' over-allotment option is exercised in full) and will increase the number of shares held by new investors to 5,000,000 shares or 15.6% of the total number of Common Shares outstanding after the offering (5,750,000 shares or 18.0% if the underwriters' over-allotment option is exercised in full). See ''Principal and Selling Shareholders.''

The foregoing discussion and tables assume no exercise of any options or warrants after March 31, 1999. As at March 31, 1999, an aggregate of 4,595,232 Common Shares were issuable upon the exercise of outstanding options at a weighted average exercise price of C$11.75 per share and an aggregate of 24,598 Common Shares were issuable upon exercise of outstanding warrants at a weighted average exercise price of $9.38. If all options and warrants outstanding as at March 31, 1999 were exercised, the pro forma net tangible book value per share immediately after completion of the offering would be $4.83. This represents an immediate dilution in net tangible book value of $9.17 per share to purchasers of Common Shares in the offering.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read together with ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and the consolidated financial statements, including the related notes, included elsewhere in this prospectus. The statement of operations data for the years ended September 30, 1996, 1997 and 1998 and the balance sheet data as at September 30, 1997 and 1998 are derived from the audited consolidated financial statements included elsewhere in this prospectus. The statement of operations data for the years ended September 30, 1994 and 1995 and the balance sheet data as at September 30, 1994, 1995 and 1996 are derived from audited financial statements not included in this prospectus. The consolidated financial data as at and for the six months ended March 31, 1998 and 1999 is unaudited.

Our consolidated financial statements are prepared in accordance with Canadian GAAP. These principles conform in all material respects with U.S. GAAP, except as described in note 14 to the consolidated financial statements. All dollar amounts are expressed in United States dollars.

	Year Ended September 30,					Six Months Ended March 31,	
Statement of Operations Data:	**1994**	**1995**	**1996**	**1997**	**1998**	**1998**	**1999**
	(in thousands, except per share data)						
Amounts under Canadian GAAP							
Revenue:							
Product revenue	$ 6,089	$19,821	$46,210	$91,669	$114,652	$53,220	$64,894
Service revenue	—	14	1,728	3,914	14,196	6,029	13,163
Total revenue	6,089	19,835	47,938	95,583	128,848	59,249	78,057
Cost of sales	4,589	14,867	31,766	53,634	71,217	33,189	40,688
Gross profit	1,500	4,968	16,172	41,949	57,631	26,060	37,369
Research and development, net	2,187	5,920	10,683	12,772	6,931	3,233	5,275
Sales and marketing	1,387	4,620	8,757	14,619	22,417	10,101	14,396
General and administration	1,238	2,502	4,092	6,271	8,937	3,879	3,983
Earnings (loss) from operations	(3,312)	(8,074)	(7,360)	8,287	19,346	8,847	13,715
Other income (expense) (1)	249	424	5	48	(1,580)	(799)	(593)
Earnings (loss) before income taxes	(3,063)	(7,650)	(7,355)	8,335	17,766	8,048	13,122
Income tax expense (recovery)	(566)	(1,090)	(112)	2,498	6,676	2,922	5,491
Earnings (loss) from discontinued operations (2)	(63)	1,237	—	—	—	—	—
Net earnings (loss)	$(2,560)	$(5,323)	$(7,243)	$ 5,837	$ 11,090	$ 5,126	$ 7,631
Basic earnings (loss) per share (3)(4)	$ (0.17)	$ (0.30)	$ (0.34)	$ 0.26	$ 0.44	$ 0.21	$ 0.28
Fully diluted earnings (loss) per share (3)(4)	$ (0.17)	$ (0.30)	$ (0.34)	$ 0.24	$ 0.41	$ 0.19	$ 0.25
Shares used in per share calculation (3):							
Basic	15,075	17,848	21,209	22,769	25,025	24,998	27,276
Fully diluted	15,075	17,848	21,209	30,428	30,502	30,499	32,648
Other Financial Data:							
Research and development, gross	$ 5,584	$ 9,238	$14,698	$14,877	$ 19,123	$ 8,962	$13,256
Research and development, funding	3,397	3,318	4,015	2,105	12,192	5,729	7,981
Research and development, net	$ 2,187	$ 5,920	$10,683	$12,772	$ 6,931	$ 3,233	$ 5,275
Amounts under U.S. GAAP (5)							
Net earnings (loss)	$(2,469)	$(5,231)	$(6,938)	$ 6,081	$ 10,358	$ 4,394	$ 7,631
Basic earnings (loss) per share (4)	$ (0.16)	$ (0.29)	$ (0.33)	$ 0.27	$ 0.41	$ 0.18	$ 0.28
Diluted earnings (loss) per share (4)	$ (0.16)	$ (0.29)	$ (0.33)	$ 0.25	$ 0.38	$ 0.16	$ 0.27
Shares used in per share calculation (6):							
Basic	15,075	17,848	21,209	22,769	25,025	24,998	27,276
Diluted	15,075	17,848	21,209	24,191	27,036	27,433	28,067

Balance Sheet Data:	As at September 30, 1994	1995	1996	1997	1998	As at March 31, 1998	1999
				(in thousands)			
Amounts under Canadian GAAP							
Cash and cash equivalents	$ 3,283	$10,102	$10,937	$30,652	$ 16,224	$22,563	$ 37,150
Working capital	4,880	2,249	13,243	40,683	34,562	43,441	59,039
Total assets	16,974	39,524	59,592	94,464	102,118	96,298	136,890
Long-term debt (7)	2,807	6,405	7,849	6,956	6,600	6,956	6,512
Shareholders' equity (8)	6,009	7,086	20,282	50,475	62,048	55,704	89,742
Amounts under U.S. GAAP							
Cash and cash equivalents	$ 3,283	$10,102	$10,937	$30,652	$ 16,224	$22,563	$ 37,150
Working capital	4,821	2,132	12,931	40,215	34,562	43,441	59,039
Total assets	17,124	39,707	60,080	95,196	102,118	96,298	136,890
Long-term debt (7)	2,807	6,405	7,849	6,956	6,600	6,956	6,512
Shareholders' equity (8)	6,100	7,269	20,770	51,207	62,048	55,704	89,742

(1) Other income (expense) includes foreign exchange gain (loss), interest income and interest expense.

(2) Creo sold its former data storage business in November 1994.

(3) For an explanation of how earnings per share is calculated, see note 10 to the consolidated financial statements.

(4) Earnings per share amounts for the year ended September 30, 1995 include earnings per share from discontinued operations of $0.07.

(5) See note 14 to the consolidated financial statements.

(6) For U.S. GAAP purposes only, per share amounts for the year ended September 30, 1998 and for the six months ended March 31, 1998, include $0.03 and $0.03, representing the cumulative effect per share of changes in accounting principles. See note 14 to the consolidated financial statements.

(7) Excludes current portion.

(8) During the periods presented, we paid no cash dividends.

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

Overview

We are a leading developer, manufacturer and distributor of comprehensive turnkey digital solutions that automate the prepress phase of commercial printing. Our solutions enable commercial printers to use their installed base of printing presses more profitably while improving their ability to meet customer demands for tighter deadlines, better and more consistent color quality, shorter print runs and greater customization of print jobs.

Revenue. Our revenue is derived from sales of our CTP products to direct customers and distributors and from fees for service of equipment. Product revenue is derived from the sale of equipment and software, and includes revenue earned from installation, training and warranty maintenance services. Product revenue from sales made directly to end customers is recognized when title passes to the customer or upon customer acceptance. Customer acceptance is used as the criterion for revenue recognition when the product sold does not have an established sales history to allow management to reasonably estimate returns. Product revenue from sales to distributors is recognized upon shipment to the distributor. The joint venture with Heidelberg is considered to be a distributor for purposes of revenue recognition.

Service revenue is derived from customer support agreements entered into in connection with product sales and renewals. A substantial majority of our customers contract for service. Service revenue is recorded as deferred revenue when billed to the customer and is recognized ratably over the term of the support agreement, which generally is three to twelve months. Creo provides service support on non-joint venture products on a worldwide basis, and on joint venture products in NAFTA countries only. Creo does not derive any service revenue through the joint venture.

Joint Venture. Our joint venture with Heidelberg commenced operations on October 1, 1997. We each have a 50% economic interest in the joint venture which was established to develop, manufacture, market and distribute designated CTP and related workflow products and consumables. The joint venture is co-managed and does not own any material assets, maintain any employees or operate any manufacturing or other operating facilities. We share revenue and expenses equally and generally provide goods and services at cost.

Under Canadian GAAP, operations of the joint venture are accounted for using proportionate consolidation, which requires that we include in our consolidated statement of operations one-half of the related revenue and expenses of the joint venture. This treatment differs from the equity method required by U.S. GAAP, under which we would be required to record one-half of the net earnings of the joint venture as a single line item on our consolidated statement of operations.

Unit sales of CTP products have increased since the commencement of the joint venture; however, our product revenue growth rate has decreased compared to prior periods. This decrease is due to the transfer to the joint venture of the right to sell certain of our products. As a result, using proportionate consolidation, Creo now records only one-half of the revenues resulting from the sale of joint venture products. If the joint venture is successful, Creo expects to realize a number of benefits, including access to Heidelberg's worldwide customer base and marketing and distribution network, access to its service and customer support organization outside North America, product development funding, and improved cost efficiencies for the manufacture of certain products. Creo believes that the realization of these benefits over time will result in increased market penetration for its CTP products and corresponding improvements in Creo's product revenue growth.

Creo's business and results of operation are dependent upon the success of the joint venture with Heidelberg. Our share of joint venture revenue accounted for 27.6% of our total revenue for the fiscal year ended September 30, 1998 and 34.8% of our total revenue for the six months ended March 31, 1999. If our joint venture were to terminate or fail to achieve the benefits that we expect to occur, our business, results of operations and financial condition would be materially adversely affected. See ''Risk Factors—Our joint venture with Heidelberg may not be successful or may be terminated.''

Research and Development. Since our inception, we have invested heavily in research and development. This investment has been subsidized in part by funding received from plate and film suppliers, press manufacturers and our customers in connection with specific product development initiatives undertaken by us at their request. We have also received funding from the Canadian government through investment tax credits. The Canadian government funds up to 20% of our investment in research and development carried out in Canada as investment tax credits. These credits are recorded as a reduction in research and development expense, and are available to reduce income taxes payable. The research and development funding received from third parties has resulted in a significant reduction in our total expenditures for research and development activities. Our joint venture with Heidelberg in particular has been an important source of such funding. For the 18 months ended March 31, 1999, Heidelberg has provided $7.3 million in research and development funding, representing 22.4% of our gross research and development expenses for the period.

Foreign Exchange. Substantially all of our revenue is received in U.S. dollars. A significant portion of our expenses are incurred in Canadian dollars and Belgian francs. As a result, appreciation in the value of these currencies relative to the U.S. dollar could adversely affect our operating results. Foreign currency translation gains and losses arising from normal business operations are credited to or charged against other income for the period incurred. To date, we have not done any currency hedging to minimize the effect of these gains or losses. As a result, fluctuations in the value of Canadian dollars and Belgian francs relative to U.S. dollars have caused and will continue to cause currency translation gains and losses.

Our consolidated financial statements are prepared in accordance with Canadian GAAP. These principles conform in all material respects with U.S. GAAP, except as disclosed in note 14 to the consolidated financial statements.

Results of Operations

The following table summarizes historical results of operations as a percentage of revenue for the periods shown.

	Year Ended September 30,			Six Months Ended March 31,	
Amounts under Canadian GAAP	**1996**	**1997**	**1998**	**1998**	**1999**
As a Percentage of Revenue:					
Revenue:					
Product revenue	96.4%	95.9%	89.0%	89.8%	83.1%
Service revenue	3.6	4.1	11.0	10.2	16.9
Total revenue	100.0	100.0	100.0	100.0	100.0
Cost of sales	66.3	56.1	55.3	56.0	52.1
Gross margin	33.7	43.9	44.7	44.0	47.9
Research and development, net	22.3	13.4	5.4	5.5	6.8
Sales and marketing	18.3	15.3	17.4	17.0	18.4
General and administration	8.5	6.5	6.9	6.6	5.1
Earnings (loss) from operations	(15.4)	8.7	15.0	14.9	17.6
Other income (expense)	0.1	0.0	(1.2)	(1.3)	(0.8)
Earnings (loss) before income taxes	(15.3)	8.7	13.8	13.6	16.8
Income tax expense (recovery)	(0.2)	2.6	5.2	4.9	7.0
Net earnings (loss)	(15.1)%	6.1%	8.6%	8.7%	9.8%
Research and Development Data:					
Research and development, gross	30.7%	15.6%	14.8%	15.1%	17.0%
Research and development, net	22.3	13.4	5.4	5.5	6.8

Six months ended March 31, 1999 compared to six months ended March 31, 1998

Revenue. Total revenue increased 31.7% to $78.1 million for the six months ended March 31, 1999 from $59.2 million for the six months ended March 31, 1998.

Product revenue increased 21.9% to $64.9 million for the six months ended March 31, 1999 from $53.2 million for the six months ended March 31, 1998. This increase in product revenue was due to higher unit sales, at relatively constant prices, of CTP products both by Creo through direct sales and by the joint venture. Product revenue from the joint venture increased 66.1% to $27.1 million for the six months ended March 31, 1999 from $16.3 million for the six months ended March 31, 1998. This increase was primarily due to increased sales activity on the part of Heidelberg.

Service revenue increased 118.3% to $13.2 million for the six months ended March 31, 1999 from $6.0 million for the six months ended March 31, 1998. This increase in service revenue was due to fees generated from additional customer support agreements entered into in connection with new product sales.

Revenue from our North American customers accounted for $52.4 million, or 67.1% of total revenue for the six months ended March 31, 1999, compared to $36.5 million, or 61.7% of total revenue, for the six months ended March 31, 1998. Revenue from our European customers accounted for $22.1 million, or 28.4% of total revenue the six months ended March 31, 1999, compared to $15.5 million, or 26.2% of total revenue, for the six months ended March 31, 1998. Revenue from our Japanese customers accounted for $1.1 million, or 1.4% of total revenue, for the six months ended March 31, 1999, compared to $2.8 million, or 4.7% of total revenue, for the six months ended March 31, 1998. The decrease in Japanese sales is primarily due to depressed economic conditions in the region.

Cost of Sales. Cost of sales consists of the cost of materials, salaries, benefits and related overhead costs associated with the generation of revenue, and includes costs of sales attributable to the joint venture. Cost of sales increased 22.6% to $40.7 million for the six months ended March 31, 1999 from $33.2 million for the six months ended March 31, 1998. This increase was primarily due to higher unit sales of CTP products and higher costs of servicing products as a result of the increase in our installed base. Cost of sales decreased as a percentage of total revenue to 52.1% for the six months ended March 31, 1999 from 56.0% for the six months ended March 31, 1998. This decrease was primarily due to lower labor, subassembly and component costs, increased plant capacity utilization and increased efficiencies in our service department.

Research and Development. Research and development expenses consist of salaries, benefits and related overhead costs associated with personnel engaged in research and product development activities, and include research and development costs attributable to the joint venture. Gross research and development expenses increased 47.9% to $13.3 million for the six months ended March 31, 1999 from $9.0 million for the six months ended March 31, 1998. This increase was primarily due to the hiring of additional research and development personnel. Gross research and development expenses increased as a percentage of total revenue to 17.0% for the six months ended March 31, 1999 from 15.1% for the six months ended March 31, 1998.

Third-party funding of our research and product development activities increased 39.3% to $8.0 million for the six months ended March 31, 1999 from $5.7 million for the six months ended March 31, 1998. The $8.0 million in third-party funding included $3.2 million received from the joint venture, $2.7 million received from media suppliers, press manufacturers and our customers, and $2.1 million in investment tax credits. The $5.7 million in third-party funding received for the six months ended March 31, 1998 included $1.3 million received from the joint venture, $2.7 million received from other third parties, and $1.7 million in investment tax credits.

As a result of factors affecting gross research and development expenses and research and development funding, net research and development expenses, which represent gross research and development expenses less third-party funding, increased 63.2% to $5.3 million for the six months ended March 31, 1999 from

$3.2 million for the six months ended March 31, 1998. Net research and development expenses increased as a percentage of total revenue to 6.8% for the six months ended March 31, 1999 from 5.5% for the six months ended March 31, 1998.

Sales and Marketing. Sales and marketing expenses consist of salaries, commissions, benefits and related overhead costs associated with sales personnel, and costs associated with marketing and promotional activities. Sales and marketing expenses increased 42.5% to $14.4 million, or 18.4% of total revenue, for the six months ended March 31, 1999 from $10.1 million, or 17.0% of total revenue, for the six months ended March 31, 1998. This increase was primarily due to expenditures incurred in connection with the expansion of operations in North America and Europe to support the sale of non-joint venture products.

General and Administration. General and administration expenses consist of salaries, benefits and related overhead costs associated with management, accounting, legal and human resources personnel, as well as professional fees. General and administration expenses increased 2.7% to $4.0 million, or 5.1% of total revenue, for the six months ended March 31, 1999 from $3.9 million, or 6.6% of total revenue, for the six months ended March 31, 1998. This increase was primarily due to the growth of our business.

Income Taxes. Income tax expense increased to $5.5 million for the six months ended March 31, 1999 from $2.9 million for the six months ended March 31, 1998. This increase was primarily due to the increase in our profitability. Our effective tax rate of 41.8% for the six months ended March 31, 1999 was below the statutory rate of 45.6% due to Canadian manufacturing and processing tax credits and the fact that a portion of our profits were earned in foreign jurisdictions with tax rates lower than those in Canada. See note 9 to our consolidated financial statements.

Year ended September 30, 1998 compared to year ended September 30, 1997

The joint venture with Heidelberg commenced operations on October 1, 1997. During the joint venture's first full year of operations our revenue growth decreased compared to prior periods, even though unit sales of our CTP products increased. This decrease was expected because prior to the start-up of the joint venture, all of the revenue from sales by us of the CTP products now sold by the joint venture was recorded in our income statement, whereas now only one-half of the revenue arising from sales through the joint venture is for our account. The following comparison of results of operations for the years ended September 30, 1998 and 1997 should accordingly be read with this development in mind.

Revenue. Total revenue increased 34.8% to $128.8 million for the year ended September 30, 1998 from $95.6 million for the year ended September 30, 1997.

Product revenue increased 25.1% to $114.7 million for the year ended September 30, 1998 from $91.7 million for the year ended September 30, 1997. This increase was due to higher unit sales of CTP products by us through direct sales and by the joint venture. Product revenue from the joint venture represented 31.0% of our total product revenue for the year ended September 30, 1998.

Service revenue increased 262.7% to $14.2 million for the year ended September 30, 1998 from $3.9 million for the year ended September 30, 1997. As substantially all of our customers contract for service support, this increase in service revenue was due to the substantial increase in the installed base of our equipment.

Revenue from our North American customers accounted for $75.1 million, or 58.3% of total revenue, for the year ended September 30, 1998, compared to $65.6 million, or 68.6% of total revenue, for the year ended September 30, 1997. Revenue from our European customers accounted for $41.7 million, or 32.3% of total revenue, for the year ended September 30, 1998, compared to $15.7 million, or 16.4% of total revenue, for the year ended September 30, 1997. The decrease in North American sales as a percentage of total sales and the corresponding increase in European sales are primarily due to the commencement of operations of the joint venture, which recorded 34.6% of its sales during the period in Europe. Revenue from our Japanese customers

accounted for $5.3 million, or 4.1% of total revenue, for the year ended September 30, 1998, compared to $9.9 million, or 10.4% of total revenue, for the year ended September 30, 1997. The decrease in Japanese sales is primarily due to depressed economic conditions in the region.

Cost of Sales. Cost of sales increased 32.8% to $71.2 million for the year ended September 30, 1998 from $53.6 million for the year ended September 30, 1997. This increase was primarily due to higher unit sales and higher costs of servicing products as our installed base increased. Cost of sales decreased slightly as a percentage of total revenue to 55.3% for the year ended September 30, 1998 from 56.1% for the year ended September 30, 1997. This decrease was primarily due to lower labor, subassembly and component costs, and increased plant capacity utilization, offset by increased costs of service related to the hiring of additional service personnel.

Research and Development. Gross research and development expenses increased 28.5% to $19.1 million for the year ended September 30, 1998 from $14.9 million for the year ended September 30, 1997. This increase was primarily due to the hiring of additional research and development personnel. Gross research and development expenses decreased as a percentage of total revenue to 14.8% for the year ended September 30, 1998 from 15.6% for the year ended September 30, 1997. This decrease was due to the growth in our revenue base.

Third-party funding of our research and product development activities increased 479.2% to $12.2 million for the year ended September 30, 1998 from $2.1 million for the year ended September 30, 1997. The $12.2 million in third-party funding received during the year ended September 30, 1998 included $4.4 million received from media suppliers and press manufacturers, $4.1 million received from the joint venture and $3.7 million in investment tax credits. The $2.1 million in third-party funding received during the year ended September 30, 1997 included $1.4 million received from third parties and $ 0.7 million received in investment tax credits.

As a result of factors affecting gross research expenses and development and research and development funding, net research and development expenses decreased 45.7% to $6.9 million for the year ended September 30, 1998 from $12.8 million for the year ended September 30, 1997. Net research and development expenses decreased as a percentage of total revenue to 5.4% for the year ended September 30, 1998 from 13.4% for the year ended September 30, 1997.

Sales and Marketing. Sales and marketing expenses increased 53.3% to $22.4 million, or 17.4% of total revenue for the year ended September 30, 1998 from $14.6 million, or 15.3% of total revenue for the year ended September 30, 1997. This increase was primarily due to expenditures incurred in connection with the expansion of our operations and the start-up of the joint venture.

General and Administration. General and administration expenses increased 42.5% to $8.9 million, or 6.9% of total revenue for the year ended September 30, 1998 from $6.3 million, or 6.5% of total revenue for the year ended September 30, 1997. This increase was primarily due to the growth of our business and the addition of new facilities required for future expansion.

Income Taxes. Income tax expense increased to $6.7 million for the year ended September 30, 1998 from $2.5 million for the year ended September 30, 1997. This increase was primarily due to the increase in our profitability. Our effective tax rate of 37.6% for the year ended September 30, 1998 was below the statutory rate of 45.6% due to Canadian manufacturing and processing tax credits and the fact that a portion of our profits were earned in foreign jurisdictions with tax rates lower than those of Canada. See note 9 to our consolidated financial statements.

Year ended September 30, 1997 compared to year ended September 30, 1996

Revenue. Total revenue increased 99.4% to $95.6 million for the year ended September 30, 1997 from $47.9 million for the year ended September 30, 1996.

Product revenue increased 98.3% to $91.7 million for the year ended September 30, 1997 from $46.2 million for the year ended September 30, 1996. This increase was due to higher unit sales resulting from broader market acceptance of our CTP products.

Service revenue increased 126.5% to $3.9 million for the year ended September 30, 1997 from $1.7 million for the year ended September 30, 1996. This increase was due to fees generated from additional customer support agreements entered into in connection with new product sales.

Revenue from our North American customers accounted for $65.6 million, or 68.6% of total revenue, for the year ended September 30, 1997, compared to $34.5 million, or 72.0% of total revenue, for the year ended September 30, 1996. Revenue from our European customers accounted for $15.7 million, or 16.4% of total revenue, for the year ended September 30, 1997, compared to $4.5 million, or 9.3% of total revenue, for the year ended September 30, 1996. Revenue from our Japanese customers accounted for $9.9 million, or 10.4% of total revenue, for the year ended September 30, 1997, compared to $7.1 million, or 14.6% of total revenue, for the year ended September 30, 1996.

Cost of Sales. Cost of sales increased 68.8% to $53.6 million for the year ended September 30, 1997 from $31.8 million for the year ended September 30, 1996. This increase was primarily due to higher labor, subassembly and component costs and overhead expenses associated with increased product sales, and costs related to the hiring of additional service personnel. Cost of sales decreased as a percentage of total revenue to 56.1% for the year ended September 30, 1997 from 66.3% for the year ended September 30, 1996. This decrease was primarily due to product mix, improvements in manufacturing efficiencies, lower labor, subassembly and component costs, and increased plant capacity utilization.

Research and Development. Gross research and development expenses increased 1.2% to $14.9 million for the year ended September 30, 1997 from $14.7 million for the year ended September 30, 1996. This increase was primarily due to an increase in research and development labor costs, offset by decreased prototyping material costs as our research and development focus shifted from new product development to product enhancement. Gross research and development expenses decreased as a percentage of total revenue to 15.6% for the year ended September 30, 1997 from 30.7% for the year ended September 30, 1996. This decrease was primarily due to the growth in our revenue base.

Third-party funding of our research and product development activities decreased 47.6% to $2.1 million for the year ended September 30, 1997 from $4.0 million for the year ended September 30, 1996. The $2.1 million in third-party funding received during the year ended September 30, 1997 included $0.7 million in investment tax credits and $1.4 million received from third parties.

As a result of factors affecting gross research and development expenses and research and development funding, net research and development expenses increased 19.6% to $12.8 million for the year ended September 30, 1997 from $10.7 million for the year ended September 30, 1996. Net research and development expenses decreased as a percentage of total revenue to 13.4% for the year ended September 30, 1997 from 22.3% for the year ended September 30, 1996.

Sales and Marketing. Sales and marketing expenses increased 66.9% to $14.6 million for the year ended September 30, 1997 from $8.8 million for the year ended September 30, 1996. This increase was primarily due to higher sales commissions and the hiring of additional sales and marketing personnel in North America and Europe. Sales and marketing expenses decreased as a percentage of total revenue to 15.3% for the year ended September 30, 1997 from 18.3% for the year ended September 30, 1996. This decrease was primarily due to increased productivity among sales personnel.

General and Administration. General and administration expenses increased 53.3% to $6.3 million for the year ended September 30, 1997 from $4.1 million for the year ended September 30, 1996. This increase was primarily due to the hiring of additional personnel. General and administration expenses decreased as a percentage of total revenues to 6.5% for the year ended September 30, 1997 from 8.5% for the year ended September 30, 1996. This decrease was primarily due to the growth in our revenue base.

Income Taxes. Income tax expense increased to $2.5 million for the year ended September 30, 1997 from a recovery of $0.1 million for the year ended September 30, 1996. This increase was primarily due to the increase in our profitability. Our effective tax rate of 30.0% for the year ended September 30, 1997 was below the statutory rate of 45.6% due to the availability of loss carryforwards, Canadian manufacturing and processing tax credits and the fact that a portion of our profits were earned in foreign jurisdictions with tax rates lower than those of Canada. See note 9 to our consolidated financial statements.

Quarterly Results of Operations

The following tables summarize selected quarterly financial information for our ten most recent fiscal quarters, as well as the percentage of our revenue represented by each item. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in the opinion of our management, necessary to present a fair statement of our financial position and results of operations for the periods presented. Quarter-to-quarter comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

	Three Months Ended									
	Dec 31, 1996	Mar 31, 1997	Jun 30, 1997	Sep 30, 1997	Dec 31, 1997	Mar 31, 1998	Jun 30, 1998	Sep 30, 1998	Dec 31, 1998	Mar 31, 1999
	(in thousands)									
Amounts under Canadian GAAP										
Revenue:										
Product revenue	$13,557	$19,355	$26,637	$32,120	$22,557	$30,663	$30,835	$30,597	$31,065	$33,829
Service revenue	837	897	1,066	1,114	2,354	3,675	3,037	5,130	5,484	7,679
Total revenue	14,394	20,252	27,703	33,234	24,911	34,338	33,872	35,727	36,549	41,508
Cost of sales	10,258	11,734	14,073	17,569	14,575	18,614	18,325	19,703	19,471	21,217
Gross profit	4,136	8,518	13,630	15,665	10,336	15,724	15,547	16,024	17,078	20,291
Research and development, net	1,505	3,146	3,575	4,546	2,098	1,135	1,611	2,087	2,033	3,242
Sales and marketing	2,026	2,936	4,531	5,126	4,532	5,569	5,723	6,593	6,785	7,611
General and administration	1,175	1,248	1,493	2,355	1,680	2,199	2,189	2,869	2,035	1,948
Earnings (loss) from operations	(570)	1,188	4,031	3,638	2,026	6,821	6,024	4,475	6,225	7,490
Other income (expense)	365	(438)	(158)	279	(504)	(295)	(278)	(503)	(332)	(261)
Earnings (loss) before income taxes	(205)	750	3,873	3,917	1,522	6,526	5,746	3,972	5,893	7,229
Income tax expense (recovery)	(16)	158	1,243	1,113	552	2,370	2,219	1,535	2,523	2,968
Net earnings (loss)	$ (189)	$ 592	$ 2,630	$ 2,804	$ 970	$ 4,156	$ 3,527	$ 2,437	$ 3,370	$ 4,261

	Three Months Ended									
	Dec 31, 1996	Mar 31, 1997	Jun 30, 1997	Sep 30, 1997	Dec 31, 1997	Mar 31, 1998	Jun 30, 1998	Sep 30, 1998	Dec 31, 1998	Mar 31, 1999
As a Percentage of Revenue:										
Revenue:										
Product revenue	94.2 %	95.6%	96.2%	96.6%	90.6%	89.3%	91.0%	85.6%	85.0%	81.5%
Service revenue	5.8	4.4	3.8	3.4	9.4	10.7	9.0	14.4	15.0	18.5
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of sales	71.3	57.9	50.8	52.9	58.5	54.2	54.1	55.1	53.3	51.1
Gross margin	28.7	42.1	49.2	47.1	41.5	45.8	45.9	44.9	46.7	48.9
Research and development, net	10.4	15.5	12.9	13.7	8.4	3.3	4.7	5.8	5.5	7.8
Sales and marketing	14.1	14.5	16.3	15.4	18.2	16.2	16.9	18.5	18.6	18.3
General and administration	8.1	6.2	5.4	7.1	6.8	6.4	6.5	8.1	5.6	4.7
Earnings (loss) from operations	(3.9)	5.9	14.6	10.9	8.1	19.9	17.8	12.5	17.0	18.1
Other income (expense)	2.5	(2.2)	(0.6)	0.8	(2.0)	(0.9)	(0.8)	(1.4)	(0.9)	(0.6)
Earnings (loss) before income taxes	(1.4)	3.7	14.0	11.7	6.1	19.0	17.0	11.1	16.1	17.5
Income tax expense (recovery)	(0.1)	0.8	4.5	3.3	2.2	6.9	6.6	4.3	6.9	7.2
Net earnings (loss)	(1.3)%	2.9%	9.5%	8.4%	3.9%	12.1%	10.4%	6.8%	9.2%	10.3%

Revenue. Total revenue increased in each quarter during the period October 1, 1996 to September 30, 1997. The increases during this period were primarily due to higher unit sales of our CTP products. Product revenue for the three months ended September 30, 1997 included $3.1 million in sales of CTP output devices to Heidelberg to install in their showrooms in anticipation of the launch of the joint venture.

The joint venture with Heidelberg commenced operations on October 1, 1997. The decrease in product revenue from $32.1 million for the three months ended September 30, 1997 to $22.6 million for the three months ended December 31, 1997 was due to the revenue sharing arrangements implemented in connection with the joint venture, as well as a delay in the shipment of product due to a design change required on the thermal head.

Product revenue for the three months ended March 31, 1998 returned to approximately the level achieved during the three months ended September 30, 1997, excluding the $3.1 million in showroom sales to Heidelberg during the prior period. Product revenue remained consistent during the quarters ended June 30, 1998 and September 30, 1998, and increased during the quarters ended December 31, 1998 and March 31, 1999 to $31.1 million and $33.8 million, respectively. The increase in product revenue for the six months ended March 31, 1999 reflects the increased market penetration for our CTP products made possible by Heidelberg's worldwide marketing and distribution network.

Service revenue has generally increased at a steady rate over the ten quarters ended March 31, 1999, reflecting an increase in fees generated from customer support agreements. A substantial majority of our customers contract for service.

Cost of Sales. Cost of sales has generally increased over the ten quarters ended March 31, 1999, reflecting the growth in our CTP product sales. We expect that cost of sales will continue to increase as sales of our CTP products grow.

Research and Development. The commencement of operations of the joint venture on October 1, 1997 resulted in a substantial decrease in net research and development expense in each of the six quarters ended prior to March 31, 1999 compared to the three months ended September 30, 1997. This decrease reflects the funding contribution of Heidelberg to research and development initiatives undertaken by us in connection with CTP products sold by the joint venture. The increase in net research and development expense in each of the four quarters ended March 31, 1999 reflects the hiring of additional research and development personnel. We expect that net research and development expenses will continue to increase as we introduce new products and enhance existing equipment and software.

Sales and Marketing. Sales and marketing expenses increased over the ten quarters, reflecting the growth in our CTP product sales. We expect that our sales and marketing expenses will continue to increase as sales of our CTP products grow.

General and Administration. General and administrative expenses increased during the eight quarters ended September 30, 1998 as we expanded our infrastructure to accommodate the growth in our CTP product sales. General and administration expenses decreased during the two quarters ended March 31, 1999, as the cost of our internal software system had been fully amortized. We expect that general and administration expenses will continue to increase as sales of our CTP products grow.

Liquidity and Capital Resources

Since we commercialized our first CTP product in October 1994, we have financed our operations through a combination of private sales of equity securities and cash generated by operations. As at March 31, 1999, we had $59.0 million in working capital and $37.2 million in cash and short term deposits. Our operations used cash of $0.7 million for the year ended September 30, 1997, and generated cash of $11.6 million for the year ended September 30, 1998 and $7.3 million for the six months ended March 31, 1999.

As at March 31, 1999, we had deferred revenues and deposits of $20.8 million, and total borrowings of $6.8 million which are secured by a first mortgage on our Canadian office and production facilities. We also have $15.0 million available through a credit facility with a Canadian chartered bank. The credit facility is repayable on demand and bears interest at LIBOR plus 1%. As at March 31, 1999, there were no borrowings outstanding under the credit facility.

Our net capital expenditures for the year ended September 30, 1998 were $23.5 million, compared to $4.2 million for the year ended September 30, 1997. Our net capital expenditures for the six months ended March 31, 1999 were $5.8 million, compared to $5.6 million during the six months ended March 31, 1998. Our capital expenditures over the past eighteen months have related primarily to the purchase of land for engineering, production and service support facilities. Total capital expenditures in 1999 are expected to be less than $14.0 million.

In 1994, we formed Creo Ltd. (CPI) under the laws of Israel to carry on certain research and development work relating to our imaging technologies. In 1997, CPI began to focus on developing applications of our technologies to the printed circuit board industry. In 1998, our Board of Directors decided that we should focus our energies and resources on our core graphic arts business. As a result, additional shares of CPI were sold to outside investors, leaving us with a small minority interest. We also have an option to re-acquire up to an additional 5,280,000 shares, representing an 88% interest in CPI. This option is exercisable at any time up to March 12, 2000, at a price of $2.00 per share, plus a premium ranging from 10% to a maximum of 28% per annum, depending upon when the option is exercised. We have not currently decided whether to exercise this option. We are not represented on CPI's board of directors, and have no role in its management.

We believe that the net proceeds from the sale of the Common Shares in this offering, together with existing cash balances, cash generated by our operations and funds available under our credit facility will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next twelve months.

Year 2000 Readiness Disclosure

State of Readiness. We use a number of computer software programs and operating systems across our entire organization, including applications used in financial business systems and various administrative functions. Employing a team made up of internal personnel, we have completed the process of identifying and remediating information technology systems which were not Year 2000 compliant. As a result, we believe that none of our information technology systems currently contain source code that is unable to appropriately interpret the upcoming Year 2000.

We are dependent on third parties for certain components of our products. Year 2000 issues may affect these suppliers' ability to deliver product. We are reviewing our suppliers' plans for Year 2000 compliance to satisfy ourselves that they have made the necessary modifications to or replacements of any affected systems. We will rely primarily on the suppliers' commitments to accomplish this task but have no contractual commitment from the suppliers regarding Year 2000 issues.

Costs of Addressing Year 2000 Issues. Given the extent of our systems' compliance, we do not expect Year 2000 compliance costs to have any material adverse impact on our business. The total costs for the Year 2000 compliance assessment and remediation undertaken by us have not been significant and are included in general and administrative expenses.

Risks of Year 2000 Issues. In light of our assessment and remediation efforts to date, we believe that any residual Year 2000 risk is limited to non-critical business applications and support hardware. We have no assurance that the third-party manufacturers who supply certain components to us will be Year 2000 compliant with their internal systems. A reduction in the supply of product from these suppliers could have a material adverse effect on our business.

Contingency Plans. We have developed a contingency plan for all operations to address the most reasonable likely worst case scenarios regarding Year 2000 compliance.

Impact of Recently Issued Accounting Standards

In addition to the U.S. GAAP differences referred to in note 14 to our consolidated financial statements, the Financial Accounting Standards (FAS) Board in the United States has issued FAS 133, ''Accounting for Derivative Instruments and for Hedging Activities.'' FAS 133 provides comprehensive and consistent standards for the recognition and measurement of derivatives and hedging activities. Generally, FAS 133 requires all derivatives to be recorded on the balance sheet at fair value and establishes new accounting requirements for different types of hedging activities. FAS 133 is effective for fiscal years beginning after June 15, 1999.

To date, we have not engaged in any hedging activities. Our management continues to assess the implications of FAS 133, but does not believe its adoption will materially affect our historical results of operations or shareholders' equity when reconciled to U.S. GAAP as set out in our consolidated financial statements.

Quantitative and Qualitative Disclosures about Market Risk

We have used an interest rate swap to manage our risk with regards to interest rate changes. As a result, floating rate debt has been converted to fixed rate debt. The swap results in our paying an interest rate of 8.05% and receiving an interest rate of LIBOR + 1.5% for the duration of the long-term debt. The fair value of the interest rate swap as at September 31, 1998 is $341,000 in favor of the counterparty.

We have not engaged in any currency hedging to minimize the effect of exchange gains or losses. We are exposed to foreign currency fluctuations on our monetary asset and liability balances denominated in Canadian dollars and Belgian francs.

The table below presents the principal cash flows that exist by maturity date of our long-term debt and details of our interest rate swap as at September 31, 1998.

	1999	2000	2001	2002	Total
Fixed rate U.S.$ debt	647	—	—	—	647
Average rate	0%	—	—	—	0%
Floating rate U.S.$ debt	296	296	296	6,068	6,956
Average rate	7.2%	7.2%	7.2%	7.2%	7.2%
Interest Rate Swaps					
U.S.$ pay fixed—U.S.$ receive variable	296	296	296	6,068	6,956
Average pay rate	6.6%	6.6%	6.6%	6.6%	6.6%
Average receive rate	5.7	5.7	5.7	5.7	5.7

BUSINESS

Overview

Creo is a leading developer, manufacturer and distributor of comprehensive ''computer-to-plate'' (CTP) digital solutions that automate the prepress phase of commercial printing. ''Prepress'' refers to the process by which master printing plates are created prior to actual printing. Our CTP technology transfers digitized text, graphic images and line artwork directly from desktop publishing computer systems onto printing plates, eliminating several labor-intensive, complex and costly steps in the conventional prepress process. We offer a comprehensive line of precision imaging equipment, including scanners, proofing devices and plate imagers, as well as workflow management software. Our systems are based on our patented and proprietary thermal imaging and related technologies. These technologies enable printers to use their printing presses more profitably, while improving their ability to meet customer demands for tighter deadlines, better and more consistent color quality, shorter print runs and greater customization of print jobs.

We were the first to develop and commercialize a fully integrated high-speed CTP solution and our innovations have established thermal imaging as the industry standard for CTP. Since 1994, more than 900 of our CTP imaging systems have been installed in 29 countries, which is more than twice the number of installations of any of our competitors. Eight of the ten largest commercial printers in North America are adopting Creo systems as their CTP solutions. Creo systems are currently used to print high-circulation glossy magazines, including *Glamour, Newsweek, Scientific American, Sports Illustrated* and *Time*, as well as other documents such as color brochures and catalogs.

We are a leader in developing innovative prepress technology. In 1994, we delivered the first commercial CTP system for plate production. In 1995, we commercialized the first thermal CTP system. In 1996, we introduced the first digital proofing device that allows printers to produce accurate, high-quality digital proofs with the same imaging equipment used to image plates. We are at the forefront of research and development of digital prepress technology, including digital offset press (DOP) products. We believe that DOP technology, which images digital data directly onto a printing press, will become the next generation of prepress for short-run offset printing. We currently have 371 people involved in research and development and in the year ended September 30, 1998, our total research and development expenditures were $19.1 million. We currently hold 30 United States and foreign patents and have 39 United States and foreign patent applications pending.

An important part of our growth strategy has been establishing strategic alliances with major industry participants. For example, in October 1997, we established a joint venture with Heidelberg, the largest press manufacturer in the world, to develop, manufacture, market and distribute our CTP solutions worldwide.

Industry Background

Commercial printing is the largest segment of the printing industry and commercial printers are the largest purchasers of prepress capital equipment. Commercial printers use high speed lithographic offset printing presses, which require a set of master printing plates, to produce multiple copies of high-quality color materials such as magazines, catalogs and corporate annual reports. Lithographic offset printing produces large volumes of high-quality copies at high speed and low variable cost. Industry sources estimate that United States revenues of commercial printers in 1997 exceeded $70 billion. The revenues of commercial printers outside the United States are generally estimated to be between 2.5 and 3.5 times larger than in the United States.

The commercial printing industry is mature, fragmented and highly competitive, and is therefore characterized by narrow profit margins. In addition, printers face increasing demands from customers for tighter deadlines, better and more consistent color quality, shorter print runs and greater customization of print jobs. For example, publishers of magazines and catalogs increasingly wish to customize their publications to appeal more effectively to target audiences in different geographic regions or market segments, and to make last-minute changes in response to late-breaking developments.

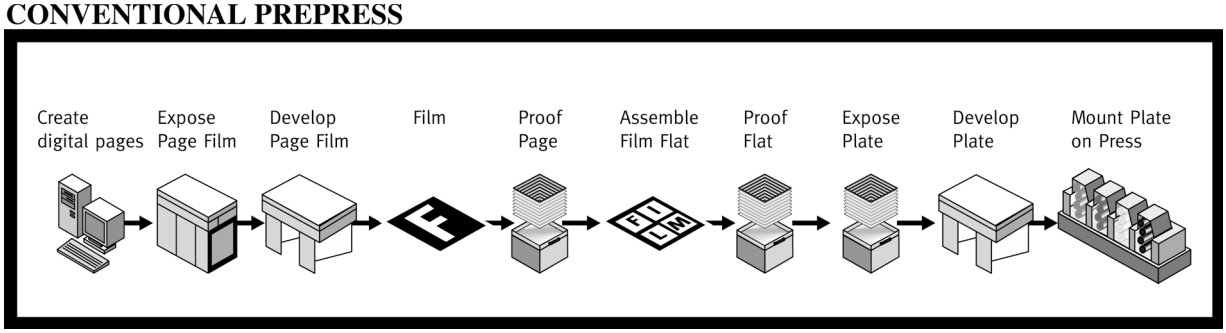
Our CTP solutions address the prepress needs of commercial printers. The worldwide market for prepress imaging equipment has been estimated by industry sources to exceed $3 billion annually. Although many of the largest commercial printers have begun to adopt CTP solutions, we believe the market is still developing. We believe that less than 20% of commercial printers in the world currently use CTP solutions. The remainder produce plates using the conventional prepress process. According to industry estimates, CTP unit shipments worldwide are expected to grow at a compound annual growth rate of approximately 20% from 1999 through 2003.

The Conventional Prepress Process

Conventional prepress requires highly skilled workers to perform a series of complex, time-consuming and labor-intensive manual tasks to create each printing plate. In conventional prepress, text, graphic images and line artwork are imaged onto film as single and double page ''separations.'' Separations for each of the four basic colors (cyan, magenta, yellow and black) are used to produce color printed materials. The separations are manually assembled into larger 2-page, 4-page, 8-page, 16-page or 32-page ''flats,'' depending on press size, with each color requiring a separate flat. For high-quality color printing, the alignment of the assembled separations must be accurate to within two thousandths of an inch. Alignment is a manual process that is prone to error and can result in frequent rework. Each of the assembled flats is then exposed, much like a photographic negative, to create an image on the printing plate. The exposed plate is processed to develop the image, and then manually mounted on the press for printing. After mounting, further adjustment of the plates is required to ensure the accuracy of the final printed product.

The following diagram illustrates the conventional prepress process:

CONVENTIONAL PREPRESS



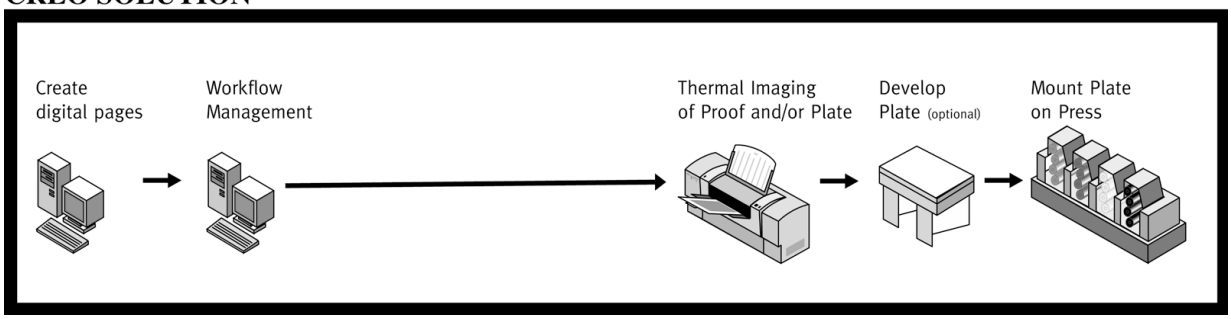
The complexity of conventional prepress limits the ability of commercial printers to respond to the changing demands of their customers. Conventional prepress suffers from many shortcomings that limit printers' ability to make last-minute changes and to tailor output to specific customer requirements on a cost-effective basis. These shortcomings include process variability, the use of costly films, paper and hazardous chemicals and idle time for expensive commercial presses. Growing demand for tighter deadlines, better and more consistent color quality, shorter print runs, and greater customization of print jobs has meant that printers using conventional prepress incur costs that they cannot readily pass on to their customers. As a result, these printers have experienced reduced operating margins.

The Creo Solution

Our CTP solutions consist of a comprehensive range of products that allow printers to eliminate numerous steps from the conventional prepress process by directly transferring computer-generated images and text onto plates, eliminating the need to create and process film. Our solutions integrate input devices, which digitize film separations; workflow software, which manages the flow of data as it is processed and prepared for output; proofing systems, which are used to check color and layout by creating a digital simulated copy of what the final printed job will look like; and output devices that transfer data onto plates for use on a printing press.

Our solution streamlines the prepress process, as the diagram below illustrates:

CREO SOLUTION



The key component of our solution is our patented parallel thermal imaging head that uses laser beams to precisely imprint heat-sensitive printing plates and proofing materials, which are then processed and placed on printing presses. Our thermal head splits the output of a single high-power laser diode into 240 separate beams. In contrast, most competing CTP systems require a separate diode for each beam, significantly increasing their cost and complexity. In 1996, the Graphic Arts Technology Foundation (GATF) awarded Creo its InterTech Technology Award, given for products predicted to have a major effect on the graphic communications industry, for the innovation of our thermal imaging head technology. GATF is a member-supported, nonprofit technical and educational organization serving the graphic communications industries.

We were the first to offer a commercial CTP system that transfers data onto plates wrapped around the outside of a rotating drum, known as external drum architecture, rather than onto a plate fixed to the inside of a stationary drum, known as internal drum architecture. Since the imaging head can be positioned closer to the plate, we believe that external drum technology produces a higher quality image on the plate, particularly in larger formats. Many imaging systems on the market now use external drum architecture. Moreover, since all offset presses are external drum devices, external drum architecture is uniquely suited for on-press imaging applications such as DOP. Our solution is unique because it combines external drum architecture with our multi-beam thermal imaging head. This combination increases imaging throughput while at the same time allowing the drum to rotate more slowly than is possible with systems having fewer beams, thus reducing vibration and the need for precision balancing, enhancing overall plate quality.

In comparison with other commercially available CTP systems, we believe that our unique combination of technologies delivers:

- more accurate images through sharper pixel resolution;
- greater color consistency;
- improved prepress reliability; and
- faster throughput.

The Creo solution allows printers to respond more quickly and cost-effectively to demands from their customers for tighter deadlines, better and more consistent color quality, shorter print runs, and greater customization of print jobs. At the same time they can benefit from reduced print cycle times and more flexible scheduling of presses.

The principal features of our CTP solutions are:

End-to-End Prepress Solutions

Our solutions integrate a complete range of Creo products that address the entire prepress process. Our scanners, workflow management software, proofing devices, and output devices together comprise a complete and fully integrated digital prepress system. We do not believe any competitor offers a product range comparable in breadth, versatility and performance.

Open Architecture and Connectivity

Our solutions support industry-standard file formats, readily interface with a broad range of proprietary data formats, accommodate a wide variety of input media and are adaptable to emerging file formats and standards such as Adobe Portable Document Format (PDF). Our equipment is designed to be compatible with printers' existing prepress equipment, thus avoiding waste and making our customers' investment decisions easier. For example, our output devices can image film, for the printers that require this capability.

Modularity, Scalability and Versatility

Our solutions are modular and scalable, with components that can be assembled in a variety of configurations to meet the needs of customers with varying print volume and press size. In addition, our output devices can accommodate the full range of plate sizes, throughput requirements and automation levels.

Knowledgeable and Comprehensive Customer Support

We offer comprehensive pre-sale evaluation, installation, system integration, training and post-sale support through what we believe is the most knowledgeable and experienced field service organization in our industry. We believe that our service and support organization, which maintains the reliability and performance of our systems and improves the productivity of our customers, differentiates us from our competitors.

Our Business Strategy

Our objective is to maintain our position as a leading developer and supplier of innovative digital prepress products and technologies. Our business strategy consists of the following key elements:

Expand Our Technology Leadership

We intend to continue to make significant investments in research and the development of innovative, next-generation, market-leading technologies such as DOP, as well as to apply our existing technologies to new markets such as packaging printing. We will continue to broaden the range of our product offerings as well as enhance the features, reliability and price/performance of our existing CTP products. Our focus on technology leadership has been critical in building our customer base, and our close contact with key customers, press manufacturers and leading industry suppliers has been invaluable in the design process by permitting us to understand and respond to market needs. We are continuing to strengthen our brand image, which we believe is synonymous with market-leading CTP technology.

Focus on Customer Success

We will continue to work closely with our customers to ensure that our systems generate clear economic benefits for them. We work with our customers during the design process to evaluate the productivity, output quality, reliability and ease of use of our systems. We also maintain service and support relationships with substantially all of our customers, and we will continue to expand our customer service capabilities by hiring additional service personnel in locations close to our customers. Our customers typically have been able to achieve full cost recovery within one to three years, depending on the size of their operations and the configuration of the Creo products used.

Expand and Leverage Strategic Business Alliances

Our success to date has been due in part to our strategy of establishing collaborative relationships with leading commercial printers, manufacturers of printing presses, plates and consumables and others in the commercial printing industry. Our strategy is to continue to develop and expand these collaborative relationships to broaden our distribution, product development and manufacturing capabilities. We believe these strategic relationships allow us to anticipate market needs, develop products to work optimally with new product offerings of press and plate manufacturers and enhance market acceptance of our products.

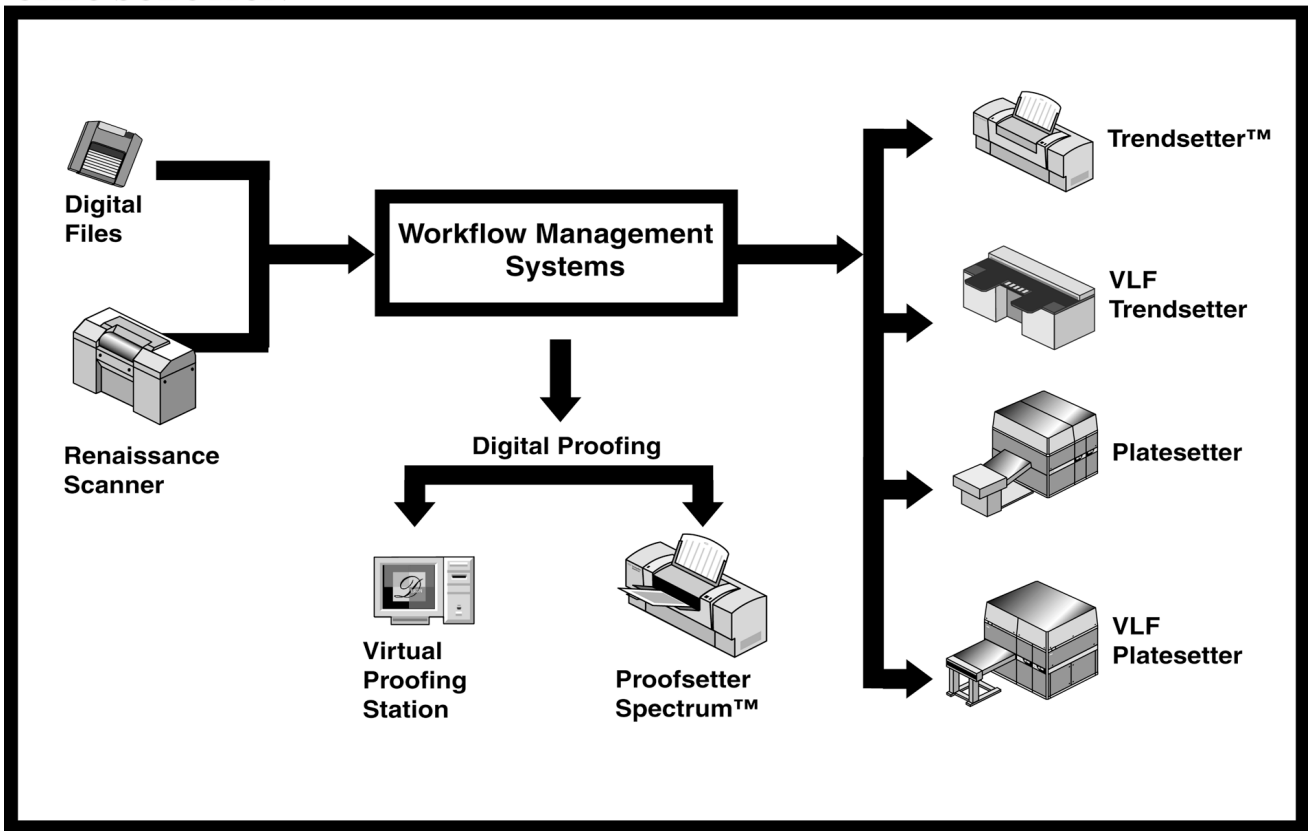
Expand Our Global Market Presence

We intend to expand our market penetration geographically, with a focus on small to mid-size commercial printers, which generally use 4-page and 8-page presses. We believe that we currently have approximately 70% market share in North America and 50% market share in Europe for 16-page and larger CTP systems. We intend to devote considerable resources to enhancing our penetration of the 4-page and 8-page market, primarily through our relationship with Heidelberg. We also intend to expand our presence in the international market for large-format CTP systems by augmenting our direct sales force and entering into distribution arrangements with leading vendors of thermal plates.

Products

We provide end-to-end digital solutions for prepress automation, including input devices, prepress workflow management systems and a variety of proofing and output devices:

CREO SOLUTION



Digital Input Devices

Our Renaissance scanners enable CTP-equipped printers to convert archived film, customer-supplied film and reflective copy into digital data, allowing them to obtain the benefits of digital workflow. All Renaissance scanners include Creo software tools for alignment and editing. In 1997, we were awarded the GATF InterTech Technology Award for our Renaissance scanner. The list prices of our scanners generally range from $225,000 to $345,000, depending on configuration and options.

Workflow Management Systems

Our digital workflow management systems incorporate both software and value-added third-party hardware. They process and archive the vast amounts of data used by printers to create plates and proofs. By

reducing the number of repetitive manual tasks and efficiently integrating all aspects of prepress, they enhance both productivity and output quality. Our workflow management systems can be configured for varying prepress workflow needs, and for both high- and low-volume printers. The list prices of our workflow systems range from $100,000 to $200,000, depending on configuration and options.

Proofers

Our proofers create a digital simulated copy of what a final printed job will look like, permitting confirmation of accuracy and color quality. Our proofing solution is available both as a stand-alone product, the Proofsetter Spectrum, and as an optional addition to our Trendsetter family of output devices. The list price of the Proofsetter Spectrum is $235,000.

CTP Output Devices

Our CTP output devices are available in several formats capable of handling a variety of plate types and sizes. All of our output devices currently use the same thermal imaging technology and multi-channel exposure head.

Platesetter. The fully automatic Platesetter is designed for high-quality, high-volume commercial printers exposing up to 450 plates daily. It enables a single operator to load up to 600 plates of up to six different sizes at a time without removing the plates from their shipping cartons. In 1994, the GATF awarded us its Inter-Tech Technology Award for the Platesetter 3244. In 1996, we introduced the VLF Platesetter (very large format) to respond to printers' needs for larger CTP plates designed for wide web presses. The list prices of the Platesetter generally range from $390,000 for the Platesetter 3244 to $860,000 for the VLF Platesetter, depending on configuration and options.

Trendsetter. The semi-automatic Trendsetter is designed for high-quality commercial printers exposing up to 300 plates daily. These printers have less need for the full automation of the Platesetter. Upgrades to the basic Trendsetter are available to provide automatic plate handling and to permit proofing with our Proofsetter Spectrum option. The versatility and multi-function capability of the Trendsetter makes it particularly attractive to small and mid-size commercial printers since it provides proofing capabilities at a modest increase in capital expense. For many printers, the multi-use Trendsetter can meet all requirements for plates, proofs and film, where required. Larger printers can use the Trendsetter primarily to image proofs, while providing peak-period plate-making capacity and backup for their primary Platesetter. The list prices for Trendsetter output devices generally range from $135,000 for the Trendsetter 3230 to $550,000 for the VLF Trendsetter, depending on configuration and options.

Research and Product Development

Our research and product development activities are performed in-house by a group of engineers and scientists with expertise in a variety of fields, including software, electronics, mechanics, optics, physics and chemistry. Product development is organized around core teams with representatives from all areas of our company. Each core team has the authority to manage all aspects of its products and projects, including product architecture, core technology, functionality and testing.

In the fiscal years ended September 30, 1996, 1997 and 1998, our total research and product development expenditures were $14.7 million, $14.9 million and $19.1 million, respectively. For the six months ended March 31, 1999, our total research and product development expenditures were $13.3 million. We have received funding for our research and development work from media suppliers, press manufacturers and our customers in connection with specific product development initiatives undertaken by us at their request. We have also received funding from the Canadian government through investment tax credits. From October 1, 1995 through March 31, 1999, we received an aggregate of $26.3 million in research and development funding from these sources.

Our current research and product development efforts are focused on improving our current product line, including enhancements to our thermal imaging head technology, developing next generation workflow and

output devices, including a line of DOP products, and applying our core technologies to new printing markets and methods such as packaging printing and flexography.

Workflow Systems

Creo and Heidelberg are co-developing a state-of-the-art family of workflow and related products that manage the prepress operation. The new system is designed to fully automate the prepress process by providing intelligent scheduling and workflow optimization through an open standard, scalable, multi-user architecture. It is device-independent and extremely flexible, and integrates easily with most output devices. It is designed for medium and large commercial printers, is adaptable to both black and white and color printing and is scalable so that it can accommodate growth in printers' prepress operations.

Digital Offset Press

We are working with the leading manufacturers of printing presses to develop advanced DOP systems. A DOP imaging system images digital data directly onto the press. The DOP technology that we are currently introducing through Heidelberg uses a plate that is similar to standard CTP plates, which must be replaced for each new job. We also have under development a new generation of DOP technology in which the plate cylinder is coated with a polymer and imaged. After the job has been printed, the plate cylinder is ''erased'' and a new coating of polymer is applied, allowing new data to be imaged for the next job. DOP is expected to further reduce the total cost of prepress and press set-up for offset printers. This should allow printers to compete more effectively with alternative printing technologies, such as xerography, that have low set-up costs and are generally used for short print runs.

Flexography

We have begun applying our knowledge of prepress to the second largest segment of the printing industry, packaging printing. Package printers use a variety of printing processes, the most common of which is flexographic printing. Rather than using the metal plates traditionally used by commercial printers, flexographic printers primarily use rubber plates for printing a wide variety of materials such as plastic, film, paper, cardboard and metal. In 1996, revenue for packaging printers in the U.S. was estimated at $55 billion and flexographic printing represented approximately 60% of this market.

In 1998, we introduced several prototype units of our Thermoflex digital flexographic platesetter for packaging printers. This device has high productivity and plate handling features that minimize damage to the expensive plate material. It can image flexographic plates of any size and thickness without any reduction in processing speed. Digital flexographic plates offer significantly higher quality than conventional flexographic plates, and allow flexographic printers to compete more effectively with both offset and gravure printers. The Thermoflex can also image processless thermal film using a proprietary process which improves the performance of low-cost flexographic plates. In March 1999, the Flexographic Pre-Press Platemakers Association awarded Creo its Technological Innovator of the Year Award for the Thermoflex. The list price of the Thermoflex is expected to be in the range of $400,000 to $495,000, depending on configuration and options.

Our Joint Venture with Heidelberg

In October 1997, we established a joint venture with Heidelberg to develop, manufacture, market and distribute our 4-page and 8-page CTP and related workflow management products and consumables worldwide, and to develop additional prepress products. Heidelberg is the largest manufacturer of printing presses in the world and the leading supplier of the 4-page and 8-page sheet-fed printing presses. The 4-page and 8-page printing presses are the type most commonly used by small and mid-size commercial printers. For the year ended March 31, 1998, Heidelberg reported total revenues in excess of $3.5 billion, of which approximately $2.3 billion was attributable to sales of these presses. With offices in more than 160 countries, Heidelberg has substantial international marketing and distribution channels for commercial printing presses and prepress equipment, and an extensive customer support and service organization.

We expect to realize significant benefits from the joint venture with Heidelberg. These include:

- access to Heidelberg's worldwide customer base of small and mid-size commercial printers, through its established marketing and distribution network;
- access to Heidelberg's extensive service and customer support organization outside North America;
- shared funding of certain of our research and development projects relating to joint venture CTP products; and
- cost-effective manufacture of certain CTP products by Heidelberg at its manufacturing facilities in Kiel, Germany.

Under the agreement with Heidelberg:

- each party provides goods and services to the joint venture at cost, as defined in the agreement;
- in general, costs and profits are shared equally;
- Heidelberg is the principal manufacturer of our 4-page and 8-page Trendsetter output devices, although we continue to manufacture a limited quantity of these products at our facilities in British Columbia. Manufacturing arrangements are subject to periodic review based on cost-competitiveness and may be reassigned unless a party is prepared to subsidize the joint venture for the incremental cost of retaining its existing manufacturing rights;
- Creo has the right to be the sole supplier of thermal imaging heads for use with joint venture CTP products;
- North American marketing and distribution of most joint venture products is undertaken jointly, although certain key accounts are reserved to Creo; elsewhere, marketing and distribution is undertaken through Heidelberg's distribution channels;
- prices for joint venture products are established jointly;
- Heidelberg may not sell CTP products of other manufacturers as long as it markets and distributes joint venture products, and we may not use third parties to market our CTP products that are not covered by the joint venture, such as the VLF Trendsetter, without first offering marketing and distribution rights to Heidelberg;
- in North America, Creo provides customer service and support for our 4-page and 8-page CTP products; in the rest of the world these functions are generally performed by Heidelberg. Neither the costs nor the revenues associated with customer service and support are shared;
- we are the exclusive provider of research and development for joint venture CTP products and related consumables, and work jointly with Heidelberg on research and development relating to workflow products; and
- in general, intellectual property developed in connection with the joint venture remains the property of the party that developed it, but is licensed to the joint venture without charge.

The joint venture is co-managed. It does not own any material assets, maintain any employees or operate its own manufacturing or other operating facilities. Disputes concerning certain financial matters will be submitted to the joint binding determination of our respective independent auditors. Disputes over the interpretation of the joint venture agreement may, as a last resort, be submitted to binding arbitration. If a dispute arises concerning the operation or management of the joint venture and the parties cannot reach agreement on the matter, either party may terminate the joint venture if it considers that resolution of the disagreement is necessary to the continuation of the joint venture.

Our agreement with Heidelberg grants broad termination rights to both parties. For example, either party may terminate the joint venture if the joint venture fails to achieve, for any rolling 12-month period after

March 31, 1999, the highest revenue levels in both Europe and North America of any seller of CTP products that are competitive with the CTP products sold by the joint venture. Each party also has the right to terminate in certain other defined events, including:

- the other party becoming bankrupt;
- a 25% or greater ownership interest in the other party being acquired by another seller of CTP products;
- the other party failing to commit appropriate resources to achieving the objectives of the joint venture; and
- the other party committing a breach of a material obligation under the joint venture agreement and, having been given notice of the breach, failing to remedy it within 45 days.

If the joint venture is terminated, the agreement provides that the parties will cooperate to ensure that, for certain periods of time following termination, each party has access to the products, the manufacturing facilities and the service organization and distribution channels formerly provided by the other through the joint venture, so that each party can independently develop the business capabilities previously available through the joint venture. Specifically:

- we will license Heidelberg to manufacture and distribute our CTP products, at fair original equipment manufacturer (OEM) prices, for two years;
- each party will grant the other license for up to three years, relating to workflow products and components with respect to which it owns the intellectual property rights, at fair OEM prices; and
- we will complete, on an equal cost-sharing basis, any research and development obligations assumed by the joint venture prior to termination.

Sales and Marketing

We sell and support our products through both direct and indirect sales organizations, including the joint venture with Heidelberg. Our direct sales organization consists of over 100 people located at our headquarters in Burnaby, British Columbia, and in regional sales offices in various locations in the United States, including Boston, Chicago, Los Angeles and San Francisco; and in Brussels, Belgium; and Sydney, Australia.

Our direct sales organization is responsible for sales worldwide (except in Japan) of all products not included in the joint venture with Heidelberg. Both Creo and Heidelberg sell joint venture products in North America. Outside North America, Heidelberg is the exclusive marketer and distributor of joint venture products. In Japan, we sell our CTP products through Dainippon Screen Mfg. Co. Ltd. and Heidelberg.

Production and Assembly

We produce and assemble our Renaissance scanners, Platesetter 3244, VLF Platesetter and VLF Trendsetter output devices, and all thermal imaging heads in our three production facilities in British Columbia. We also produce a limited number of 4-page and 8-page CTP output devices for distribution in North America. We perform electro-optical assembly, precision mechanics and electro-mechanical assembly, as well as testing and systems integration at these facilities. In order to maintain flexibility and reduce costs, we sub-contract the manufacture and assembly of certain components. All of our output devices are designed to use the same interchangeable thermal imaging head, resulting in reduced inventory requirements and increased manufacturing and servicing efficiencies.

The majority of the 4-page and 8-page Trendsetter output devices for distribution by the joint venture worldwide are currently assembled at Heidelberg's manufacturing facility in Kiel, Germany. The joint venture agreement contemplates periodic reviews of the cost competitiveness of the manufacturing arrangements and, based on these reviews, manufacturing responsibility can be reassigned. Nevertheless, a party with

manufacturing responsibilities can retain them so long as it agrees to subsidize the joint venture for the incremental cost of manufacturing at its facility.

We manufacture products based on customer orders, although we purchase some subassemblies and components prior to receipt of customer orders. Lead times for the materials and components that we order vary significantly, depending on factors such as the specific supplier, contract terms and the demand for a component at a given time.

Customers and Customer Support

More than 900 of our CTP systems have been installed at over 480 customer sites in 29 countries. Many of the largest commercial printers in North America have installed our systems at multiple sites. Approximately half of our current customers are small and mid-size commercial printers, principally in North America. We expect to expand our penetration of the worldwide small and mid-size printing market, principally through our joint venture with Heidelberg. We also intend to increase sales of our large format systems worldwide, principally through our own direct sales force. In the six months ended March 31, 1999 and in fiscal 1998 no customer accounted for more than 10% of our revenue. In fiscal 1997, only one customer accounted for more than 10% of our total revenue.

We provide comprehensive services to our customers including on-site and 24 x 7 on-line service and support. Upon delivery of one of our systems, a team performs the installation and initial testing procedures and supports the site until the customer has accepted the system. Our field operations team and strategically located service representatives provide same-day or next-day on-site service under support contracts. We also have experienced engineers connected by modem with each of our systems in North America to provide immediate remote-line diagnostics and troubleshooting. We also provide instruction to customers in the use of all of our products, both at their sites and at our training centers located at our headquarters and at a software training center near Chicago. Technical news and updates, as well as software upgrades, are posted on our web site for easy remote access. Heidelberg's extensive international customer service and support organization supports sales by the joint venture outside North America.

Intellectual Property

Our success and ability to compete is dependent in part on our ability to develop and protect our proprietary technology. We file United States and, where appropriate, foreign patent applications to protect technology, inventions and improvements important to the development of our business. We also rely on a combination of copyright, trademark and trade secret rights, confidentiality agreements and licensing arrangements.

As at March 31, 1999, we held 24 issued United States patents and six issued foreign patents and had 30 United States and nine foreign patent applications pending. These issued and pending patents cover various aspects of our products and processes. The expiration dates of our issued patents range from January 2003 to January 2017.

Our confidentiality and proprietary information agreements with our senior management, other employees, and others generally provide that all confidential information developed or made known to such individuals by us during the course of a relationship with us is to be kept confidential and not disclosed to third parties, except in specific circumstances. The agreements also generally provide that all inventions developed by the individual in the course of rendering service to us belong exclusively to us.

Competition

The market for digital prepress equipment and systems is highly competitive. It is changing rapidly and is affected by changes in customer requirements, new product introductions and other market activities of industry participants. We face direct competition from other manufacturers of prepress input and output systems. Our principal direct competitors in the prepress automation systems market are Scitex Corporation Ltd., Agfa-Gevaert N.V., Dainippon Screen Mfg. Co. Ltd., Barco N.V., and Cymbolic Sciences International, Inc. Certain other companies offer equipment that competes with specific products or product capabilities within our product line.

The principal competitive factors affecting sales of our solutions are price relative to performance and customer service. Potential customers typically weigh price against throughput of systems, quality, reliability and cost of operation. They demand a high level of training, support and service, and adaptability to their specific requirements and existing equipment.

We also face potential indirect competition from other printing methods, principally xerography. Xerography has benefited from recent technological innovations that could make it an economic alternative to offset printing for very short print runs. Xerography enables different images to be printed on successive pages and is sometimes described as ''on-demand'' printing. To the extent that recent innovations in xerographic technology enable higher quality color images to be reproduced xerographically in larger volumes and with lower variable costs, xerography could present an alternative to lithographic printing at relatively low print volumes. We expect that for the foreseeable future the cost per page of xerography will continue to be higher than that of offset lithography, and that these devices will be used primarily to provide highly variable or extremely short run printing. At the same time, we believe that the emergence of a mature DOP technology has the potential to transform the lithographic offset press into a ''short run press'' which can compete with recent innovations in xerographic technology, wherever page to page variation is not required.

Employees

As at March 31, 1999, we employed 1,237 people full-time. Of these, 371 are engaged in research and product development, 339 in manufacturing, 298 in customer support activities, 127 in marketing and sales and 102 in administration.

We believe we have developed a unique corporate culture that attracts highly qualified and motivated employees. We emphasize teamwork, flexibility, local decision making and the free flow of information. Employee turnover is low, and most of our employees hold either Common Shares or options to acquire Common Shares. We have never had a work stoppage and no employees are covered by collective bargaining agreements. We believe our employee relations are excellent.

Facilities

Our headquarters are located in Burnaby, near Vancouver, in British Columbia, Canada. We own two adjacent facilities totaling 213,000 square feet housing our executive and administrative offices, our product development group, a demonstration facility, customer support response center, customer training facility, and a thermal head production facility. We also own a 140,000 square foot production facility in Delta, British Columbia, which includes a modern assembly area, cleanrooms for integration and product testing and a precision machine shop with computer controlled equipment. The Delta facility and one of the two Burnaby facilities are subject to a mortgage, maturing on February 4, 2002, in favor of a Canadian chartered bank. We have regional sales and service offices in leased premises in various locations throughout the United States. Our European sales, service and training operations are headquartered in Brussels, Belgium, under a lease expiring in December 2005.

Legal Proceedings

We are a party to certain legal proceedings in the ordinary course of our business, including actions relating to our intellectual property rights. We do not believe that the outcome of any present litigation will have a material adverse effect on our business, operations or financial condition.

MANAGEMENT

Directors and Executive Officers

The following table sets forth certain information regarding our directors and executive officers, as of March 31, 1999:

Name and Municipality of Residence Principal Occupation (other than Creo)	Age	Position with Creo
Amos Michelson (1) Vancouver, British Columbia	46	Chief Executive Officer and Director
Daniel Gelbart Vancouver, British Columbia	52	President and Director
Michael D. Ball Brussels, Belgium	37	Vice President, Sales and Support of Creo Products N.V.
N. David Brown Vancouver, British Columbia	44	Vice President, Business Strategy
Mark N. Dance Vancouver, British Columbia	35	Vice President and Chief Operating Officer
Philippe H. Favreau Vancouver, British Columbia	36	Vice President, Manufacturing
Kevin M. Joyce Boston, Massachusetts	33	Vice President, Sales of Creo Inc.
Thomas A. Kordyback Vancouver, British Columbia	47	Vice President, Finance, Chief Financial Officer and Secretary
Robert J. Mielcarski Delta, British Columbia	40	Vice President, Business Systems and Technology
Boudewijn P. Neijens Brussels, Belgium	40	General Manager of Creo Products N.V.
B. Darcy O'Grady Vancouver, British Columbia	45	Vice President, Human Resources
Michael Rolant Vancouver, British Columbia	37	Vice President, Customer Support
Raphael H. Amit, Ph.D. (1)(2) Vancouver, British Columbia *Professor, University of British Columbia*	51	Chair of the Board and Director
David A. Bennett (2) Vancouver, British Columbia *Managing Director,* *Business Development Bank of Canada*	58	Director
Thomas D. Berman (1)(3) Winnetka, Illinois *Executive Director, Brinson Partners, Inc.*	41	Director
John J. Bu (1)(3) Short Hills, New Jersey *Vice President, Goldman, Sachs & Co.*	35	Director

Name and Municipality of Residence Principal Occupation (other than Creo)	Age	Position with Creo
Douglas H. Richardson . . . . . . Vancouver, British Columbia	37	Director
Kenneth A. Spencer, Ph.D. (1)(2) . . . . . . Vancouver, British Columbia *Corporate Director*	55	Director

(1) Member of the Compensation, Nominating and Corporate Governance Committee.

(2) Member of the Audit Committee.

(3) Member of the Finance Committee.

The following is a brief biography of each of Creo's directors, executive officers and key employees:

Amos Michelson has been our Chief Executive Officer since June 1995 and a director since March 1992. From August 1991 to June 1995, he was our Vice President, Business Strategy. For approximately ten years prior to joining us in 1991, he held various positions with Optrotech Ltd., an Israeli developer and manufacturer of optical and imaging systems for the printed circuit board industry, most recently Chief Operating Officer. Mr. Michelson holds a B.Sc. in electrical engineering from the Technion in Israel and an M.B.A. from the Stanford Graduate School of Business in the United States.

Daniel Gelbart has been the President of Creo since February 1991 and a director since our formation in 1985, except for the period from February 1997 to February 1998. From May 1985 until February 1991, Mr. Gelbart was Creo's Vice President. Mr. Gelbart holds a B.Sc. and an M.Sc. in electrical engineering from the Technion in Israel.

Michael D. Ball has been Vice-President, Sales and Support, Creo Products N.V., since May 1998. He joined us in April 1997 and, prior to his appointment as Vice President, Sales and Support, Creo Products N.V., he was Director, Sales and Support, of Creo Products, Inc. From June 1994 to April 1997, he worked in Canada as an independent business and technical support consultant. From June 1985 to June 1994, he held various sales and management positions with Digital Equipment of Canada, a manufacturer of computer systems, most recently as Sales Manager. Mr. Ball holds a B.Comm. from the University of British Columbia in Canada.

N. David Brown has been our Vice President, Business Strategy since June 1995. He joined Creo in November 1990 and, prior to his appointment as Vice President, Business Strategy, held various positions, including Vice President, Product Development from September 1994 until June 1995, Director of Imaging Products from January 1993 until September 1994, Project Manager from May 1991 until January 1993, and Design Engineer from November 1990 until May 1991. Prior to joining Creo, Mr. Brown was a co-founder and served as Director of Product Development with TIR Systems, Inc., a Vancouver, British Columbia-based manufacturer of lighting systems. Mr. Brown holds a B.A.Sc. in automation engineering from Simon Fraser University in Canada.

Mark N. Dance became our Chief Operating Officer in October 1997. He joined us in May 1994, and prior to his appointment as Chief Operating Officer, he held a variety of positions including Vice President, Operations from January 1997 until October 1997, Vice President, Product Development from June 1995 until December 1996, Product Manager for all CTP products from November 1994 until May 1995, and Project Manager from May 1994 until October 1994. From April 1986 to May 1994, he worked in Canada for Andronic Devices Ltd., a developer of surgical and medical automation devices, first as a Senior Project Engineer and later as the Director of New Product Development. Mr. Dance holds a B.Sc. in mechanical engineering from the University of British Columbia.

Philippe H. Favreau has been our Vice President, Manufacturing since June 1996, having previously been Operations Manager since October 1995. From September 1992 until September 1995, Mr. Favreau worked in France for Schneider Electrical S.A., a supplier of electrical components. Mr. Favreau is a graduate in engineering physics from École Polytechnique of Grenoble in France, and holds an M.Sc. in nuclear sciences from École Polytechnique of Montreal in Canada and an M.B.A. from the University of Paris in France.

Kevin M. Joyce was appointed Creo's Vice President, Sales for North America in March 1997. From February 1994 to March 1997, he was Creo's Director, Sales for the Eastern Region. Between 1989 and January 1994, Mr. Joyce worked in Israel at Optrotech Ltd. Most recently, Mr. Joyce was the Sales Manager of Optrotech's Graphic Arts Division from July 1993 to January 1994. Mr. Joyce holds a B.A. in American Studies from St. Michael's College in the United States.

Thomas A. Kordyback became Creo's Vice President, Finance, Chief Financial Officer and Secretary in July 1995. From May 1993 until July 1995, he served as Chief Financial Officer of Telelink Communications Corp., a Canadian paging systems company. Prior to May 1993, Mr. Kordyback worked in Canada as an independent business consultant. He holds a B.A. in economics from the University of Victoria in Canada and holds the Chartered Accountant designation.

Robert J. Mielcarski has been Creo's Vice President, Business Systems and Technology since January 1999. He joined Creo in November 1995 and, prior to his current appointment, he held various positions including Vice President, Product Development from November 1996 to January 1999, and Product Manager for DOP from November 1995 to November 1996. From November 1990 until November 1995, Mr. Mielcarski served as Vice President, Research and Development for Dynapro Systems, Inc., a Canadian developer and manufacturer of industrial automation systems. Mr. Mielcarski holds a B.Sc. and an M.Sc. in electrical engineering from the University of British Columbia.

Boudewijn P. Neijens has been the General Manager of our Belgian subsidiary, Creo Products N.V., since joining us in October 1994. From July 1992 until September 1994, he was the European Sales and Marketing Director of Optrotech Ltd. From February 1989 to July 1991, Mr. Neijens served as Desktop Products Group Manager of Crosfield Electronics Ltd., an English manufacturer of electronic prepress systems. From March 1983 to January 1989, Mr. Neijens worked in Belgium for Brepols N.V., Belgium's largest commercial printer, as the manager of its prepress production department. Mr. Neijens holds an M.A. in mechanical engineering from the University of Brussels in Belgium and an M.B.A. from the Institut Superieur d'Études Administratives in France.

B. Darcy O'Grady has been our Vice President, Human Resources since June 1996. He joined us in November 1994 and, prior to his appointment as Vice President, Human Resources, he served as Director, Human Resources. From 1986 to June 1994, Mr. O'Grady was Director, Human Resources of MacDonald Dettwiler & Associates, a systems engineering company based in Richmond, British Columbia. Mr. O'Grady holds a B.A. in Economics from Simon Fraser University.

Michael Rolant has been Creo's Vice President, Customer Support since June 1996, having previously served as Creo's Worldwide Customer Service Manager since he joined us in October 1995. From September 1989 until October 1995, Mr. Rolant held various positions in Israel and the United States with Orbotech Ltd., a developer and manufacturer of automated inspection machinery for the printed circuit board industry, including Regional Operations Manager from February 1995 to October 1995, Customer Support Co-ordinator from June 1993 to February 1995, and Senior Systems Specialist from November 1991 to June 1993. Mr. Rolant holds a B.Sc. in electrical engineering from Tel Aviv University in Israel and an M.Sc. in management from Lesley College in the United States.

Raphael H. Amit has been the Chair of the Board and has served as one of our directors since January 1996. Since August 1990, he has been a professor at the University of British Columbia. In addition, since July 1994, he has been the Peter Wall Distinguished Professor of Entrepreneurship and Venture Capital at the

University of British Columbia. Dr. Amit holds a B.A. and an M.A. in economics from Hebrew University in Israel, and a Ph.D. in Managerial Economics from the J.L. Kellogg Graduate School of Management at Northwestern University in the United States.

David A. Bennett has served as one of our directors since April 1994. Since June 1992, Mr. Bennett has been a Managing Director of the venture capital division of the Business Development Bank of Canada. Mr. Bennett holds the Chartered Accountant designation.

Thomas D. Berman has served as one of our directors since June 1998. Since September 1990, he has been with Brinson Partners, Inc., an investment management firm, where he is currently Executive Director in the Private Markets Group. Mr. Berman holds a S.B. in Electrical Engineering from the Massachusetts Institute of Technology and an S.M. from the M.I.T. Sloan School of Management in the United States.

John J. Bu has served as one of our directors since January 1997. Since August 1991, he has been with Goldman, Sachs & Co., an investment banking firm, where he is a Vice President in the Principal Investments Area. Mr. Bu holds a B.A. in History and a B.S. in Finance from the University of Pennsylvania in the United States, and a J.D. from Harvard University in the United States.

Douglas H. Richardson has served as one of Creo's directors since January 1999 on the nomination of our employees. Mr. Richardson has been the Thermal Imaging Product Manager since October 1997. Since joining Creo in October 1991 as a Systems Engineer, he has held various positions, including Project Manager of DOP and Thermal Imaging from September 1993 to July 1995, and Product Manager of all CTP devices from July 1995 to October 1997. Mr. Richardson holds a B.Sc. in engineering physics and an M.Sc. in mechanical engineering from the University of British Columbia.

Kenneth A. Spencer co-founded Creo and has been a director since our formation in 1985, except for the period from January 1996 to January 1997. From May 1985 to June 1995, he was our Chief Executive Officer, and from May 1985 to January 1996, he also served as the Chair of our board of directors. Mr. Spencer is a member of the board of directors of Spectrum Signal Processing, Inc., a publicly traded company specializing in digital signal processing. Dr. Spencer holds a B.Sc. and Ph.D. in electrical engineering from the University of British Columbia and an M.B.A. from Simon Fraser University.

Executive officers are appointed annually by the board of directors and serve until their successors are appointed and qualified. There are no family relationships among any of our officers or directors.

Creo does not have employment agreements with its executive officers. However, we have entered into post-termination two-year non-competition agreements with Messrs. Brown, Dance, Gelbart, Kordyback and Michelson.

Creo's board of directors

Creo's directors are elected at our annual meeting of shareholders and serve until their successors are elected or appointed, unless they resign or are removed earlier. Our Articles of Incorporation provide for a board of directors of a minimum of two and a maximum of nine directors. The board currently consists of eight directors. Under the CBCA, a majority of our directors and any committee of the board of directors must be composed of resident Canadians.

Messrs. Amit, Bennett, Berman, Bu, Gelbart, Michelson, Richardson and Spencer were elected to the board of directors pursuant to certain provisions of the Shareholders Agreement among Creo and certain of its principal shareholders. These provisions of the Shareholders Agreement will terminate upon completion of this offering.

Committees of the board of directors

Creo's board of directors has established three committees:

The Compensation, Nominating and Corporate Governance Committee is responsible for reviewing the terms of employment and compensation arrangements for our senior executives, succession planning, awards under our 1996 Stock Option Plan and our Employee Profit Sharing Plan, maintaining a continuous review of board and committee effectiveness and making recommendations for nominees to be elected or appointed as directors. The Compensation, Nominating and Corporate Governance Committee currently consists of directors Michelson, Amit, Berman, Bu and Spencer.

The Audit Committee is responsible for reviewing and making recommendations with respect to our independent auditors, the annual audit of our financial statements and our internal accounting practices and policies. The Audit Committee currently consists of directors Amit, Bennett and Spencer.

The Finance Committee is responsible for reviewing and making recommendations to Creo's board of directors concerning the terms and conditions of financings, risk management and transactions which could materially affect our financial or corporate structure. The Finance Committee currently consists of directors Berman and Bu.

Director Compensation

Our directors are not compensated for serving as directors. Our directors are eligible to participate in our 1996 Stock Option Plan.

Indemnification of Directors and Executive Officers and Limitation of Liability

Creo's by-laws provide that we will indemnify any of our directors, former directors, officers and former officers, and certain others, against all costs reasonably incurred by them with respect to any civil, criminal or administrative action or proceeding to which they are or may be made a party by reason of having been a director or officer of Creo. The indemnity covers amounts paid to settle actions or to satisfy judgments. However, Creo may only indemnify one of these persons, if that person acted honestly and in good faith with a view to the best interests of Creo, and, in the case of a criminal or administrative action or proceeding, if the person had reasonable grounds for believing that his or her conduct was lawful. The CBCA provides that court approval is required for the payment of any indemnity in connection with an action brought by or on behalf of Creo. Creo has entered into indemnification agreements with each director and executive officer. We have been informed that, in the opinion of the U.S. Securities and Exchange Commission, the indemnification of directors, officers or persons controlling Creo for liabilities arising under the United States Securities Act of 1933, as amended, is against public policy as expressed in that Act and is, therefore, unenforceable.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation, Nominating and Corporate Governance Committee are currently directors Michelson, Amit, Berman, Bu and Spencer. Neither Dr. Amit, Mr. Berman nor Mr. Bu has at any time been an officer or employee of Creo.

Executive Compensation

In fiscal 1998, Creo paid an aggregate $1,048,123 in cash compensation to the directors and officers named under the caption ''Directors and Executive Officers,'' as a group (18 persons).

At March 31, 1999, our directors and officers, as a group, held options to purchase a total of 847,378 Common Shares, at exercise prices ranging from C$3.75 to C$17.50 per Common Share. These options are scheduled to expire on various dates between August 31, 2000 and January 4, 2004.

Summary Compensation Table

The following table sets forth information concerning compensation earned for services rendered during each of our last three fiscal years by our Chief Executive Officer and the other four most highly compensated executive officers (the Named Officers). Except as noted below, there were no long term compensation awards paid to the Named Officers during the fiscal years. The annual compensation set forth below excludes perquisites and other personal benefits because these benefits did not exceed 10% of the total annual salary and bonus for any of the Named Officers.

		Annual Compensation			Long-Term Compensation
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Compensation**	**Securities Under Options Granted (#)**
Amos Michelson	1998	$94,435	$179,897	$4,551	—
Chief Executive Officer	1997	93,782	128,682	4,343	—
	1996	86,591	—	4,359	—
Daniel Gelbart	1998	94,435	179,897	4,551	—
President	1997	93,782	128,682	4,343	—
	1996	86,591	—	4,359	—
Kevin Joyce	1998	135,095	1,329	600	186
Vice President, Sales of Creo Inc.	1997	227,201	—	12,000	7,334
	1996	96,422	—	10,320	113,200
Michael Ball	1998	115,047	—	—	6,094
Vice President, Sales	1997	85,287	—	—	4,000
and Support of Creo Products N.V.	1996	33,936	—	—	—
Boudewijn Neijens	1998	82,414	—	7,254	8,186
General Manager of	1997	86,301	—	7,377	13,000
Creo Products N.V.	1996	96,140	—	6,504	12,500(1)

(1) Indicates Common Shares awarded to Mr. Neijens.

Option Grants in 1998 Fiscal Year

The table below shows information regarding grants of stock options made to the Named Officers under the 1996 Stock Option Plan.

Name	**Securities Under Options Granted (#)**	**% of Total Options Granted to Employees in Financial Year**	**Exercise Price (C$/Share)**	**Market Value of Securities Underlying Options on the Date of Grant**	**Expiration Date**
Kevin Joyce	186	0.02%	C$17.50	C$17.50	January 1, 2003
Michael Ball	6,094	0.73%	C$17.50	C$17.50	January 1, 2003
Boudewijn Neijens	8,186	0.98%	C$17.50	C$17.50	January 1, 2003

Fiscal Year-End Option Values

The following table shows, for each of the Named Officers, certain information relating to unexercised options held as of September 30, 1998. No options were exercised by the Named Officers during fiscal 1998.

Name	Unexercised Options as at September 30, 1998 (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options at September 30, 1998 Exercisable/ Unexercisable (1)
Kevin Joyce	31,696/81,066	n/a
Michael Ball	12,378/0	n/a
Boudewijn Neijens	22,186/0	n/a

(1) The value of unexercised in-the-money options is not determinable as the Common Shares were not publicly traded at September 30, 1998.

Employee Benefit Plans

1996 Stock Option Plan

Our 1996 Stock Option Plan provides for the grant of incentive stock options to employees and nonstatutory stock options to employees and consultants. The purpose of the plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to employees and consultants and to promote the success of our business.

Our 1996 Stock Option Plan was approved by our board of directors in November 1995 and was approved by our shareholders in January 1996. Unless terminated earlier by the board of directors, the plan will terminate in November 2005. A total of 8,000,000 Common Shares have been reserved for issuance under the plan. As of March 31, 1999, options to purchase 4,595,232 Common Shares were outstanding, 60,428 Common Shares had been issued upon exercise of options granted, and 3,344,340 Common Shares remained available for future grant. The outstanding options are exercisable at prices between C$3.75 and C$17.50 per share and expire on various dates between January 31, 2001 and January 4, 2004. A total of 201,588 of the outstanding options vest at various rates between January 1, 2000 and January 4, 2001. The remaining outstanding options are fully vested. Options granted under the plan are generally fully vested at the time of grant.

The plan is administered by our board of directors, which acts on the recommendation of its Compensation, Nominating and Corporate Governance Committee. Options may be awarded both as a form of compensation and as an incentive to selected employees, directors and officers and to other persons approved by the board or the committee. The board determines the terms of options granted under the plan, including the number of Common Shares subject to the option, exercise price, terms and exercisability. Incentive stock options granted under the plan must have an exercise price equal to at least 100% of the fair market value of the Common Shares on the date of grant and at least 110% of the fair market value in the case of options granted to an employee who holds more than 10% of the total voting power of all classes of our share capital. The exercise price of nonstatutory stock options granted under the plan is determined by the board of directors. Payment of the exercise price may be made in cash or other forms of consideration approved by the board.

The board determines the term of options, which may not exceed ten years or five years in the case of an option granted to a holder of more than 10% of the total voting power of all classes of our share capital. Our practice to date has been to grant options with five-year terms. Each option may be exercised during the lifetime of the optionee only by the optionee.

The board determines when options become exercisable. The plan provides that, except as otherwise specified by the board, options generally must be exercised within three months after the termination of the optionee's status as an employee or consultant of Creo, and our practice has been to grant options that must be exercised within 30 days after the later of the completion of our initial public offering and the date of the optionee's termination, but in no event later than the expiration of the option's term. As of March 31, 1999,

former employees held options to purchase up to 421,700 Common Shares. These options will expire 30 days after completion of this offering. The plan provides that in the case of an optionee whose employment or consulting relationship terminates because of death or disability, his or her options must be exercised no later than 12 months in the case of the optionee's death or six months in the case of the optionee's disability after his or her termination, but in no event later than the expiration of the option's term.

If we merge with or into another corporation, each outstanding option may be assumed or an equivalent option substituted by the successor corporation. However, if the successor corporation does not agree to assume or substitute an option, then the options will terminate on the completion of the merger.

The board of directors has the authority to amend or terminate the plan and, to the extent required by law, Creo will seek shareholder approval of amendments to the plan. However, no amendment will affect options already granted without the holder's consent. In addition, shareholder approval is required to increase the number of shares reserved for issuance under the plan and to change the designation of the class of persons eligible to be granted options under the plan.

Employee Profit Sharing Plan

We have a profit sharing plan for our employees. Under the plan a certain percentage of our annual profits may be set aside for distribution among our eligible employees. The amount set aside under the plan is determined by the Compensation, Nominating and Corporate Governance Committee of our board of directors. In any fiscal year, that amount may not be greater than 12% of base earnings. Base earnings are defined as net income before taxes and profit sharing, less 12% of average shareholders' equity during the year. Three quarters of the amount set aside is shared equally among all eligible employees, and the remaining quarter may be distributed at the discretion of the board of directors. An aggregate of $1,079,381 was distributed under the plan for the fiscal year ended September 30, 1998.

401(k) Plan for U.S. resident employees

Creo maintains a 401(k) Plan to provide those of our employees who are residents of the United States with a tax preferential savings and investment program. Employees may begin to participate in the 401(k) Plan on the first of the month following three months of continuous service from their date of hire. Employees may elect to reduce their current compensation up to the lesser of 15% of eligible compensation or the statutorily prescribed annual limit and have such reduction contributed to the 401(k) Plan. The 401(k) Plan permits, but does not require, additional matching contributions to the 401(k) Plan by the Company on behalf of the participants, to a maximum of 5% of the participant's current compensation. In the fiscal year ended September 30, 1998, Creo contributed an aggregate amount of $228,062 to the 401(k) Plan. Contributions by employees or by the Company to the 401(k) Plan, and income earned on plan contributions, are generally not taxable to the employees until withdrawn, and contributions by Creo are deductible by Creo when made. The trustee under the 401(k) Plan, at the direction of each participant, invests the assets of the 401(k) Plan in selected investment options.

Registered Retirement Savings Plans for Canadian resident employees

Each year Creo contributes an amount equal to 5% of the gross salary of those employees who are Canadian residents to these employees' individual tax-deferred Registered Retirement Savings Plans. In the fiscal year ended September 30, 1998, the aggregate amount of these contributions was $1,151,624. Contributions by Creo are deductible by Creo when made.

INTERESTS OF MANAGEMENT AND OTHERS IN CERTAIN MATERIAL TRANSACTIONS

The following are the only material transactions Creo has entered into since October 1, 1995 in which any of our directors or executive officers or any holder of 5% or more of our Common Shares, or any of their respective associates or affiliates, has had any material interest:

In November 1995, entities affiliated with Goldman, Sachs & Co. (the GS Group) purchased an aggregate of 2,962,962 units from Creo at a purchase price of $6.75 per unit. Each unit consisted of one Common Share and a warrant to purchase one Common Share at an exercise price of $6.75. In November 1998, the GS Group exercised all of the warrants by paying the exercise price in cash. GS Group is a holder of more than 5% of our Common Shares and John Bu, a Vice President of Goldman, Sachs & Co., is a member of our board of directors.

In January 1998, Creo granted an option to purchase 10,000 Common Shares to Raphael Amit, the Chair of the Board of Directors. The option is exercisable at C$7.50 per Common Share and expires on January 1, 2003. In November 1997, we issued 6,334 Common Shares to Dr. Amit in consideration for consulting services rendered to Creo valued at C$110,845.

In May 1997, entities for which Brinson Partners, Inc. acts as investment adviser (the Brinson Group) purchased an aggregate of 1,595,800 Common Shares from Creo at a purchase price of $7.50 per share and an aggregate of 670,868 Common Shares from certain selling shareholders at the same purchase price. The Brinson Group is a holder of more than 5% of our Common Shares and Thomas D. Berman, an Executive Director of Brinson Partners, Inc., is a member of our board of directors.

In May 1997, Creo sold 13,334 Common Shares for cash at a price of $7.50 per share to Arie Rosenfeld, who at the time was a member of Creo's board of directors. In April 1997, we granted Mr. Rosenfeld an option to purchase 12,000 Common Shares. The option is exercisable at $7.50 per share and expires on April 30, 2002. Mr. Rosenfeld resigned as a director in March 1999.

We have entered into indemnification agreements with our officers and directors which are described in ''Management—Indemnification of Directors and Executive Officers and Limitation of Liability.''

Investment Banking Services Agreement

In November 1995, Creo entered into an Investment Banking Services Agreement with Goldman, Sachs & Co. (Goldman), which provides Goldman a right of first refusal to provide Creo with any investment banking services we may require. The right of first refusal expires in November 2000. If Goldman declines to exercise its right or if we cannot reach agreement concerning the terms of its engagement, we may engage another investment bank on terms no less favorable to us than those last offered by Goldman. Any agreement Creo enters into with another investment bank must contain a provision giving Goldman the right to be appointed a co-managing dealer in connection with any offering of securities by Creo. Goldman has waived both its right of first refusal and its right to be appointed a co-managing dealer with respect to this offering.

Registration Rights

Certain holders of our Common Shares have the right in certain circumstances to require Creo to register their shares under the Securities Act. See ''Description of Share Capital—Registration Rights.''

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information regarding the beneficial ownership of our Common Shares as of March 31, 1999, and as adjusted to reflect the sale of Common Shares in this offering, by:

- each person or group of affiliated persons known by us to own more than 5% of our Common Shares;
- each of our directors;
- each of the Named Officers;
- all directors and executive officers as a group; and
- all other selling shareholders.

Percentage of ownership is calculated as required by Commission Rule 13(d)-3(d)(1). To our knowledge and except as otherwise indicated, the persons named in the table have sole voting and investment power with respect to all Common Shares held by them subject to community property laws. Unless otherwise indicated, the address of each of the persons named below is the address of our principal office, 3700 Gilmore Way, Burnaby, British Columbia, Canada V5G 4M1. As of March 31, 1999, there were 28,027,854 Common Shares outstanding.

	Shares Beneficially Owned Prior to This Offering			Shares Beneficially Owned After This Offering	
Beneficial Owner	**Number of Shares Outstanding (1)**	**Percent**	**Number of Shares Offered in this Offering**	**Number of Shares Outstanding (1)**	**Percent**
5% Shareholders					
Entities affiliated with The Goldman Sachs Group, Inc. (2)	5,925,924	21.1%	338,586	5,587,338	17.4%
Entities for which Brinson Partners, Inc. acts as investment advisor (3)	2,266,668	8.1%	—	2,266,668	7.1%
Business Development Bank of Canada (4)	1,750,594	6.2%	100,023	1,650,571	5.2%
Entities affiliated with Star Ventures (5)	1,535,490	5.5%	87,733	1,447,757	4.5%
Meir Barel (5)	1,535,490	5.5%	87,733	1,447,757	4.5%
Entities affiliated with Evergreen Canada Israel Investments Ltd. (6)	1,490,682	5.3%	82,990	1,407,692	4.4%
Executive Officers and Directors					
Amos Michelson	1,846,658	6.6%	—	1,846,658	5.8%
Daniel Gelbart (7)	3,459,332	12.3%	197,654	3,261,678	10.1%
Raphael Amit (8)	63,000	*	—	63,000	*
David A. Bennett (4)	1,750,594	6.2%	100,023	1,650,571	5.2%
Thomas D. Berman (3)	2,266,668	8.1%	—	2,266,668	7.1%
John Bu (2)	5,925,924	21.1%	338,586	5,587,338	17.4%
Douglas H. Richardson (9)	52,238	*	—	52,238	*
Kenneth A. Spencer (10)	1,720,074	6.1%	98,279	1,621,795	5.1%
Michael D. Ball (11)	27,584	*	—	27,584	*
Kevin M. Joyce (12)	38,762	*	—	38,762	*
Boudewijn P. Neijens (13)	50,802	*	—	50,802	*
All directors and officers as a group (18 individuals) (14)	17,816,244	62.1%	734,542	17,081,702	52.2%
Other					
The Gilde IT Fund B.V. (15)	866,942	3.1%	49,534	817,408	2.6%
HarbourVest International Private Equity Partners II—Direct Fund L.P. (16)	747,014	2.7%	—	747,014	2.3%
Entities affiliated with Technology Crossover Ventures (17)	545,456	1.9%	31,165	514,291	1.6%
David Pritchard (18)	154,518	*	8,829	145,689	*
Rachel Mayer (10)	145,200	*	8,296	136,904	*
Unicycle Trading Company, L.P. (19)	73,616	*	4,206	69,410	*
Interstock Anstalt für Vermogens und Trust Verwaltungen (20)	17,516	*	1,001	16,575	*

* less than 1%.

(1) ''Beneficial ownership,'' as used in this table, means sole or shared power to vote or direct the voting of Common Shares, or the sole or shared power to dispose, or direct a disposition, of such Common Shares. A person who has the right to acquire a Common Share within 60 days of March 31, 1999, is deemed to have ''beneficial ownership'' of that Common Share for the purposes of this table. The Common Shares to which such a right applies are deemed outstanding for computing the percentage ownership of the person holding these rights, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(2) Consists of 3,718,096 Common Shares beneficially owned by GS Capital Partners II, L.P., 1,478,096 Common Shares held by GS Capital Partners II Offshore, L.P., 137,140 Common Shares held by Goldman, Sachs & Co. Verwaltungs GmbH, 313,764 Common Shares held by Bridge Street Fund 1995, L.P. and 278,828 Common Shares held by Stone Street Fund 1995, L.P. The address of The Goldman Sachs Group, Inc. is 85 Broad Street, New York, New York 10004. John Bu, a director of Creo, is a Vice President of Goldman, Sachs & Co. Mr. Bu disclaims any beneficial interest in these Common Shares.

(3) Brinson Partners, Inc. is the investment adviser to the Virginia Retirement System, which beneficially owns 2,000,000 Common Shares, BVCF III L.P., which beneficially owns 229,276 Common Shares and the Brinson MAP Venture Capital Fund III, which beneficially owns 37,392 Common Shares. Brinson Partners, Inc. disclaims any beneficial interest in these Common Shares. The address of Brinson Partners, Inc. is 209 South LaSalle Street, Chicago, Illinois 60604-1295. Thomas D. Berman, a director of Creo, is an Executive Director of Brinson Partners, Inc. Mr. Berman disclaims any beneficial interest in these Common Shares.

(4) The address of Business Development Bank of Canada is 505 Burrard Street, Vancouver, British Columbia, Canada V7X 1V3. David A. Bennett, a director of Creo, is a Managing Director of the Business Development Bank of Canada. Mr. Bennett disclaims any beneficial interest in these Common Shares.

(5) Includes 275,374 Common Shares held by SVE STAR Ventures Enterprises No. II, a German Civil Law Partnership (with limitation of liability) (SVE II); 738,954 Common Shares held by SVE STAR Ventures Enterprises No. III, a German Civil Law Partnership (with limitation of liability) (SVE III); 61,214 Common Shares held by SVE STAR Ventures Enterprises No. IIIA, a German Civil Law Partnership (with limitation of liability) (SVE IIIA); and 130,614 Common Shares held by SVM STAR Ventures Management GmbH Nr. 3 (STAR Germany). STAR Germany has the sole power to vote or direct the vote, and the sole power to dispose or direct the disposition of, the Common Shares held by SVE II, SVE III and SVE IIIA. Also includes 197,600 Common Shares held by D.G. Dan-Gal Ltd. (Dan-Gal) and 131,734 Common Shares owned by STAR Management of Investments (1993) Limited Partnership (STAR Israel Partnership). SVM STAR Ventures Capital Management Ltd. (STAR Israel) has the sole power to vote or direct the vote, and the sole power to dispose or direct the disposition of the Common Shares held by Dan-Gal and STAR Israel Partnership. Meir Barel has the sole power to direct the actions of STAR Germany and STAR Israel. Dr. Barel disclaims beneficial ownership of the Common Shares held by any of the entities mentioned, except to the extent of any pecuniary interest therein. Dr. Barel's address is c/o SVM STAR Ventures Management GmbH Nr. 3, Possartstr. 9, Munich, Germany.

(6) Consists of 538,730 Common Shares owned by Evergreen International Investments N.V., 237,266 Common Shares beneficially owned by Evergreen Capital Markets Ltd., 159,200 Common Shares beneficially owned by Periscope I Fund LP, 40,800 Common Shares owned by AB Shaked Lavan Ltd., 25,460 Common Shares owned by Evergreen Canada-Israel Management Ltd., and 489,226 Common Shares owned by Yarok AZ Ltd. The shares of Evergreen Canada Israel Investments Ltd. are publicly traded on the Tel Aviv Stock Exchange. Evergreen Canada Israel Investments Ltd. disclaims any beneficial interest in the Common Shares owned by Yarok AZ Ltd., Evergreen Capital Markets Ltd., and Periscope I Fund LP. The address of Evergreen Canada Israel Investments Ltd. is 96 Rothschild Boulevard, Tel Aviv, Israel.

(7) Includes 3,174,800 Common Shares owned directly and 139,332 Common Shares owned indirectly by Mr. Gelbart, and 145,200 Common Shares held by Rachel Mayer, over which Mr. Gelbart exercises voting power. Mr. Gelbart disclaims beneficial interest in such 145,200 Common Shares.

(8) Includes 20,000 Common Shares issuable upon exercise of options exercisable within 60 days after March 31, 1999.

(9) Includes 35,404 Common Shares issuable upon exercise of options exercisable within 60 days after March 31, 1999.

(10) Consists of 439,780 Common Shares held directly and 1,280,294 Common Shares held indirectly by Mr. Spencer.

(11) Includes 25,184 Common Shares issuable upon exercise of options exercisable within 60 days after March 31, 1999.

(12) Consists of 38,762 Common Shares issuable upon exercise of options exercisable within 60 days after March 31, 1999.

(13) Includes 36,302 Common Shares issuable upon exercise of options exercisable within 60 days after March 31, 1999.

(14) Includes 675,378 Common Shares issuable upon exercise of options exercisable within 60 days after March 31, 1999.

(15) The address of the Gilde IT Fund B.V. is Newtonlaan 91, 3508 AB Utrecht, The Netherlands.

(16) The address of HarbourVest International Private Equity Partners II Direct Fund L.P. is One Financial Centre, 44th Floor, Boston, Massachusetts 02111.

(17) Consists of 505,430 Common Shares beneficially owned by Technology Crossover Ventures, L.P., and 40,026 Common Shares beneficially owned by Technology Crossover Ventures, C.V. The address of Technology Crossover Ventures is 56 Main Street, Suite 210, Millburn, New Jersey, 07041.

(18) From April 1989 to July 1995, Mr. Pritchard was Creo's Chief Financial Officer and from July 1995 to December 1996 was Creo's Chief Operating Officer. Mr. Pritchard's address is 1119 Lenora Road, Bowen Island, British Columbia, Canada V0N 1D0.

(19) The address of Unicycle Trading Company, L.P. is 11 Galgaley Haplada St., P.O. Box 12600, Herzlia, Pituach, Israel 46733.

(20) The address of Interstock Anstalt für Vermogens und Trust Verwaltungen is Herrengasse 21, Postfach 339, 9470 Vaduz, Lichtenstein.

DESCRIPTION OF SHARE CAPITAL

Creo is authorized to issue an unlimited number of Common Shares, without par value, and an unlimited number of Preferred Shares, without par value. The following summary of certain provisions of the Common Shares and the Preferred Shares is not complete and may not contain all the information you should consider before investing in our Common Shares.

Common Shares

At March 31, 1999, there were 441 holders of record of our Common Shares, and 28,027,854 Common Shares were issued and outstanding. Holders of Common Shares are entitled to one vote for each share held on all matters to be voted on by shareholders, including the election of directors. Creo's Articles of Incorporation do not provide for cumulative voting in the election of directors. There are no limitations on the rights of non-resident or foreign owners of our Common Shares to hold or vote their shares. Subject to preferences of outstanding Preferred Shares, the holders of Common Shares are entitled to receive ratably any dividends the board of directors declares out of funds legally available for the payment of dividends. If Creo is liquidated, dissolved or wound up, holders of Common Shares are entitled to share ratably in all assets remaining after payment of our liabilities and any liquidation preferences of any outstanding Preferred Shares. Holders of our Common Shares have no pre-emptive rights or rights to convert their Common Shares into any other securities and there are no redemption or sinking fund provisions with respect to our Common Shares. All outstanding Common Shares are fully paid and non-assessable, and the Common Shares to be issued following this offering will be fully paid and non-assessable.

Preferred Shares

Creo's board of directors is authorized, without further action by the shareholders, to issue Preferred Shares in one or more series and to set the number of shares constituting any such series, the voting rights, if any, and the designations, preferences and relative, participating, optional or special, and qualifications, limitations or restrictions, including dividend rights and rates, redemption provisions (including sinking fund provisions), rights of conversion or exchange, and liquidation preferences. The Preferred Shares as a class are entitled to priority over the Common Shares if our board of directors decides to pay any dividends, and if Creo is dissolved, liquidated or wound up, the Preferred Shares are entitled as a class to priority of return of capital. Except as required by law or the provisions of any designated series of Preferred Shares, the holders of Preferred Shares as a class are not entitled to receive notice of, attend or vote at any meeting of shareholders of the Company.

If Creo's board of directors so determines, the Preferred Shares may carry full voting rights with the holders of our Common Shares, or limited voting rights, and may be convertible into or exchangeable for our Common Shares or another class or series of Creo's securities, be redeemable, carry the right to specified participating dividends, which may be fixed or adjustable and may also be cumulative, and have such other relative rights, preferences and limitations as Creo's board of directors determines.

If Creo's board of directors issues further Common Shares or Preferred Shares, this could cause a dilution of the net tangible book value of our Common Shares and, in the case of Common Shares or Preferred Shares with voting rights, would dilute the voting power of the existing holders of our Common Shares.

There are no Preferred Shares outstanding, and we have no current plan to issue any Preferred Shares.

Modifications, Subdivisions and Consolidations

Under the CBCA, amendment of certain rights of holders of a class of shares, including Common Shares, requires the approval of not less than two-thirds of the votes cast by the holders of those shares voting separately as a class at a special meeting. The CBCA also gives such holders the right to dissent from such amendment and to require us to pay them the then fair value of their shares.

Warrants

In May 1997 we issued warrants to purchase 24,598 Common Shares at an exercise price of $9.38 per share, subject to customary adjustments in certain defined events. These warrants expire on June 2, 2002, and are exercisable for Common Shares on a net exercise basis without tender of cash.

Registration Rights

Creo is party to a Shareholders Agreement with certain of its shareholders who hold an aggregate of 24,824,238 Common Shares. The Shareholders Agreement provides that if Creo proposes to register any of its securities for distribution to the public under the securities laws of the United States or Canada, these shareholders may demand the right to ''piggy-back'' onto Creo's registration up to a certain maximum number of Common Shares. Creo must use reasonable commercial efforts to register Common Shares held by each shareholder who makes this demand. Subject to certain limitations, Creo is required by the Shareholders Agreement to pay all offering expenses (excluding underwriting fees and commissions with respect to the sale of these shareholders' shares) in connection with such registration.

In addition to the ''piggy-back'' registration rights described above under the Shareholders Agreement, a shareholder or shareholders holding, in the aggregate, not less than 3% of the outstanding Common Shares, may demand that Creo register all or a part of the shares beneficially owned by such shareholder or shareholders, but in no event less than that number of Common Shares having a market value of C$5,000,000. If such a demand is made, Creo must notify the other shareholders who are parties to the Shareholders Agreement and must use reasonable commercial efforts to register Common Shares held by each shareholder who makes such a demand. Subject to certain limitations, Creo is required by the Shareholders Agreement to pay all offering expenses (excluding underwriting fees and commissions with respect to the sale of these shareholders' shares) in connection with such registration. These demand registration rights may be exercised at any time up to the sixth anniversary of our initial public offering.

Transfer Agent and Registrar

The Transfer Agent and Registrar for our Common Shares in Canada is Montreal Trust Company of Canada at its principal offices in Toronto, Ontario and Vancouver, British Columbia, and in the United States is the Bank of Nova Scotia Trust Company of New York at its principal office in New York, New York.

UNDERWRITING

Subject to the terms and conditions stated in the underwriting agreement dated the date hereof, each of the underwriters named below has severally agreed to purchase, and Creo and the selling shareholders have agreed to sell to such underwriters the respective number of Common Shares set forth opposite the name of such underwriter below:

Name	Number of Common Shares
Salomon Smith Barney Inc.	●
Merrill Lynch, Pierce, Fenner & Smith Incorporated	●
RBC Dominion Securities Inc.	●
Total	5,000,000

The underwriting agreement provides that the obligations of the several underwriters to purchase the Common Shares included in this offering are subject to the approval of certain legal matters by counsel and to certain other conditions. The underwriters are obligated to purchase all of the Common Shares offered hereby (other than those covered by the over-allotment option described below) if they purchase any Common Shares.

The offering is being made concurrently in the Canadian provinces of British Columbia and Ontario and in the United States. Each of the underwriters that is not registered as a broker-dealer under the U.S. Securities Exchange Act has agreed that, in connection with the offering of the Common Shares and subject to certain exceptions, it will not offer or sell any Common Shares in, or to persons who are nationals or residents of, the United States other than through one of its United States registered broker-dealer affiliates. Offers and sales in Canada or to Canadian persons will be made by such of the underwriters or their affiliates that are investment dealers or brokers duly registered under the applicable laws of the province of Canada in which such offer or sale is made pursuant to a prospectus filed with the applicable Canadian securities regulatory authorities.

With respect to the offering in the United States, the underwriters, for whom Salomon Smith Barney Inc., Merrill Lynch & Co., and RBC Dominion Securities Corporation are acting as representatives, initially propose to offer some of the Common Shares directly to the public at the public offering price set forth on the cover page of this prospectus, and some of the Common Shares to certain securities dealers at the public offering price less a concession not exceeding $ ● per Common Share. The underwriters may allow, and such dealers may reallow, a concession not exceeding $ ● per Common Share to certain brokers and dealers. After the initial offering of the Common Shares to the public, the public offering price and other selling terms may from time to time be varied by the representatives. The representatives have advised Creo and the selling shareholders that the underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority.

The selling shareholders have granted the underwriters an option, exercisable for 30 days after the date of this prospectus, to purchase up to an aggregate of 750,000 additional Common Shares at the public offering price, less the underwriting discount. The underwriters may exercise this option solely to cover over-allotments, if any, in connection with this offering. To the extent that the underwriters exercise such option, each of them will be obligated, subject to certain conditions, to purchase a number of additional shares approximately proportionate to such underwriter's initial commitment.

Creo, each of its officers and directors and certain significant and substantially all of the non-Canadian holders of its Common Shares have agreed that for a period of 180 days after the date of this prospectus, they will not, without the prior written consent of Salomon Smith Barney Inc., sell, dispose of or hedge any Common Shares or any securities of Creo convertible into or exchangeable for Common Shares. Salomon Smith Barney Inc. in its sole discretion may release any of the securities subject to the lock-up agreements at any time without notice.

At our request, the underwriters have reserved up to 250,000 Common Shares for sale, at the initial public offering price, to employees, directors and other persons associated with Creo. The number of Common Shares available for sale to the general public in the offering will be reduced to the extent such persons purchase such reserved shares.

Prior to this offering, there has been no public market for the Common Shares. Consequently, the initial public offering price for the Common Shares will be determined by negotiations between us, the selling shareholders and the representatives. Among the factors to be considered in determining the initial public offering price will be Creo's record of operations, its current financial condition, its future prospects, its markets, the economic conditions in and future prospects for the industry in which Creo competes, Creo's management, and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly traded companies considered comparable to Creo. We cannot assure you, however, that the prices at which the Common Shares will sell in the public market after this offering will not be lower than the price at which they are sold by the underwriters or that an active trading market in the Common Shares will develop and continue after the offering. The estimated offering price range set forth on the cover page of the preliminary prospectus is subject to change as a result of market conditions and other factors.

The following table shows the underwriting discounts and commissions to be paid to the underwriters by Creo and the selling shareholders in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional Common Shares.

	Paid by Creo		Paid by Selling Shareholders	
	No Exercise	Full Exercise	No Exercise	Full Exercise
Per share	$ ●	$ ●	$ ●	$ ●
Total	$ ●	$ ●	$ ●	$ ●

The expenses of this offering, estimated to be $850,000, will be paid by Creo on its own behalf and on behalf of the selling shareholders.

In connection with the offering, Salomon Smith Barney Inc. on behalf of the underwriters, may over-allot, or engage in syndicate covering transactions, stabilizing transactions and penalty bids. Over-allotment involves syndicate sales of Common Shares in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the Common Shares in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of Common Shares made for the purpose of preventing or retarding a decline in the market price of the Common Shares while the offering is in progress. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Salomon Smith Barney Inc., in covering syndicate short positions or making stabilizing purchases, repurchases shares originally sold by that syndicate member. These activities may cause the price of the Common Shares to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be effected on the Nasdaq National Market or in the over-the-counter market, or otherwise and, if commenced, may be discontinued at any time.

Pursuant to a policy statement of the Ontario Securities Commission, the underwriters in Canada may not, throughout the period of distribution, bid for or purchase Common Shares. The foregoing restriction is subject

to exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. Such exceptions include a bid or purchase permitted under the by-laws and rules of The Toronto Stock Exchange relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. We have been advised that in connection with the offering and pursuant to the first exception mentioned above, the underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail on the open market. These transactions, if commenced, may be discontinued at any time.

Creo and the selling shareholders have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the U.S. Securities Act and Canadian provincial securities legislation, or to contribute to payments the underwriters may be required to make with respect to any of those liabilities.

Initial sales of the Common Shares offered in the United States will be settled in U.S. dollars and initial sales of Common Shares offered in Canada will be settled in Canadian dollars.

SHARES ELIGIBLE FOR FUTURE SALE

We cannot provide any assurance that a significant public market for our Common Shares will develop or be sustained after this offering has been completed. The sale of substantial numbers of Common Shares in the public market, or the possibility of such a sale, could adversely affect prevailing market prices for our Common Shares.

Upon completion of the offering, a total of 32,027,854 of our Common Shares will be outstanding, based on the Common Shares outstanding as of March 31, 1999, and assuming no exercise of the underwriters' over-allotment option or of any options or warrants.

All of the Common Shares sold in the offering in the United States and Canada will be freely tradable without restriction under either the Securities Act of 1933, as amended (Securities Act) (except by ''affiliates'' as defined in Rule 144 under the Securities Act) or applicable Canadian securities laws (except by ''control persons'' as defined under such laws).

For the reasons set forth below, we believe that the following restricted Common Shares and Common Shares issuable upon exercise of options or warrants will be freely tradable and eligible for resale at the following times and by the following persons:

	Canadian Residents	U.S. Residents	Other
On the date of this prospectus	0	1,066	1,924
90 days after the date of this prospectus	0	246	0
180 days after the date of this prospectus	15,790,925	11,182,419	4,530,836
After 180 days after the date of this prospectus	60,370	76,952	2,946

Salomon Smith Barney Inc. has requested that each non-Canadian resident who holds more than 1,000 Common Shares, options or warrants agree not to dispose of or hedge any Common Shares for 180 days following the date of this prospectus. The information contained in this section assumes that all such shareholders will enter into such 180-day lock-up agreements.

Canadian Resale Restrictions

Upon completion of this offering, Canadian residents will hold 12,251,377 Common Shares and options to purchase 3,599,918 Common Shares, excluding any Common Shares bought in this offering. Under applicable Canadian securities laws, all such Common Shares or Common Shares issuable upon exercise of such options may not be sold or otherwise disposed of for value, except pursuant to a prospectus, a discretionary exemption or a statutory exemption available only in specific limited circumstances, until Creo has been a reporting issuer for at least 12 months in the province in which such shareholder or optionee resides. Creo will become a reporting issuer in the provinces of British Columbia and Ontario when it files this prospectus with the securities regulatory authorities of those provinces and when those authorities issue receipts for the prospectus. We expect that the receipts will be issued on or about the date of this prospectus. We intend to apply to these regulatory authorities for a discretionary exemption that would permit sales of such Common Shares by residents of these provinces after Creo has been a reporting issuer for six months. If this discretionary exemption is not granted, we intend to take other steps to allow such Common Shares to be sold after Creo has been a reporting issuer for six months.

If the discretionary exemption is granted or other steps taken to allow the sale of such Common Shares are successful, 12,251,377 Common Shares and 3,541,166 shares exercisable upon outstanding and vested options will be eligible for resale six months after the date of this prospectus.

U.S. Resale Restrictions

Upon completion of this offering, 10,635,123 Common Shares will be held by U.S. residents who acquired Common Shares prior to this offering. As a result of the lock-up agreements and the provisions of Rule 144 and Rule 701 under the Securities Act, such shares will be available for sale in the public market in the United States as follows, subject in some cases to Rule 144 limitations:

	Eligibility of Restricted Shares for Sale in Public Market
On the date of this prospectus	1,066
90 days after the date of this prospectus	0
180 days after the date of this prospectus	10,590,785
After 180 days after the date of this prospectus	43,272

Upon completion of this offering, options to purchase 600,962 Common Shares will be held by existing optionees who are U.S. residents, and warrants to purchase 24,598 Common Shares will be held by U.S. residents.

We intend to file with the U.S. Securities and Exchange Commission (SEC) a registration statement on Form S-8/S-3 approximately 180 days after the date of this prospectus. The S-8/S-3 registration statement will allow holders of Common Shares who are residents of the United States and countries other than Canada to resell Common Shares issued under equity incentive arrangements, Common Shares issued in connection with option exercises and Common Shares reserved under our 1996 Stock Option Plan.

As a result of the lock-up agreements, the S-8/S-3 registration statement and the provisions of Rule 144 and Rule 701 under the Securities Act, and the continued vesting of outstanding options, shares subject to these options and warrants will be available for sale in the public market in the United States as follows, subject in some cases to Rule 144 limitations:

At the date of this prospectus	0
90 days after the date of this prospectus	246
180 days after the date of this prospectus	591,634
After 180 days after the date of this prospectus	33,680

In general, under Rule 144, as in effect on the date of this prospectus, any person (including an affiliate of Creo) who has beneficially owned Common Shares for at least one year will be entitled to sell, in any three-month period, a number of shares that (together with Common Shares with which such person's shares must be aggregated) does not exceed the greater of:

- 1% of the then outstanding Common Shares (approximately 320,279 shares immediately after the offering); and

- the average weekly trading volume of the Common Shares on the Nasdaq National Market during the four calendar weeks immediately preceding the date on which such sale is made.

Sales of restricted securities pursuant to Rule 144 are subject to certain requirements relating to manner of sale, notice and availability of current public information about Creo. Affiliates of Creo must also comply with the restrictions and requirements of Rule 144, other than the one-year holding period requirement, in order to sell Common Shares which are not restricted securities.

Subject to certain limitations on the number and exercise price of options granted, Rule 701 may be relied upon with respect to the resale of securities originally issued by Creo to its U.S. employees, directors, officers, consultants or advisers before the issuer becomes subject to the reporting requirements of the U.S. Securities Exchange Act of 1934, as amended (Exchange Act), pursuant to written compensatory benefit plans or written contracts relating to the compensation of such persons. In addition, the Securities and Exchange Commission has indicated that Rule 701 will apply to typical stock options granted by an issuer before it becomes subject to

the reporting requirements of the Exchange Act, along with the shares acquired upon exercise of such options (including exercises after the date of this prospectus). Securities issued in reliance on Rule 701 are restricted securities and, subject to the 180-day lock-up agreements described above, beginning 90 days after the date of this prospectus, such securities may be sold:

- by persons other than affiliates of Creo, subject only to the manner of sale provisions of Rule 144; and
- by affiliates under Rule 144 without compliance with its one-year minimum holding period requirements.

Shares held by Non-U.S. Residents and Non-Canadian Residents

Upon completion of the offering, 4,141,354 Common Shares and 394,352 Common Shares subject to outstanding options will be held by shareholders and optionees who are neither U.S. residents nor Canadian residents and who acquired such Common Shares and options prior to this offering. Of the 4,141,354 Common Shares, 1,924 Common Shares will be eligible for immediate resale on the date of this prospectus and the remaining 4,139,430 Common Shares will be eligible upon expiration of the lock-up agreements 180 days after the date of this prospectus. In addition, 391,406 Common Shares issuable upon exercise of options will be eligible upon expiration of the lock-up agreements 180 days after the date of this prospectus and 2,946 common shares issuable upon exercise of options will be eligible for resale after 180 days after the date of this prospectus.

RISK FACTORS

Investing in our Common Shares involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus before deciding to invest in our Common Shares. The risks described below are not the only ones we face. Additional risks that generally apply to publicly traded companies, that are not yet identified or that we currently think are immaterial, may also impair our business operations. Our business, operating results and financial condition could be adversely affected by any of the following risks. The trading price of our Common Shares could decline due to any of these risks, and you could lose all or part of your investment. You should refer to the other information set forth in this prospectus, including our financial statements and the related notes.

This prospectus also contains certain forward-looking statements that involve risks and uncertainties. These statements relate to our future plans, objectives, expectations and intentions. These statements may be identified by the use of words such as ''expects,'' ''anticipates,'' ''intends,'' ''plans'' and similar expressions. Our actual results could differ materially from those discussed in these statements. Factors that could contribute to such differences include, but are not limited to, those discussed below and elsewhere in this prospectus.

Our CTP solutions may not gain broad market acceptance.

We derive a substantial majority of our revenue from sales to commercial printers of products based on our technology and our continued success depends on broad market acceptance of our technology. Adoption of CTP technology requires commercial printers to make significant and costly changes to their prepress operations. To date, our CTP solutions have been adopted principally by large, multi-plant commercial printers. Small and mid-size printers may be slower to adopt our CTP solutions due to their cost or to such printers' reluctance to interfere with existing relationships with other suppliers of prepress equipment. If our products fail to gain broad market acceptance, this could have a material adverse effect on our business, financial condition or results of operations.

Our joint venture with Heidelberg may not be successful or may be terminated.

Creo commenced its joint venture with Heidelberg in October 1997, and we substantially depend on the operating and financial performance of the joint venture. Joint venture sales of Creo's products accounted for 27.6% of our total revenue for the year ended September 30, 1998, and 34.8% of our total revenue for the six months ended March 31, 1999.

We depend on the worldwide marketing and distribution networks of Heidelberg for the sale of Creo's products under the joint venture, and on Heidelberg's worldwide service and customer support organization for service support outside North America. If Heidelberg fails to effectively manage its marketing and customer service and support operations for the benefit of the joint venture, market acceptance of Creo's products may be adversely affected.

We depend on product development funding from Heidelberg for products that are to be commercialized through the joint venture. In connection with such products, Heidelberg contributed $4.1 million, equal to 21.5% of our total research and development expenses for the year ended September 30, 1998, and $3.2 million, equal to 23.8% of our total research and development expenses for the six months ended March 31, 1999. If the joint venture were terminated, this funding would cease and, to maintain our product development budgets, we would be required to replace this funding with our own working capital, which could adversely affect our operating margins and financial results.

We depend on Heidelberg's manufacturing capabilities for most of our 4-page and 8-page CTP output devices. Because of the implementation of the joint venture, we have not expanded our own manufacturing capacity to enable us to manufacture all joint venture products. If the joint venture were terminated, we may not be able to increase our manufacturing capacity rapidly enough to meet future demand for these products.

Our agreement with Heidelberg grants broad termination rights to both parties. For example, either party may terminate the joint venture if the joint venture fails to achieve, as of March 31, 1999, or for any rolling 12 month period after March 31, 1999, the highest revenue levels in both North America and Europe of any seller of CTP products that are competitive with the CTP products sold by the joint venture. This level of financial performance was not achieved for the 12 months ended March 31, 1999, and it is uncertain whether this requirement will be met for any such 12 month period. Although neither party has given any notice of an intention to terminate the agreement, if the agreement were to be terminated, we may not be able to maintain the level of operations prior to the termination.

If the joint venture should fail to achieve the benefits that we anticipate or should terminate, this could have a material adverse effect on our business, financial condition or results of operations.

The market in which we operate is highly competitive.

Direct competition among providers of digital prepress solutions is likely to increase as the demand for solutions of this type expands. We face intense direct competition from other manufacturers of CTP products such as Scitex Corporation Ltd., Agfa-Gevaert N.V., Dainippon Screen Mfg. Co. Ltd., Barco N.V. and Cymbolic Sciences International, Inc. Some of these companies have longer operating histories, significantly greater resources and name recognition, a larger installed base of prepress products and a broader customer base and product range. The establishment of cooperative relationships among our competitors, or between them and others such as manufacturers of printing equipment, prepress automation systems and consumables, may enable them to offer more competitive prices than ours or otherwise make it difficult for us to gain access to potential customers. We may not be able to compete successfully in the future against existing or new competitors, and our failure to remain competitive could have a material adverse effect on our business, financial condition or results of operations.

Our operating results may fluctuate.

Our recent revenue growth rates may not be sustainable. You should not use our past results to predict future performance. Our operating expenses, which include product development, sales and marketing and general and administration expenses, are relatively fixed in the short term. If our revenue is lower than we expect because we sell fewer CTP products, there is a delay in the release of new products, or for other reasons, we may not be able to quickly reduce our spending in response. Other factors that may cause our operating results to fluctuate include:

- fluctuations in the performance of the joint venture could make it difficult for us to predict and control our expenses associated with its operations, and could adversely affect our ability to manufacture sufficient quantities of products to meet customer demand;
- changes in the capital expenditure budgets of our customers, which may cause seasonal or other fluctuations in the volume and timing of orders for our products;
- the length of our sales cycle;
- fluctuations in foreign currency exchange rates;
- the level of product and price competition and pricing or marketing decisions that we may have to make in response to competitive pressures;
- the timing of product upgrades or new product introductions, whether by us, by competitors or by plate suppliers;
- changes in the mix of products we sell;
- shortages of key components which could make it difficult or impossible for us to install finished systems on a timely basis; and
- difficulties in hiring, training and retaining qualified personnel.

These and other factors are difficult to forecast and could have a material adverse effect on our business, financial condition or results of operations.

We depend on third-party suppliers.

We depend on third parties for some of the key components of our products. There is a limited number of potential suppliers; therefore, it may be difficult to find qualified suppliers. As lead times for these components can vary significantly, it may be difficult to replenish our inventory. A failure to maintain a reliable supply of key components could have a material adverse effect on our business, financial condition or results of operations.

Our products may contain defects.

Our products and some of the key components supplied to us by third parties incorporate complex imaging technology, software and hardware. Despite rigorous testing, undetected errors, defects or bugs may cause failures at any time. We may not be able to sell our products if they have reliability, quality or compatibility problems. Moreover, errors, defects or bugs can result in additional development costs, diversion of technical and other resources from our other development efforts, claims by our customers or others against us, or the loss of credibility with our current and prospective customers. Reliability, quality or compatibility problems with our products could have a material adverse effect on our business, financial condition or results of operations.

For example, in mid-1997, a number of the thermal imaging heads installed in our CTP output devices failed as a result of environmental conditions prevailing at certain customers' sites. This resulted in a design change to all of our thermal heads.

Our agreements with our customers typically contain provisions designed to limit our product liability exposure, but these may not be effective in all circumstances. We carry product liability insurance which we consider adequate, but a successful claim against us for an amount exceeding our policy limits could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to establish or maintain necessary relationships with third parties.

Plate suppliers and press manufacturers assist us in developing our technology, facilitating broad market acceptance of our products, and enhancing our sales, marketing and distribution capabilities. Our business strategy depends in part on our ability to maintain and enhance these relationships and to develop others. Failure to do so could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to adapt to rapid technological change.

The market for our products is characterized by rapid technological change, evolving industry standards, frequent new product introductions and enhancements, and changing customer demands. Accordingly, our future success will depend on our ability to invest significantly in research and development, to develop, introduce and support new products and enhancements on a timely basis and to gain market acceptance of our products. New products can require significant time and investment to achieve profitability. Our efforts to introduce new products or services may not be successful or profitable. In addition, a number of companies, including us, are currently working with press manufacturers to develop products that use next generation DOP technology as a digital prepress solution. Although the number of DOP products currently available is limited, it is likely that new DOP products will be introduced. Although we expect that various digital prepress technologies, including CTP, will co-exist for the foreseeable future, DOP products could in time replace or provide lower-cost alternatives to our existing CTP solutions, causing them to become obsolete. In addition, recent innovations in xerography could make it a more economic alternative to offset printing for short print runs.

While our products are designed to be compatible with most major media sources, file formats, computing platforms, operating systems and databases, future enhancements or upgrades of such formats or systems could result in incompatibility with our products. If this were to happen, we would have to redesign and reconfigure our products to ensure continuing compatibility. Failure to respond effectively to rapid technological change could have a material adverse effect on our business, financial condition or results of operations.

Third-party funding of our research and product development activities may decline.

Our investment in research and development has been subsidized in part by funding received from media vendors, press manufacturers and our customers in connection with specific product development initiatives undertaken by us at their request. During fiscal 1998, Heidelberg, other press and media suppliers and Canadian Government investment tax credits provided research and development funding equal to 21.5%, 22.8% and 19.5% of our gross research and development expenditure for the period. A decline or halt in third-party funding of our research and product development activities could have a material adverse effect on our business, financial condition or results of operations.

We depend on key personnel.

Our ability to maintain our competitive position depends to a significant extent on the efforts and abilities of our senior management, particularly Amos Michelson, Chief Executive Officer, and Dan Gelbart, our President and chief technologist. We do not have employment agreements with any of these individuals or any other key executives. The loss of their services could have a material adverse effect on our business, financial condition or results of operations. In addition, we do not have ''key person'' life insurance policies covering any of our employees.

Our success is also dependent on our ability to attract, retain and motivate highly skilled technical and other personnel. While we have so far been successful in doing this, there is a limited number of people with the necessary technical skills and understanding, and competition for their services is intense. A failure to recruit or retain personnel could have a material adverse effect on our business, financial condition or results of operations.

We have limited protection of our intellectual property and proprietary technology.

Our success and ability to compete depends to a significant extent on our proprietary technology. We currently rely on a combination of copyright and trademark laws, trade secrets, confidentiality procedures, contractual provisions and patents to protect our proprietary technology. Our intellectual property rights, particularly our existing or future patents, may be invalidated, circumvented, challenged, infringed or required to be licensed to others. The rights granted under our patents may not provide competitive advantages to us. In addition, our future patent applications may not be issued with the scope of the claims sought by us, if at all. Furthermore, others may develop technologies that are similar or superior to our technology, duplicate or reverse engineer our technology or design around the patents owned or licensed by us. In addition, effective patent, trademark, copyright and trade secret protection may be unavailable or limited in certain foreign countries. We cannot be sure that steps taken by us to protect our technology will prevent misappropriation or infringement.

We may from time to time receive notifications of claims that we may be infringing patents or other intellectual property rights owned by third parties. If it is necessary or desirable, we may seek licenses under such patents or intellectual property rights. However, we cannot be sure that licenses will be offered or that the terms of any offered licenses will be acceptable to us.

If we fail to obtain a license from a third-party for technology used by us we could incur substantial liabilities and be forced to suspend the manufacture or shipment of products or our use of processes requiring the technology. Litigation could result in significant expenses to us, adversely affect sales of the challenged product or technology and divert the efforts of our technical and management personnel, whether or not such

litigation is determined in our favor. In the event of an adverse result in any such litigation, we could be required to:

- pay substantial damages;
- cease the manufacture, use, sale, purchase or import of infringing products;
- expend significant resources to develop or acquire non-infringing technology; and
- discontinue the use of certain processes or obtain licenses to the infringing technology.

Any of these developments could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to manage our growth effectively.

We have experienced rapid growth, which places a significant strain on our personnel and other resources. To manage our expanded operations effectively, we will need to further improve our operational, financial and management systems. We will also need to successfully hire, train, motivate and manage our employees. We may not be able to manage our growth effectively, which could have a material adverse effect on our business, financial condition or results of operations.

We are subject to risks associated with our international operations.

The proportion of our revenue derived from operations outside North America has grown from approximately 28.0% during the year ended September 30, 1996 to approximately 41.7% during the year ended September 30, 1998. In the six months ended March 31, 1999, foreign operations accounted for approximately 32.9% of our revenue. We are attempting to increase our presence in markets outside North America. This requires considerable management time and attention, and a commitment of financial resources. Our efforts may not be successful to the degree that we expect. Additionally, international operations are subject to numerous inherent potential risks, including:

- unexpected changes in regulatory requirements;
- export restrictions, tariffs and other trade barriers;
- changes in local tax rates or rulings by local tax authorities;
- challenges in staffing and managing foreign operations, differing technology standards, employment laws and practices in foreign countries;
- less favorable intellectual property laws;
- longer accounts receivable payment cycles and difficulties in collecting payments;
- political and economic instability; and
- fluctuations in currency exchange rates and the imposition of currency exchange controls.

Any of these factors could have a material adverse effect on our business, financial condition or results of operations.

Currency fluctuations will cause translation gains and losses.

Substantially all of our revenue is received in U.S. dollars. A significant portion of our expenses are incurred in Canadian dollars and Belgian francs. As a result, appreciation in the value of these currencies relative to the U.S. dollar could adversely affect our operating results. Foreign currency translation gains and losses arising from normal business operations are credited to or charged against other income for the period incurred. To date, we have not established any currency hedging to minimize the effect of these gains or losses. As a result, fluctuations in the value of Canadian dollars and Belgian francs relative to U.S. dollars have caused and will continue to cause currency translation gains and losses.

We face Year 2000 risks.

We are highly dependent on our computer software programs and operating systems in operating our business. We also depend on proper functioning of computer systems of third parties such as suppliers and customers. Any computer programs that have date-sensitive software may recognize a date using ''00'' as the year 1900 instead of the year 2000. There can be no assurance that all systems will function adequately. If they do not, the result could be a system failure or miscalculation causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

Proper functioning of our products depends on their ability to correctly interpret dates following December 31, 1999. Should our products experience problems in doing so, we may be subject to warranty claims. Moreover, we may be subject to claims for service interruptions and other damages related to the malfunctioning of our systems. Our product liability insurance may not be adequate to cover this possibility.

We are controlled by our principal shareholders.

We expect that following the completion of this offering our directors, officers and their respective affiliates and other principal shareholders will beneficially own approximately 60.1% of our outstanding Common Shares. If these shareholders were to act together, they may be able to control all matters requiring approval by our shareholders, including the election of directors and the approval of mergers or other business combinations.

We will have discretion as to the use of the net proceeds from this offering.

A substantial portion of the net proceeds of this offering has been allocated to general corporate purposes, including working capital, and specific uses for these funds have not yet been identified. Accordingly, our management will have broad discretion as to how to use these funds, and may spend them in ways with which the shareholders do not agree. See ''Use of Proceeds.''

There has been no prior public market for our Common Shares.

There has been no public trading market for our Common Shares prior to this offering, and we cannot be certain that an active trading market will develop upon completion of the offering or, if one does develop, that it will be sustained. In addition, there is a risk that the market price will decline below the initial public offering price, which was established by negotiation with the representatives of the underwriters. See ''Underwriting'' for a discussion of the factors considered in establishing the initial public offering price of the Common Shares.

The market price of our Common Shares could be volatile.

Many factors could affect the market price of our Common Shares and as a result you may not be able to resell your Common Shares at or above the initial public offering price. These factors include:

- variations in our operating results and those of other providers of prepress solutions;
- variations in industry growth rates;
- actual or anticipated announcements of technical innovations or new products or product enhancements by us or our competitors;
- general economic conditions in the printing and prepress equipment industry;
- divergence of our operating results from research analysts' expectations; and
- changes in earnings estimates by research analysts.

In particular, the market prices of the shares of many companies in the technology and emerging growth sectors have experienced wide fluctuations that have often been unrelated to the operating performance of such companies.

You will incur immediate and substantial dilution.

If you invest in our Common Shares, your interest will be diluted by an amount equal to the difference between the initial public offering price per share of our Common Shares and the net tangible book value per share of our Common Shares after this offering. We calculate net tangible book value per share by dividing the net tangible book value (total assets less intangible assets and total liabilities) by the number of outstanding Common Shares. Based on an assumed initial public offering price per Common Share of $14.00, we have calculated this dilution as $9.60 per share. You may incur additional dilution upon the exercise of outstanding stock options or warrants.

The substantial number of Common Shares that will be eligible for sale in the near future may adversely affect the market price of our Common Shares.

We cannot provide any assurance that a significant public market for our Common Shares will develop or be sustained after this offering has been completed. The sale of substantial numbers of Common Shares in the public market, or the possibility of such a sale, could adversely affect prevailing market prices for our Common Shares.

Upon completion of the offering, a total of 32,027,854 of our Common Shares will be outstanding, based on the Common Shares outstanding as of March 31, 1999, and assuming no exercise of the underwriters' over-allotment option or of any options or warrants.

All of the Common Shares sold in the offering in the United States and Canada will be freely tradable without restriction under either the Securities Act of 1933, as amended (Securities Act) (except by ''affiliates'' as defined in Rule 144 under the Securities Act) or applicable Canadian securities laws (except by ''control persons'' as defined under such laws).

For the reasons set forth under ''Shares Eligible for Future Sale,'' we believe that the following restricted Common Shares and Common Shares issuable upon exercise of options or warrants will be freely tradable and eligible for resale at the following times and by the following persons:

	Canadian Residents	U.S. Residents	Other
On the date of this prospectus	0	1,066	1,924
90 days after the date of this prospectus	0	246	0
180 days after the date of this prospectus	15,790,925	11,182,419	4,530,836
After 180 days after the date of this prospectus	60,370	76,952	2,946

For a further description of the eligibility of Common Shares for sale into the public market following the offering, see ''Shares Eligible for Future Sale.''

We are subject to risks associated with potential acquisitions.

As part of our business strategy, we expect to review acquisition prospects that would complement our existing product offerings, improve market coverage or enhance our technological capabilities. We have no current agreements or negotiations underway with respect to any acquisitions, and we may not be able to identify suitable acquisition opportunities. Future acquisitions could result in the following:

- potentially dilutive issuances of equity securities;
- large one-time write-offs;
- the incurrence of debt and contingent liabilities or amortization expenses related to goodwill and other intangible assets;
- difficulties in the assimilation of operations, personnel technologies, products and the information systems of the acquired companies;

- diversion of management's attention from other business concerns; and
- risks of entering geographic and business markets in which we have no or limited prior experience and potential loss of key employees of acquired organizations.

Since we have not made any acquisitions in the past, we are not certain that we will be able to successfully integrate any businesses, products, technologies or personnel that we may acquire in the future. Our failure to do so could have a material adverse effect on our business.

There are provisions in our Articles of Incorporation and by-laws and Canadian law which could materially and adversely affect our shareholders.

Under our Articles of Incorporation, our board of directors has the authority to issue an unlimited number of Common Shares and an unlimited number of Preferred Shares. It also has the authority, without further vote or action by the shareholders, to determine the price, rights, preferences, privileges and restrictions, including voting and conversion rights, of the Preferred Shares, and to determine to whom they shall be issued. The rights of holders of Common Shares will be subject to, and may be adversely affected by the rights of the holders of any Preferred Shares that may be issued in the future. The issuance of Preferred Shares could make it more difficult for a third party to acquire a majority of our outstanding voting shares.

Under our by-laws, a quorum for a meeting of shareholders is at least two shareholders physically present or represented by proxy who between them hold not less than 20% of the outstanding Common Shares. In addition, under the CBCA, which governs us, and our by-laws, the majority required for approval of any action by our shareholders is expressed as a percentage of those who actually vote at a meeting. It is therefore possible for the rights of holders of our Common Shares to be modified by the affirmative vote of the holders of less than a majority of outstanding Common Shares. See ''Description of Share Capital.''

We do not plan to pay cash dividends.

We have not paid and do not plan to pay any cash dividends on our capital stock. We currently intend to retain any future earnings to fund growth, and therefore do not expect to pay any cash dividends in the foreseeable future.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business of Creo, the only contracts that are currently material to us and which we have entered into within the two-year period prior to the date of this prospectus are:

1. the joint venture agreement dated as of May 4, 1998 with Heidelberger Druckmaschinen AG referred to under ''Business—Our Joint Venture with Heidelberg''; and

2. the underwriting agreement referred to under ''Underwriting.''

A copy of each of these agreements may be inspected at our head office during normal business hours during the period of distribution of the Common Shares.

PRIOR SALES OF COMMON SHARES

During the 12 months prior to the date of this prospectus Creo sold the Common Shares indicated below for cash at the prices indicated. The 2,962,962 Common Shares sold on November 20, 1998 were sold pursuant to the exercise of warrants. See ''Interests of Management and Others in Certain Material Transactions''. The remaining Common Shares were sold pursuant to the exercise of options.

Date	Number of Common Shares Sold	Price per Common Share
April 30, 1999	39,584	C$3.75
April 22, 1999	3,200	C$7.25
	1,544	C$10.00
March 31, 1999	7,208	C$7.25
	600	C$10.00
February 22, 1999	424	C$10.00
February 17, 1999	3,440	C$7.25
February 11, 1999	58	C$17.50
December 29, 1998	1,000	C$7.25
November 20, 1998	2,962,962	U.S.$6.75
August 29, 1998	64	C$17.50
June 30, 1998	488	C$17.50
June 23, 1998	500	C$7.25
June 17, 1998	1,000	C$7.25

ELIGIBILITY FOR INVESTMENT

In the opinion of Getz Prince Wells and Osler, Hoskin & Harcourt, the Common Shares offered hereby will be, at the date of original issue, eligible investments, without resort to the so-called ''basket provisions,'' or their purchase is not prohibited or restricted, in each case subject to the general investment provisions, and in certain cases subject to prudent investor requirements and to additional requirements relating to investment or lending policies, standards, procedures or goals, under or by the following statutes and, where applicable, the relevant regulations:

Insurance Companies Act (Canada)
Pension Benefits Standards Act, 1985 (Canada)
Trust and Loan Companies Act (Canada)
Financial Institutions Act (British Columbia)
Pension Benefits Standards Act (British Columbia)
Loan and Trust Corporations Act (Ontario)
Pension Benefits Act (Ontario)

In the opinion of Thorsteinssons, Canadian tax counsel to Creo, and Osler, Hoskin & Harcourt, the Common Shares offered hereby, when listed on a prescribed stock exchange, will be qualified investments under the *Income Tax Act* (Canada) and the regulations thereunder (the ''Tax Act'') for trusts governed by a registered retirement savings plan, registered retirement income fund or deferred profit sharing plan (collectively, ''Deferred Income Plans''). In the opinion of such counsel, the Common Shares offered hereby will not at the date of issue be foreign property under the Tax Act for Deferred Income Plans and other persons subject to tax under Part XI of the Tax Act.

LEGAL MATTERS

The validity of the Common Shares offered hereby and certain other matters of Canadian law relating to the offering are being passed upon for us by Getz Prince Wells, Vancouver, British Columbia. Certain legal matters relating to the offering are being passed upon for us by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California, with respect to U.S. law. Certain legal matters relating to the offering are being passed upon for the underwriters by Osler, Hoskin & Harcourt, Calgary, Alberta, with respect to Canadian law, and Munger, Tolles & Olson LLP, Los Angeles, California, with respect to United States law. Certain legal matters related to United States and Canadian tax laws are being passed upon for us by our Canadian tax advisors Thorsteinssons, Tax Lawyers, of Vancouver, British Columbia and by our United States tax advisors, Wilson Sonsini Goodrich & Rosati, Professional Corporation. An investment partnership controlled by the partners of Getz Prince Wells holds 3,200 of our Common Shares.

EXPERTS

Our auditors are KPMG LLP, Chartered Accountants, of Suite 900, 777 Dunsmuir Street, Vancouver, British Columbia, Canada V7Y 1K3. Prior to June 1998, our auditors were Price Waterhouse, Chartered Accountants, 601 West Hastings Street, Vancouver, British Columbia, Canada V6B 5A5. Our consolidated financial statements as at and for the year ended September 30, 1998 have been included in this prospectus in reliance upon the report of KPMG LLP, independent chartered accountants, appearing elsewhere herein and in the registration statement, and upon the authority of KPMG LLP as experts in accounting and auditing.

Our financial statements as at and for the years ended September 30, 1997 and 1996, prior to the restatement for the change in amortization policy and recording of the incentive shares as described in Note 1(l) of the financial statements were audited by Price Waterhouse, Chartered Accountants, as set forth in its report with respect thereto, and are included in this prospectus in reliance upon the authority of Price Waterhouse as experts in accounting and auditing. Price Waterhouse has not been associated with any of our financial statements subsequent to September 30, 1997. The change in independent chartered accountants was effective for fiscal 1998, was approved by Creo's board of directors and was not due to any disagreement between the Company and Price Waterhouse. During the period preceding the change in independent auditors, there were no disagreements with Price Waterhouse on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of Price Waterhouse would have caused them to make reference thereto in their report on the financial statements for such periods. The audit reports of Price Waterhouse as of and for the years ended September 30, 1997 and 1996 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in several of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt, or deemed receipt, of a prospectus and any amendment. In several of the provinces securities legislation also provides a purchaser with remedies for rescission or, in some provinces, 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 his or her province. A purchaser should refer to any applicable provisions of the securities legislation of his or her province for the particulars of these rights or consult with a legal advisor.

CREO PRODUCTS INC.

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REVIEW ENGAGEMENT REPORT

To the Board of Directors
Creo Products Inc.

We have reviewed the consolidated balance sheet of Creo Products Inc. as at March 31, 1999 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the six months ended March 31, 1999 and 1998. Our review was made in accordance with generally accepted standards for review engagements and accordingly consisted primarily of inquiry, 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 of 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 generally accepted accounting principles.

●
Chartered Accountants

Vancouver, Canada

May , 1999

REPORT OF INDEPENDENT AUDITORS

To the Directors of
Creo Products Inc.

We have audited the consolidated balance sheet of Creo Products Inc. as at September 30, 1998 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 September 30, 1998 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles in Canada.

The consolidated financial statements as at September 30, 1997 and for the year then ended, prior to restatement for the change in amortization policy and recording of incentive shares as described in note 1(l), were audited by other auditors who expressed an opinion without reservation on those statements in their report dated November 20, 1997. We have examined the adjustments that were applied to restate the 1997 consolidated financial statements and in our opinion, such adjustments are appropriate and have been properly applied.

Significant differences between Canadian and United States accounting principles are explained and quantified in note 14 to the consolidated financial statements.

●
Chartered Accountants

Vancouver, Canada

November 23, 1998

REPORT OF INDEPENDENT AUDITORS

To the Directors of
Creo Products Inc.

We have audited the consolidated balance sheet of Creo Products Inc. as at September 30, 1997 and the consolidated statements of operations and (deficit) and cash flows for the years ended September 30, 1997 and 1996 prior to the restatement for the change in amortization policy and recording of the incentive shares as described in note1(l). The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion the consolidated financial statements, prior to the restatement for the change in amortization policy and recording of the incentive share, as described in note1(l), present fairly, in all material respects, the financial position of the Company as at September 30, 1997 and the results of its operations and its cash flows for the years ended 1997 and 1996 in accordance with generally accepted accounting principles.

●
Chartered Accountants

Vancouver, Canada

November 20, 1997

Creo Products Inc.

Consolidated Balance Sheets
(In thousands of U.S. dollars)

	September 30,		March 31,
	1997	1998	1999
	Restated (Note 1(l))		(unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$30,652	$ 16,224	$ 37,150
Accounts receivable	20,295	24,385	31,923
Inventories (note 3)	24,313	25,151	27,061
Prepaid expenses	1,764	2,212	3,421
Future income taxes (note 9)	692	—	120
Total current assets	77,716	67,972	99,675
Capital assets (note 4)	16,748	34,146	37,215
	$94,464	$102,118	$136,890
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities (note 5)	$16,661	$ 17,878	$ 17,481
Income taxes payable	1,046	825	2,072
Future income taxes (note 9)	—	87	—
Deferred revenue and deposits	14,646	13,677	20,787
Current portion of long-term debt (note 6)	4,680	943	296
Total current liabilities	37,033	33,410	40,636
Long-term debt (note 6)	6,956	6,660	6,512
Total liabilities	43,989	40,070	47,148
Shareholders' equity:			
Share capital (note 7)	58,371	58,854	78,917
Retained earnings (deficit)	(7,896)	3,194	10,825
Total shareholders' equity	50,475	62,048	89,742
	$94,464	$102,118	$136,890

Commitments and contingencies (note 12)
Subsequent event (note 15)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(Signed) RAPHAEL AMIT
Director

(Signed) DAVID A. BENNETT
Director

Creo Products Inc.

Consolidated Statements of Operations and Retained Earnings (Deficit)
(In thousands of U.S. dollars, except per share amounts)

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
	Restated (note 1(l))	Restated (note 1(l))		(unaudited)	
Revenue:					
Product revenue	$ 46,210	$ 91,669	$114,652	$ 53,220	$ 64,894
Service revenue	1,728	3,914	14,196	6,029	13,163
Total revenue	47,938	95,583	128,848	59,249	78,057
Cost of sales	31,766	53,634	71,217	33,189	40,688
Gross profit	16,172	41,949	57,631	26,060	37,369
Operating expenses:					
Research and development, net (note 8)	10,683	12,772	6,931	3,233	5,275
Sales and marketing	8,757	14,619	22,417	10,101	14,396
General and administration	4,092	6,271	8,937	3,879	3,983
Total operating expenses	23,532	33,662	38,285	17,213	23,654
Earnings (loss) from operations	(7,360)	8,287	19,346	8,847	13,715
Other income (expense)	5	48	(1,580)	(799)	(593)
Earnings (loss) before income taxes	(7,355)	8,335	17,766	8,048	13,122
Income tax expense (recovery) (note 9)	(112)	2,498	6,676	2,922	5,491
Net earnings (loss)	$ (7,243)	$ 5,837	$ 11,090	$ 5,126	$ 7,631
Earnings (loss) per common share (note 10):					
Basic	$ (0.34)	$ 0.26	$ 0.44	$ 0.21	$ 0.28
Fully diluted	$ (0.34)	$ 0.24	$ 0.41	$ 0.19	$ 0.25
Retained earnings (deficit), beginning of period as restated (note 1(l))	$ (6,490)	$(13,733)	$ (7,896)	$ (7,896)	$ 3,194
Net earnings (loss)	(7,243)	5,837	11,090	5,126	7,631
Retained earnings (deficit), end of period	$(13,733)	$ (7,896)	$ 3,194	$ (2,770)	$ 10,825

See accompanying notes to consolidated financial statements.

Creo Products Inc.

Consolidated Statements of Cash Flows
(In thousands of U.S. dollars)

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
	Restated (note 1(l))	Restated (note 1(l))		(unaudited)	
Cash provided by (used in) operations:					
Net earnings (loss)	$ (7,243)	$ 5,837	$ 11,090	$ 5,126	$ 7,631
Items not affecting cash:					
Amortization	2,687	3,673	4,996	2,169	2,598
Future income taxes	(195)	(380)	779	(99)	(207)
Incentive shares issued	521	102	78	78	—
Loss (gain) on disposal of capital assets	32	46	1	10	(36)
	(4,198)	9,278	16,944	7,284	9,986
Changes in non-cash working capital:					
Accounts receivable	(6,725)	(8,760)	(4,090)	(6,267)	(7,538)
Inventories	(9,419)	(5,805)	(838)	(113)	(1,910)
Prepaid expenses	(132)	(634)	(448)	(973)	(1,209)
Accounts payable and accrued liabilities	5,085	6,179	1,217	(903)	(397)
Income taxes payable	1,245	1,912	(221)	178	1,247
Deferred revenue and deposits	(2,216)	(2,864)	(969)	(344)	7,110
	(12,162)	(9,972)	(5,349)	(8,422)	(2,697)
	(16,360)	(694)	11,595	(1,138)	7,289
Cash provided by (used in) investing:					
Purchase of capital assets	(6,772)	(4,220)	(23,537)	(5,602)	(5,844)
Proceeds from sale of capital assets	46	57	1,142	952	213
	(6,726)	(4,163)	(22,395)	(4,650)	(5,631)
Cash provided by (used in) financing:					
Proceeds from share issues	19,918	24,254	405	25	20,063
Increase in long-term debt	4,901	7,400	—	—	—
Repayment of long-term debt	(898)	(7,082)	(4,033)	(2,326)	(795)
	23,921	24,572	(3,628)	(2,301)	19,268
Increase (decrease) in cash and cash equivalents	835	19,715	(14,428)	(8,089)	20,926
Cash and cash equivalents, beginning of period	10,102	10,937	30,652	30,652	16,224
Cash and cash equivalents, end of period	$ 10,937	$ 30,652	$ 16,224	$22,563	$37,150

See accompanying notes to consolidated financial statements.

Creo Products Inc. (the Company) was incorporated under the laws of Canada and its principal business activities include the development, manufacture and distribution of digital prepress equipment for the printing industry. The Company's principal customers are in the United States, Europe and Japan.

1. Significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which, in the case of the Company, materially conform with those established in the United States except as explained in note 14.

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, Creo Products N.V., Creo Inc., and Creo Ltd. (to March 12, 1998, the date of disposal), all of which have been wholly-owned. Creo Ltd. was disposed of at its carrying value to an unrelated party. All material intercompany balances and transactions have been eliminated.

Interests in joint ventures are recognized in the Company's consolidated financial statements using the proportionate consolidation method.

(b) Unaudited financial information

The financial information as at March 31, 1999 and for the six months ended March 31, 1999 and 1998 is unaudited; however, such financial information reflects all adjustments (consisting solely of normal recurring adjustments) required for a fair presentation of the financial information for the interim periods presented.

(c) Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in these financial statements and notes thereto. A significant area of estimate relates to the provision for potential retrofits on installed equipment. Actual results could differ from those estimated.

(d) Cash and cash equivalents

Cash equivalents include short-term deposits, which are all liquid securities with a term to maturity of three months or less when acquired.

(e) Inventories

Inventories are valued at the lower of cost and net realizable value. Costs of materials are determined on a weighted average basis. Work-in-progress and finished goods inventories include materials, direct labor and production overhead. Inventories are recorded net of any obsolescence provisions.

(f) Capital assets

Capital assets are stated at cost less applicable tax credits and non-repayable government grants.

Amortization of capital assets is recorded on a declining-balance basis at the following annual rates:

Building	4%
Equipment	20%
Computer software	100%
Furniture and fixtures	20%

1. Significant accounting policies (continued)

Computer and demo equipment are amortized on a straight-line basis over three years. Building improvements are amortized on a straight-line basis over five years.

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset. To March 31, 1999, no impairment losses have been recorded.

(g) Research and development

Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet certain criteria under generally accepted accounting principles for deferral and amortization. The Company has determined that none of the development costs have met these criteria. Research and development costs are offset by funding from related development contracts. Development contracts involve the planning, development and installation of a product to meet a customer's needs. Funding from development contracts is recognized on the percentage of completion basis.

(h) Foreign currency translation

The consolidated financial statements of the Company are presented in United States (U.S.) dollars. To the extent that the Company generates funds or incurs costs in other currencies, these transactions are translated into U.S. dollars at rates which are representative of the underlying transaction. Accordingly, monetary assets and liabilities are translated at the rate prevailing at the balance sheet date. Non-monetary assets and liabilities are recorded at the rate prevailing at the date of the transaction. Revenues and expenses are translated at an average rate during the year. Exchange gains and losses are included in income. The exchange loss for the six months ended March 31, 1999 is $1,142 (six months ended March 31, 1998 – $861; fiscal 1998 – $1,776; fiscal 1997 – $194; fiscal 1996 – $516).

(i) Revenue recognition

Revenue from product sales is recognized when title passes to the customer or upon customer acceptance. Customer acceptance is used as the criterion for revenue recognition when the product sold does not have an established sales history to allow management to reasonably estimate returns and future provisions.

Revenue from service contracts is recognized as the services are provided.

(j) Investment tax credits

Investment tax credits are accounted for using the cost reduction method whereby such credits are deducted from the expenditures or assets to which they relate.

(k) Income taxes

The Company recognizes and measures, as assets and liabilities, income taxes currently payable or recoverable as well as future taxes which will arise from the realization of assets or settlement of liabilities at their carrying amounts, which differ from their tax bases. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which such temporary differences are expected to be recovered or settled.

Information as at March 31, 1999 and for the six months ended March 31, 1999 and March 31, 1998 is unaudited
(Amounts in thousands of U.S. dollars, except per share amounts)

1. Significant accounting policies (continued)

(l) Comparative figures

The Company's deficit has been restated for retroactive changes to capital assets and share capital as outlined in notes 4 and 7(b), respectively.

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Deficit, beginning of period as previously reported	$(2,083)	$ (8,500)	$(2,317)	$(2,317)	$3,194
Adjustment of prior periods' earnings (note 4)	(183)	(488)	(732)	(732)	–
Adjustment of prior periods' earnings (note 7(b))	(4,224)	(4,745)	(4,847)	(4,847)	–
Deficit, beginning of period as restated	$(6,490)	$(13,733)	$(7,896)	$(7,896)	$3,194

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current period.

2. Joint Venture

Effective October 1, 1997, the Company entered into a 50% owned unincorporated joint venture with Heidelberger Druckmaschinen AG (Heidelberg) with respect to the design, manufacture and marketing of certain digital prepress equipment. The joint venture has no assets or liabilities. The consolidated financial statements include the following amounts representing the Company's proportionate share of the operations of the joint venture:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Consolidated Statements of Operations					
Revenues	$ –	$ –	$35,542	$16,344	$27,140
Cost of sales	–	–	17,896	8,403	12,804
Research and development	–	–	4,109	1,338	3,157
Contribution to earnings before sales and marketing and general and administrative expenses	$ –	$ –	$13,537	$ 6,603	$11,179

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Consolidated Statements of Cash Flows					
Cash provided by operating activities	$ –	$ –	$13,537	$ 6,603	$11,179

3. Inventories

	September 30, 1997	September 30, 1998	March 31, 1999 (unaudited)
Materials	$12,227	$ 11,722	$ 11,343
Work-in-progress	7,505	7,240	8,111
Finished goods	4,581	6,189	7,607
	$24,313	$ 25,151	$ 27,061

4. Capital Assets

	September 30, 1997	September 30, 1998	March 31, 1999 (unaudited)
Land	$ 3,403	$ 9,453	$ 9,453
Building	4,643	11,934	12,393
Building improvements	3,939	5,268	6,281
Equipment	2,889	4,357	4,915
Computer and demo equipment	7,795	10,994	13,101
Computer software	1,545	3,347	4,248
Furniture and fixtures	2,278	2,716	3,263
	26,492	48,069	53,654
Less: accumulated amortization	(9,744)	(13,923)	(16,439)
Net book value	$16,748	$ 34,146	$ 37,215

During 1998, the Company retroactively adopted the straight-line method of amortizing its computer and demo equipment, which were previously amortized on a declining balance basis, in order to better reflect the utilization of the underlying assets.

As a result of this change, retained earnings at October 1, 1995 have been reduced by $183, net of future income taxes of $117.

The effect of this change on the six months ended March 31, 1999 is an increase in accumulated amortization of $nil (six months ended March 31, 1998 – $250; fiscal 1998 – $532; fiscal 1997 – $400; fiscal 1996 – $500) and a reduction in net earnings for the six months ended March 31, 1999 of $nil (six months ended March 31, 1998 – $150; fiscal 1998 – $325; fiscal 1997 – $244; fiscal 1996 – $305), net of future income taxes of $nil (six months ended March 31, 1998 – $100; fiscal 1998 – $207; fiscal 1997 – $156; fiscal 1996 – $195).

5. Accounts payable and accrued liabilities

	September 30, 1997	September 30, 1998	March 31, 1999 (unaudited)
Trade payables	$ 9,033	$ 7,561	$ 7,739
Wages and benefits	3,420	6,118	6,216
Retrofit liabilities	3,286	3,278	2,730
Royalties	922	921	796
	$16,661	$ 17,878	$ 17,481

6. Long-term debt

	September 30, 1997	September 30, 1998	March 31, 1999 (unaudited)
Western Economic Diversification			
Unsecured, interest-free loan repayable in quarterly installments of $250	$ 749	$ –	$ –
Royal Bank of Canada			
First mortgage secured by properties in Delta and Burnaby, B.C. Interest at 8.05% per annum maturing February 4, 2002	7,252	6,956	6,808
Eastman Kodak Company			
Unsecured, interest-free loan repayable in installments on or before September 30, 2006	3,635	647	–
	11,636	7,603	6,808
Less: current portion	4,680	943	296
	$ 6,956	$6,660	$6,512

As at March 31, 1999, minimum principal repayments of long-term debt in the next five fiscal years are approximately as follows (unaudited):

1999	$ 148
2000	296
2001	296
2002	6,068
2003	–
	$6,808

The Company currently has $15 million available through a credit facility with Royal Bank of Canada at LIBOR plus 1% which has not been drawn upon at March 31, 1999.

The Company has entered into an interest rate swap agreement with Royal Bank of Canada which converted the first mortgage floating rate debt at LIBOR plus 1.5% into debt which has a fixed rate of 8.05% until February 4, 2002. As at March 31, 1999, the swap has an estimated fair market value of $195 (fiscal 1998 – $341; fiscal 1997 – $78) in favor of Royal Bank of Canada.

In the six months ended March 31, 1999, the Company incurred interest expense on long-term debt of $186 (six months ended March 31, 1998 – $270; fiscal 1998 – $525; fiscal 1997 – $408; fiscal 1996 – $416) which was charged to operations. In the six months ended March 31, 1999, the Company paid interest on long-term debt of $263 (six months ended March 31, 1998 – $274; fiscal 1998 – $605; fiscal 1997 – $338; fiscal 1996 – $416).

7. Share capital

A two-for-one share split of Common Shares took effect on May 4, 1999. All information relating to Common Shares reflects retroactively this share split.

(a) Authorized

The authorized capital of the Company consists of unlimited voting Common Shares without par value and an unlimited number of Preferred Shares issuable in series.

(b) Issued and outstanding

There have been no Preferred Shares issued. Common Shares issued and outstanding are as follows:

	Number of Common Shares	Stated Values
Outstanding, September 30, 1995	18,550,364	$13,576
Issued as incentives to employees	98,166	521
Issued for cash	2,962,962	19,918
Outstanding, September 30, 1996	21,611,492	34,015
Issued as incentives to employees	15,500	102
Issued for cash	3,371,264	24,254
Outstanding, September 30, 1997	24,998,256	58,371
Issued as incentives to employees	6,208	78
Issued for cash from share options	47,698	158
Tax benefit of share issue costs	–	247
Outstanding, September 30, 1998	25,052,162	58,854
Issued for cash (unaudited)	2,962,962	20,000
Issued for cash from share options (unaudited)	12,730	63
Outstanding, March 31, 1999 (unaudited)	28,027,854	$78,917

Prior to the 1998 fiscal year, no value was assigned to shares issued as incentives to employees for no cash consideration. In 1998, the Company retroactively valued such shares at their estimated fair value on the date of issue. As a result, the prior years' financial statements of the Company have been restated to include as compensation expense, the value of incentive shares issued in each year. The impact of the restatement is to decrease retained earnings and increase share capital as at October 1, 1995 by $4,224.

7. Share capital (continued)

(c) Share option plan

The Company has reserved 8,000,000 shares under the 1996 Stock Option Plan. The plan provides for the granting of share options at the fair market value of the Company's shares at the grant date. Options generally vest immediately and have a five year term. Share option activity for fiscal years 1996, 1997 and 1998 and for the six months ended March 31, 1999 is presented below:

	Number of Common Shares	Weighted Average Exercise Price
Outstanding, September 30, 1995	-	-
Granted	789,608	$4.80
Outstanding, September 30, 1996	789,608	4.80
Granted	1,677,518	6.25
Outstanding, September 30, 1997	2,467,126	5.78
Granted	832,744	11.29
Exercised	(47,698)	3.12
Outstanding, September 30, 1998	3,252,172	7.23
Granted (unaudited)	1,355,790	9.10
Exercised (unaudited)	(12,730)	4.98
Outstanding, March 31, 1999 (unaudited)	4,595,232	7.79

	Number of Common Shares
Exercisable at:	
September 30, 1996	676,022
September 30, 1997	2,044,140
September 30, 1998	2,957,406
March 31, 1999 (unaudited)	4,393,644

The options outstanding at March 31, 1999 expire between May 31, 1999 and January 4, 2004.

The following table summarizes information about the Company's share options outstanding at March 31, 1999 (unaudited):

Options Outstanding				Options Exercisable	
Range of Exercise Price	Number Outstanding at March 31, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at March 31, 1999	Weighted Average Exercise Price
$ 2.48	89,584	1.3	$2.48	89,584	$2.48
$ 2.49 – $ 5.00	863,708	1.8	4.80	863,708	4.80
$ 5.01 – $ 7.50	1,495,238	3.0	6.63	1,323,238	6.63
$ 7.51 – $10.00	1,363,438	4.8	9.11	1,341,418	9.11
$10.01 – $12.50	783,264	3.8	11.60	775,696	11.60
	4,595,232	3.4	7.79	4,393,644	7.82

7. Share capital (continued)

(d) Warrants

The Company issued warrants to purchase 24,598 shares on or before June 2, 2002 as consideration for raising capital in 1997. The exercise price of each warrant is $9.38.

8. Research and development

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Research and development expenses	$14,698	$14,877	$19,123	$ 8,962	$13,256
Research and development funding					
Development contract revenue	(2,904)	(1,405)	(8,464)	(4,017)	(5,928)
Investment tax credits	(1,111)	(700)	(3,728)	(1,712)	(2,053)
Research and development, net	$10,683	$12,772	$ 6,931	$ 3,233	$ 5,275

9. Income taxes

Earnings (loss) before income taxes are as follows:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Canada	$(4,958)	$7,010	$12,891	$5,934	$10,966
Foreign	(2,397)	1,325	4,875	2,114	2,156
Total	$(7,355)	$8,335	$17,766	$8,048	$13,122

The provision for (recovery of) income taxes consists of the following:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Current:					
Canada	$ 69	$1,375	$ 5,369	$2,844	$ 4,913
Foreign	14	1,503	528	177	785
Total current	$ 83	$2,878	$ 5,897	$3,021	$ 5,698
Future:					
Canada	$ (179)	$ (21)	$ 1,071	$ (86)	$ (219)
Foreign	(16)	(359)	(292)	(13)	12
Total future	$ (195)	$ (380)	$ 779	$ (99)	$ (207)
Total income tax provision	$ (112)	$2,498	$ 6,676	$2,922	$ 5,491

9. Income taxes (continued)

Income tax rate:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Combined Canadian federal/provincial tax rate	45.6%	45.6%	45.6%	45.6%	45.6%
Increased (reduced) by:					
Manufacturing and processing credits	–	(1.3)	(5.4)	(5.9)	(5.8)
Foreign exchange translation not deducted for tax	–	–	6.5	4.6	1.1
Foreign losses (utilized) not recognized	(17.2)	7.3	(6.5)	(4.0)	–
Future income tax assets not recognized	(26.6)	(21.6)	–	–	–
Foreign tax rate reduction	–	(2.7)	(1.8)	(2.5)	(1.0)
Other	(3.3)	2.7	(0.8)	(1.5)	1.9
Effective rate	(1.5)%	30.0%	37.6%	36.3%	41.8%

Temporary differences that give rise to the net future income tax benefit are as follows:

	September 30,			March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Current future income tax benefit:					
Investment tax credit revenue	$ –	$ (329)	$ (998)	$ (575)	$(1,266)
Revenue recognition	–	134	31	78	733
Retrofit liability and other	–	899	933	1,521	933
Total current future income tax	$ –	$ 704	$ (34)	$1,024	$ 400

	September 30,			March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Long-term future income tax benefit:					
Capital assets	$ 312	$ (12)	$ (412)	$ (233)	$ (583)
Financing costs	–	–	359	–	303
Operating losses	–	1,500	–	–	–
Valuation allowance					
Canada	–	–	–	–	–
Foreign	–	(1,500)	–	–	–
Total long-term future income tax	$ 312	$ (12)	$ (53)	$ (233)	$ (280)
Net future income tax benefit	$ 312	$ 692	$ (87)	$ 791	$ 120

In the six months ended March 31, 1999, the Company paid income taxes of $1,980 (six months ended March 31, 1998 – $975; fiscal 1998 – $1,683; fiscal 1997 – $270; fiscal 1996 – $115).

9. Income taxes (continued)

As at March 31, 1999, the Company has unused investment tax credits totaling approximately $5,100 available to reduce future Canadian federal income taxes. These tax credits expire in varying amounts to 2009.

10. Earnings per Common Share

Basic earnings per Common Share is calculated by dividing the earnings for the period by the weighted average number of Common Shares outstanding during the period: six months ended March 31, 1999 – 27,275,538 (six months ended March 31, 1998 – 24,998,256; fiscal 1998 – 25,024,788; fiscal 1997 – 22,769,212; fiscal 1996 – 21,209,172).

Fully diluted earnings per share is based on the assumptions that all outstanding options and warrants in note 7 were exercised at the beginning of the period and that the funds derived therefrom had been invested to produce an annual return of 3%, after income taxes, for the six months ended March 31, 1999 (six months ended March 31, 1998 – 4%; fiscal 1999 – 3%; fiscal 1998 – 4%; fiscal 1997 – 3%). The amounts of income imputed, after income taxes, were $619 for the six months ended March 31, 1999 (six months ended March 31, 1998 – $668; fiscal 1998 – $1,329; fiscal 1997 – $1,559). Fully diluted net loss per share for the 1996 fiscal year is not shown as it would be anti-dilutive.

11. Financial instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to their short-term maturities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of its long-term debt approximates fair value. The fair value of the interest rate swap is disclosed in Note 6.

Significant amounts of the Company's expenditures are denominated in Canadian dollars. Fluctuations in the exchange rate between Canadian and U.S. dollars could have a material effect on the Company's business, financial condition and results of operations. The Company has not entered into foreign currency contracts or other instruments to mitigate this risk.

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily accounts receivable (note 13). The Company performs ongoing credit evaluations of its customers' financial conditions and requires letters of credit or other guarantees whenever deemed necessary.

12. Commitments and contingencies

The Company is party to certain operating leases under which the future minimum lease payments as at March 31, 1999 are approximately as follows (unaudited):

1999	$ 752
2000	1,098
2001	640
2002	462
2003	263
Thereafter	270
	$3,485

12. Commitments and contingencies (continued)

Total rent expense for the six months ended March 31, 1999 was $736 (six months ended March 31, 1998 – $408; fiscal 1998 – $843; fiscal 1997 – $803; fiscal 1996 – $425).

The Company has letters of guarantee with the Royal Bank of Canada totaling $750 expiring in March 2000.

Year 2000 issues arise 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 year 2000 issues 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 year 2000 issues affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

13. Segmented financial information

The Company operates in a single reportable operating segment relating to digital prepress equipment. The Company generated revenue from the development and sale of digital prepress equipment to customers in the following geographic segments:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Canada	$ 1,810	$ 3,134	$ 3,193	$ 591	$ 1,820
U.S.	32,715	62,441	71,927	35,942	50,544
Europe	4,501	15,718	41,655	15,547	22,140
Japan	7,020	9,936	5,316	2,786	1,100
Other	1,892	4,354	6,757	4,383	2,453
	$ 47,938	$ 95,583	$128,848	$59,249	$78,057

There were no customers representing 10% or more of total revenue in the six months ended March 31, 1999, the six months ended March 31, 1998, or the 1998 fiscal year. There was one customer in 1997 representing approximately 10% of total revenue. In the 1996 fiscal year, there were four customers representing approximately 51% (18%, 12%, 11% and 10% individually) of total revenue.

The Company has capital assets located in:

	September 30,		March 31,
	1997	1998	1999
			(unaudited)
Canada	$14,883	$31,914	$34,820
Other	1,865	2,232	2,395
	$16,748	$34,146	$37,215

14. Differences between Canadian and United States accounting principles and practices

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) which differ in certain respects from those principles and practices that the Company would have followed had its consolidated financial statement been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP).

(a) Change in accounting policy

Under U.S. GAAP, the change in accounting policy described in note 4, relating to amortization of capital assets, would be accounted for prospectively from October 1, 1997 and the cumulative effect of the change would be disclosed as a separate item in the determination of net earnings. Since the change disclosed in note 7(b), relating to the issuance of incentive shares, results in consistency between Canadian GAAP and U.S. GAAP, no adjustment is required for purposes of this reconciliation.

The effect of these differences would be:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Net earnings (loss) under Canadian GAAP	$ (7,243)	$ 5,837	$11,090	$ 5,126	$ 7,631
Reverse retroactive impact of change in accounting policy	305	244	–	–	–
Earnings (loss) before cumulative effect of change in accounting policy under U.S. GAAP	(6,938)	6,081	11,090	5,126	7,631
Cumulative effect of change in accounting policy	–	–	(732)	(732)	—
Net earnings (loss) under U.S. GAAP	(6,938)	6,081	10,358	4,394	7,631
Retained earnings (deficit), beginning of year under U.S. GAAP	(6,307)	(13,245)	(7,164)	(7,164)	3,194
Retained earnings (deficit), end of year under U.S. GAAP	$(13,245)	$(7,164)	$ 3,194	$(2,770)	$10,825
Earnings (loss) per share					
Basic earnings per share	$ (0.33)	$ 0.27	$ 0.41	$ 0.18	$ 0.28
Diluted earnings per share	$ (0.33)	$ 0.25	$ 0.38	$ 0.16	$ 0.27

The cumulative effect of the change in accounting policy reduced basic earnings per share for the six months ended March 31, 1998 by $0.03 (fiscal 1998—$0.03) and diluted earnings per share for the six months ended March 31, 1998 by $0.03 (fiscal 1998—$0.03).

Comprehensive earnings (loss) is the same as net earnings (loss) under U.S. GAAP for all periods presented.

14. Differences between Canadian and United States accounting principles and practices (continued)

(b) Earnings per share

During 1997, the Company adopted Statement of Financial Accounting Standard No. 128 (FAS 128), Earnings Per Share for U.S. GAAP purposes. Diluted earnings per share under U.S. GAAP is based on the weighted average number of Common Shares outstanding which considers the dilutive effect of share options and warrants by applying the Treasury Stock method.

The following weighted average number of shares was used for the computation of diluted earnings per share.

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Weighted average shares used in computation of basic earnings per share	21,209,172	22,769,212	25,024,788	24,998,256	27,275,538
Weighted average shares from assumed conversion of dilutive options	–	1,422,132	2,011,202	2,425,437	791,297
Weighted average shares used in computation of diluted earnings per share	21,209,172	24,191,344	27,035,990	27,423,693	28,066,835

(c) Joint venture

The accounts of the Company's joint venture investment were proportionately consolidated (see note 2). Under U.S. GAAP, proportionate consolidation is not permitted. However, under rules promulgated by the United States Securities and Exchange Commission (SEC), a foreign registrant may, subject to the provision of additional information which is set out in Note 2, continue to apply proportionate consolidation for purposes of registration and other filings, notwithstanding the departure from U.S. GAAP. Accordingly, the financial statements have not been adjusted to restate the accounting under U.S. GAAP.

(d) Stock based compensation

The Company has elected to continue to apply the guidance set out in Accounting Principles Board Opinion No. 25, ''Accounting for Stock Issued to Employees'' (APB 25) and related interpretations in accounting for its employee share options. Under APB 25, because the exercise price of the Company's employee share option equals the estimated fair value of the underlying share on the date of grant, no compensation cost is recognized.

14. Differences between Canadian and United States accounting principles and practices (continued)

Pro forma information regarding net earnings (loss) and earnings (loss) per share is required by Statement of Financial Accounting Standards No. 123 (FAS 123), Accounting for Stock-Based Compensation, for U.S. GAAP. Had compensation cost for the Company's share option plan been determined based on the fair value at the grant date for awards under those plans consistent with the measurement provisions of FAS 123, the Company's net earnings (loss) and earnings (loss) per share under U.S. GAAP would have been adjusted as follows:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Net earnings (loss) – pro forma	$(8,901)	$ 1,246	$ 4,906	$ (805)	$ 1,206
Basic earnings (loss) per share – pro forma	$ (0.42)	$ 0.05	$ 0.20	$ (0.03)	$ 0.04
Diluted earnings (loss) per share – pro forma	$ (0.42)	$ 0.05	$ 0.18	$ (0.03)	$ 0.04

Pro forma amounts reflect options granted after the 1995 fiscal year.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option valuation model with the following assumptions:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Expected dividend yield	0%	0%	0%	0%	0%
Expected stock price volatility	45	51	50	50	49
Risk-free interest rate	7.8%	5.0%	5.5%	5.5%	6.0%
Expected life of options	5 years	5 years	5 years	5 years	5 years

The fair value of the options granted is $6,425 for the six months ended March 31, 1999 (six months ended March 31, 1998 – $5,199; fiscal 1998 – $5,452; fiscal 1997 – $4,835; fiscal 1996 – $1,963;).

For purposes of pro-forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis.

(e) Supplementary information: allowance for doubtful accounts

Accounts receivable are disclosed net of allowance for doubtful accounts as follows:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Charged to expenses	$ 1	$ 426	$ 51	$ (45)	$ 25
Balance, end of period	$ 50	$ 391	$ 180	$ 365	$ 362

15. Subsequent event (unaudited)

The Company has filed a preliminary prospectus and a Registration Statement on Form F-1 with securities regulatory authorities in the provinces of British Columbia and Ontario Canada and the United States, respectively, relating to an issue and sale of the Company's Common Shares.

CERTIFICATE OF CREO PRODUCTS INC.

Dated: May 14, 1999

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

(Signed) AMOS MICHELSON
Chief Executive Officer

(Signed) THOMAS A. KORDYBACK
Vice President, Finance, Chief Financial Officer and Secretary

On behalf of the Board of Directors:

(Signed) RAPHAEL AMIT
Director

(Signed) DANIEL GELBART
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: May 14, 1999

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 9 of the *Securities Act* (British Columbia) and Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

SALOMON SMITH BARNEY CANADA INC.

By: (Signed) ROBERT J. GEMMELL

MERRILL LYNCH CANADA INC.

By: (Signed) KENNETH J.C. MACKINNON

RBC DOMINION SECURITIES INC.

By: (Signed) J. LEVERSAGE

The following includes the names of every person or company having an interest, either directly or indirectly, to the extent of not less than 5% in the capital of:

SALOMON SMITH BARNEY CANADA INC.: an indirect wholly-owned subsidiary of Citigroup Inc.

MERRILL LYNCH CANADA INC.: an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc.

RBC DOMINION SECURITIES INC.: an indirect wholly-owned subsidiary of a Canadian chartered bank.