

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

Amended and Restated Preliminary Prospectus dated February 22, 2000

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 has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. The securities qualified by this prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended, and, subject to certain exceptions, may not be offered, sold or delivered, directly or indirectly, in the United States of America, its territories or possessions. See "Plan of Distribution".

Initial Public Offering

maxxcom

an MDC Company

\$ ●

● Common Shares

The ● common shares (the "Common Shares") in the capital of Maxxcom Inc. (the "Company" or "Maxxcom") offered hereby (the "Offering") are being issued and sold by Maxxcom. Maxxcom is composed of interests in companies which were transferred to Maxxcom by MDC Corporation Inc. (the "Principal Shareholder") effective January 1, 2000 (the "Reorganization") in exchange for securities convertible into Common Shares and other consideration. Prior to the Reorganization, the transferred companies comprised substantially all of the Communications and Marketing Services Division of the Principal Shareholder. Immediately prior to the closing of the Offering, Maxxcom will issue Common Shares to certain shareholders of subsidiaries of Maxxcom (the "Operating Company Shareholders") in exchange for shares of such subsidiaries (the "Exchange"). See "Reorganization" and "Interest of Management and Others in Material Transactions". The Common Shares issuable without additional consideration upon conversion of the previously issued convertible securities pursuant to the Reorganization and the Common Shares issuable pursuant to the Exchange are also qualified hereunder. The Principal Shareholder will, immediately after the closing of the Offering, be the beneficial owner of ● Common Shares, which shares will represent an aggregate of ● % of the outstanding Common Shares (● % if the Over-Allotment Option (as hereinafter defined) is exercised in full). The Operating Company Shareholders will, immediately after the closing of the Offering, be the beneficial owners of ● Common Shares, which shares will represent an aggregate of ● % of the issued and outstanding Common Shares (● % if the Over-Allotment Option is exercised in full).

There is no market through which the Common Shares may be sold and purchasers may not be able to resell securities purchased under this prospectus. The offering price of the Common Shares was determined by negotiation between the Company and CIBC World Markets Inc., RBC Dominion Securities Inc., Bunting Warburg Dillon Read Inc., Griffiths McBurney & Partners, National Bank Financial Inc., Nesbitt Burns Inc., Scotia Capital Inc., TD Securities Inc., Canaccord Capital Corporation and Thomson Kernaghan & Co. Ltd. (collectively, the "Underwriters"). **After giving effect to the Reorganization, the Exchange and the Offering, the offering price of each Common Share exceeds by \$ ● , as of December 31, 1999, the consolidated net tangible book value per Common Share, representing a dilution factor of ● % (● % if the Over-Allotment Option is exercised in full). See "Dilution" and "Risk Factors". Prospective purchasers should carefully consider the risks described under "Risk Factors" before purchasing Common Shares.** In the opinion of counsel, the Common Shares offered hereby will not, upon closing, be precluded as investments under certain statutes as set forth in "Eligibility for Investment".

Price: \$ ● per Common Share

	Price to the Public	Underwriters' Fee	Net Proceeds to the Company (1)
Per Common Share	\$ ●	\$ ●	\$ ●
Total (2)(3)	\$ ●	\$ ●	\$ ●

Notes:

- (1) Before deducting expenses of the Offering, estimated to be approximately \$ ● , which will be paid by Maxxcom out of its general funds.
- (2) Maxxcom has granted to the Underwriters an option (the "Over-Allotment Option") to cover over-allotments, if any, which may be exercised during a 30 day period from the closing of the Offering, entitling them to purchase up to a maximum of ● additional Common Shares at the offering price. If the Over-Allotment Option is exercised in full, the total Price to the Public, the Underwriters' Fee and the Net Proceeds to the Company will be \$ ● , \$ ● and \$ ● , respectively. See "Plan of Distribution". This prospectus also qualifies the distribution of the Common Shares issuable upon the exercise of the Over-Allotment Option.
- (3) This prospectus also qualifies the distribution of ● Common Shares which will be issued to the Operating Company Shareholders in exchange for shares of subsidiaries of Maxxcom pursuant to the Exchange and the Common Shares issuable to the Principal Shareholder without payment of additional consideration upon the conversion of the previously issued convertible securities and in connection with the conversion of any indebtedness relating thereto. See "Interest of Management and Others in Material Transactions" and "Reorganization".

The Underwriters, as principals, conditionally offer the Common Shares as described herein, subject to prior sale, if, as and when issued, sold and delivered by Maxxcom and accepted by the Underwriters in accordance with the terms and conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of Maxxcom by Fogler, Rubinoff LLP, counsel to the Company, and on behalf of the Underwriters by Torys, counsel to the Underwriters. Five of the Underwriters are direct or indirect subsidiaries of Canadian chartered banks which have extended credit facilities to the Principal Shareholder. Accordingly, Maxxcom may be considered to be a connected issuer of such Underwriters within the meaning of applicable Canadian securities legislation. See "Plan of Distribution".

Subscriptions for the Common Shares 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 definitive share certificates representing the Common Shares will be available for delivery at closing of the Offering which is expected to take place on or about March ● , 2000, or on such other date as Maxxcom and the Underwriters may agree, but in any event not later than March ● , 2000.

- Pro forma net income increased 35 percent from 1998 to 1999
- 65 percent of revenue generated in U.S.
- Demonstrated track record of successful acquisitions
- Focus on high growth segments – interactive marketing, direct marketing, sales promotion

Largest full-service marketing communications organization based in Canada

WE ARE KNOWN BY THE COMPANY WE KEEP HARVEY'S HONDA CANADA NORTON MOTORCYCLES ABOUT.COM MEDIAONE EXPRESS WINNEBAGO

THE MINNEAPOLIS INSTITUTE OF ARTS GODIVA CHOCOLATES STOLICHNAYA VODKA SECAN SEARS VOGUE BRA STIHL 3M HEALTH CARE MIELE

PFIZER ANIMAL HEALTH BOMBAY GIN GABBERTS FURNITURE STORES HBO FIRST DATA HEARST MAGAZINES CELLULAR SOUTH ARBY'S TD BANK

E*TRADE CANADA CLASSICO CANADA TRUST CONVERSE BANK OF BERMUDA SERVICE NET MOOSEHEAD BREWERIES LIMITED SCOTT PAPER LIMITED

MCNEIL CONSUMER HEALTHCARE CORONA EXTRA GAINES PETFOODS SAXON MUTUAL FUNDS CIBC WORLD MARKETS SELECT SUNSHINE PLAYGROUND

CENTREPOST MUTUAL FUNDS MILK MARKETING BOARD THE PINNACLE PROGRAM ACANTHUS ATLAS WINE MERCHANTS HOFFMAN-LAROCHE LIMITED

FOUNDERS FUNDS SOTHEBY'S DOLE FOOD COMPANY MOLSON CANADA VISA TORONTO RAPTORS 3M COMPANY SWAGELOK SUNCOM REGAL

TOROMONT CNA WARRANTY CANADA PLACE PRO-LIQUITECH TWIN SPIRES MUSTIQUE CANADIAN BROADCASTING CORPORATION TETLEY USA KEDS PEAK

THE ROSIE O'DONNELL SHOW KRAFT FOODS TRICARE CLIFFS OPTUS VINCOR FOUR SEASONS HOTELS HOLLINGER MOORE SUN LIFE GLAXO WELLCOME

MOUNT SINAI HOSPITAL KOOL-AID MRS. WINNER'S CHICKEN & BISCUITS CANADIAN BLOOD SERVICES

maxxcom
an MDC Company

The names and brands used above are the trademarks or registered trademarks of their respective owners.

Partners

Colle & McVoy, Inc.

Margeotes/Fertitta + Partners, LLC

Allard Johnson Communications Inc.

Fletcher Martin Associates, LLC

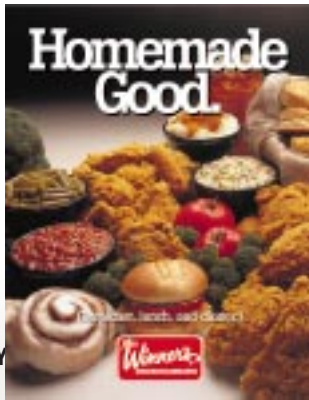
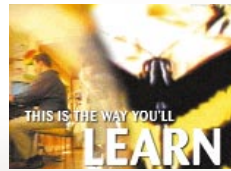
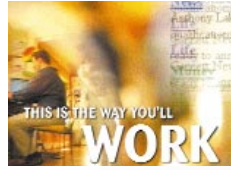
Ambrose Carr Linton Carroll Inc.

Cormark Communications Inc.



INTEGRATED COMMUNICATIONS

Companies in Maxxcom's Integrated Communications Division deliver solutions to clients using a variety of marketing communications services. By carefully analyzing the requirements of each client, they select and combine the relevant services to ensure consistency in the delivery of the client's image and brand. Because the integrated companies offer a full range of services, the solutions they deliver are client based, not service based.



WE ARE KNOWN BY

ARVEY'S

HONDA CANADA

NORTON MOTORCYCLES

EBAGO

THE MINNEAPOLIS INSTITUTE OF ARTS

GODIVA CHOCOLATES

STOLICHNAYA VODKA

SECAN

MIELE

PFIZER

GIN

GABBERTS FURNITURE STORES

HBO

BANK

E*TRADE

CANADA TRUST

CONVERSE

BANK OF REDBANK

VIUO HEAD BREWERY

LIMITED

SCOTT PAPER LIMITED

MC

CORONA EXTRA

GAINES PETROLEUM

MARKETS

SELECT SUNSHINE PLAYGROUND

CENTREPOST MUTUAL FUNDS

MILK MARKETING BOARD

US

ATLAS WINE MERCHANTS

AROCHE LIMITED

FOUNDERS FUNDS

SOTHEBY'S

DOLE FOOD COMPANY

TORONTO RAPTORS

3M COMPANY

UNCOM REGAL

TOROMONT

CNA WARRANTY

CANADA PLACE

PRO-LIQUEUR

WIN SPIRES

MUSTIQUE

CANADIAN BROADCASTING CORPORATION

SA KEDS PEAK

THE ROSIE O'DONNELL SHOW

KRAFT FOODS

TRICARE

CLIFFS

OPTUS

VINCOFF

FOUR SEASONS HOTELS

HOLLINGER

GLAXO WELLCOME

MOUNT SINAI HOSPITAL

KOOL-AID

MRS. WINNER'S CHICKEN

IAN BLOOD SERVICES



The names and brands used above are the trademarks or registered trademarks of their respective owners.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements which reflect management's expectations regarding the Company's future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "anticipate", "believe", "plan", "expect", "intend" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including those listed in the "*Risk Factors*" section of this prospectus. Although the forward-looking statements contained in this prospectus are based upon what management believes to be reasonable assumptions, the Company cannot assure prospective purchasers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this prospectus, and the Company assumes no obligation to update or revise them to reflect new events or circumstances.

EXPLANATORY NOTE

All references to the "Company" or "Maxxcom" as of a time after the Reorganization are references to Maxxcom Inc., an Ontario corporation incorporated on November 2, 1998, and unless the context otherwise requires, its subsidiaries, after giving effect to the Reorganization. All references to the "Company" or "Maxxcom" as of a time prior to the Reorganization are references to the Principal Shareholder and, unless the context otherwise requires, the group of marketing communications companies previously controlled by the Principal Shareholder (since 1994 as part of the Principal Shareholder's Communications and Marketing Services Division), substantially all of the Principal Shareholder's interests in which were transferred to Maxxcom as part of the Reorganization.

All references to "gross billings" mean the total amounts billed to clients for media placements, production of advertisements, commissions and fees earned by the Company. All references to "gross income" mean gross billings less billings for media placements.

Unless otherwise expressly stated, all references to "pro forma" mean pro forma after giving effect to the Reorganization and the acquisitions of Accent Marketing Services, L.L.C., Colle & McVoy, Inc., Margeotes/Fertitta + Partners, LLC, Source Marketing, LLC, Allard et Associés Inc. and Fletcher Martin Associates LLC as if each had occurred at the beginning of the period for which the pro forma results are presented.

Pursuant to shareholder and other agreements between Maxxcom and its operating companies, the operating companies are generally obliged to distribute earnings on a current basis. References to "Maxxcom's share of operating income" mean the operating income of the Company less minority interests and references to "minority interests" mean the aggregate of distributions paid or payable to minority shareholders of the operating companies.

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ELIGIBILITY FOR INVESTMENT

In the opinion of Fogler, Rubinoff LLP, counsel to Maxxcom, and Torgys, counsel to the Underwriters, at the time of closing of the Offering, subject to compliance with the general investment provisions and restrictions and prudent investment standards of the statutes referred to below, subject to the satisfaction of additional requirements relating to investment or lending policies, standards, procedures or goals, the Common Shares offered hereby will not be precluded as investments under or by the following statutes:

- | | |
|---|---|
| (a) <i>Insurance Companies Act</i> (Canada); | therein, which invests its own funds and |
| (b) <i>Pension Benefits Standards Act, 1985</i> (Canada); | funds received as deposits; |
| (c) <i>Trust and Loan Companies Act</i> (Canada); | (f) <i>Supplemental Pension Plans Act</i> (Quebec); |
| (d) <i>An Act respecting insurance</i> (Quebec), for an insurer as defined therein, incorporated under the laws of the Province of Quebec, other than a guarantee fund corporation; | (g) <i>Loan and Trust Corporations Act</i> (Ontario); |
| (e) <i>An Act respecting trust companies and savings companies</i> (Quebec), for a trust company or savings company, as defined | (h) <i>Pension Benefits Act</i> (Ontario); |
| | (i) <i>Loan and Trust Corporations Act</i> (Alberta); |
| | (j) <i>Financial Institutions Act</i> (British Columbia); |
| | (k) <i>The Pension Benefits Act</i> (Manitoba); and |
| | (l) <i>The Trustee Act</i> (Manitoba). |

In the opinion of such counsel, the Common Shares offered hereby, if and when listed on a prescribed stock exchange in Canada, would be qualified investments under the *Income Tax Act* (Canada) (the “Tax Act”) and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans (collectively, “deferred income plans”). The Common Shares offered hereby are not, on the date of this prospectus, foreign property for the purposes of the provisions of the tax imposed under Part XI of the Tax Act on deferred income plans, registered investments and other tax exempt entities including most pension funds or plans.

CURRENCY

In this prospectus, except where otherwise indicated, all dollar amounts are expressed in Canadian dollars, references to Cdn\$ or “\$” are to Canadian dollars and references to US\$ are to United States dollars.

As at February 21, 2000, the noon rate of exchange as reported by the Bank of Canada was US\$1.00 = \$1.4533 or \$1.00 = US\$0.688089.

PROSPECTUS SUMMARY

The following is a summary only and is qualified in its entirety by the more detailed information appearing elsewhere in this prospectus. Capitalized terms used in this summary without definition are defined elsewhere in this prospectus. The financial information contained herein concerning the Company, unless otherwise stated, is derived from and is qualified by the provisions of the Company's combined financial statements and the notes thereto included elsewhere in this prospectus.

The Offering

Common Shares Offered:	● Common Shares (excluding ● Common Shares which may be issued by the Company pursuant to the exercise by the Underwriters of the Over-Allotment Option).
Price:	\$ ● per Common Share.
Amount:	\$ ● (\$ ● if the Over-Allotment Option is exercised in full).
Dividends:	The Company does not currently anticipate paying dividends in the foreseeable future. The Company's current intention is to reinvest its earnings to finance its long-term growth. <i>See "Dividend Record and Policy".</i>
Use of Proceeds:	The net proceeds of the Offering to be received by the Company are estimated to be \$ ● , after deduction of the Underwriters' fee and the estimated expenses of the Offering payable by the Company. Of the net proceeds to be received by the Company: (i) substantially all, amounting to approximately \$ ● million, will be used to repay indebtedness of the Company to the Principal Shareholder incurred in connection with the Reorganization; and (ii) the balance, amounting to approximately \$ ● , will be used for working capital and general corporate purposes. <i>See "Use of Proceeds".</i>
Principal Shareholder:	Upon completion of the Offering, MDC Corporation Inc. (the "Principal Shareholder") will be the beneficial owner of ● Common Shares, which shares shall represent an aggregate of ● % of the issued and outstanding Common Shares (● % if the Over-Allotment Option is exercised in full). The Principal Shareholder has granted options to certain senior officers of the Principal Shareholder and the Company to purchase Common Shares. <i>See "Principal Shareholder" and "Interest of Management and Others in Material Transactions".</i>
Risk Factors:	An investment in the Common Shares is subject to certain risk factors that prospective purchasers should carefully consider. These risks include the following: (i) competition from other companies offering similar products; (ii) the ability to attract and retain key personnel; (iii) availability and integration of acquisition targets; (iv) economic uncertainties; (v) consolidation of accounts; (vi) media account default; (vii) risks arising from the Company's relationship with the Principal Shareholder; (viii) exchange rate fluctuations; (ix) absence of dividends; (x) potential absence of liquid market; (xi) immediate dilution incurred by investors; and (xii) Year 2000 matters. <i>See "Risk Factors".</i>

The Industry

The marketing communications industry helps clients identify and communicate with their target customers and build awareness of their products and services in order to increase their sales. The industry aims to establish long-term relationships with its clients through the provision of a variety of services. Industry sources estimate the size of the U.S. marketing communications industry at approximately US\$400 billion in 1998, having experienced a compound annual growth rate of more than 7% between 1994 and 1998. Although the large global marketing communications organizations are continuing to consolidate the industry, the industry remains highly fragmented and many acquisition opportunities still exist. Clients are demanding a broader range of services, including in particular specialized services (such as sales promotion, direct marketing/database management, and interactive marketing) which enable clients to target customers more directly and to measure more accurately the effectiveness of their marketing expenditures. In an environment of increasing competition, new marketing communication technology and increased client demand for a broader range of services, clients are also demanding greater consistency in the communication of their image and brand values.

The Company

Maxxcom is the largest full-service marketing communications organization based in Canada, providing a comprehensive range of services to clients in Canada and the United States. These services include advertising, direct marketing/database management, sales promotions, corporate communications (including public and investor relations), branding and corporate identity, research and consulting, and the rapidly growing field of interactive marketing communications. The Company carries on business through operating companies in two divisions: Integrated Communications and Specialized Communications. Established in 1980, Maxxcom has grown rapidly in the 1990's through a combination of organic growth and strategic acquisitions. This growth has been enabled by Maxxcom's Perpetual Partnership™ business model.

The Company's gross billings for the fiscal years ended December 31, 1997 and 1999 were respectively \$71,814,000 and \$368,384,000, which represents a compound annual growth rate of 126%. For the same period, the Company's gross income grew from \$36,516,000 to \$149,486,000, its operating income grew from \$7,300,000 to \$27,877,000 and its net income grew from \$2,024,000 to \$7,930,000, representing a compound annual growth rate of 102%, 95% and 98%, respectively. For the same period, Maxxcom's share of operating income grew from \$5,240,000 to \$19,512,000, representing a compound annual growth rate of 93%.

The Company's gross billings for the pro forma fiscal year ended December 31, 1998 and 1999 were respectively \$403,474,000 and \$521,381,000, representing a 29.2% increase. For the same period, the Company's gross income grew from \$154,161,000 to \$204,826,000, its operating income grew from \$27,718,000 to \$37,937,000 and its net income grew from \$8,788,000 to \$11,837,000, representing increases of 32.9%, 36.9% and 34.7%, respectively. For the same period, Maxxcom's share of operating income grew from \$20,041,000 to \$26,577,000, representing an increase of 32.6%.

Since the end of 1996, Maxxcom has acquired 11 companies with aggregate gross income and operating income for the pro forma fiscal year ended December 31, 1999 of \$152,893,000 and \$34,556,000, respectively, representing 74.6% and 91% of Maxxcom's total pro forma gross income and operating income for the same period.

Strategy. Maxxcom's client driven strategy is to respond to the increasing demand for a broader range of marketing communications services which enable clients to target customers more directly and to measure more accurately the effectiveness of their marketing expenditures. Maxxcom provides the full range of services through two divisions, each aimed at a distinct type of client. For clients who prefer "one stop shopping", the companies in Maxxcom's Integrated Communications Division deliver integrated solutions and manage brand consistency across a broad range of communications services. The companies in Maxxcom's Specialized Communications Division are focused on an individual communications discipline and are selected by clients who are seeking depth of expertise in that discipline and who have chosen to internally manage brand consistency between services provided by several suppliers.

Maxxcom intends to continue its rapid growth by (i) expanding its existing operations through focused business development initiatives, new business launches and tuck under acquisitions (acquisitions which generally involve the purchase of 100% of the equity of smaller firms by existing Maxxcom operating companies) and (ii) making platform acquisitions (large acquisitions which provide Maxxcom with a "platform" for future growth in a region or

specialized communications discipline) to expand geographically (primarily in the United States) and broaden its range of services. The primary focus of Maxxcom's growth initiatives will be on integrated communications services and specialized communications services in high growth sectors such as interactive marketing, direct marketing/database management, sales promotions and public relations.

Organization and Client Services. Maxxcom operates through its Integrated Communications and Specialized Communications divisions. Companies in the Integrated Communications Division deliver solutions to clients using a variety of marketing communications services. By carefully analyzing the requirements of each client, they select and combine the relevant services to ensure consistency in the delivery of the client's image and brand. In contrast, the companies in the Specialized Communications Division are focused on an individual marketing communications discipline. Two-way referrals and cross-selling of services occur between and within Maxxcom divisions based on expertise, and the complexity and service scope of client requirements.

Integrated Communications Division

Allard Johnson Communications Inc.

Ambrose Carr Linton Carroll Inc.

Colle & McVoy, Inc.

Cormark Communications Inc.

Fletcher Martin Associates LLC

Margeotes/Fertitta + Partners, LLC

Specialty Communications Division

Accent Marketing Services, L.L.C. (Direct Marketing/
Database Management)

Accumark Promotions Group Inc. (Promotions)

Bryan Mills Group Inc. (Public and Investor Relations/
Corporate Communications)

Campbell & Partners Communications Inc. (Advertising)

CyberSight, LLC (Interactive)

Integrated Healthcare Communications Inc. (Research
and Consulting)

McManus Elliott Communications Inc. (Public and Investor
Relations/Corporate Communications)

News Canada Inc. (Public and Investor Relations/
Corporate Communications)

Northstar Research Partners Inc. (Research and Consulting)

Source Marketing, LLC (Promotions)

Strategies International (Branding and Corporate Identity)

Veritas Communications Inc. (Public and Investor Relations/
Corporate Communications)

Perpetual Partnership™ Model. The key asset in the marketing communications industry is people. Maxxcom's Perpetual Partnership™ model enables the Company to attract new firms and to retain the entrepreneurial talent which made those firms successful. The combination of the Company's competitive strategy with the Perpetual Partnership™ model has resulted in exceptional and profitable growth.

In contrast to many of the large global consolidators, which typically acquire 100% of an acquisition target, Maxxcom generally acquires between 50.1% and 80% of rapidly growing marketing communications firms. Maxxcom's entrepreneurial managers remain as owners or "partners" with a vested interest in continuing their success. Under the Perpetual Partnership™ model, only participants active in the business are shareholders, and there is an orderly transition of equity from those who cease to be active in the business to new management, thus providing for the retention of future generations of operating company management. The operating philosophy associated with the Perpetual Partnership™ model is one whereby Maxxcom provides value added services to, and supports and nurtures the unique cultures of, its partner companies and offers operational independence, responsibility and creative license. In exchange, Maxxcom expects its partner companies to meet growth and profitability targets, and to operate within a competitive environment for capital.

As part of the Offering, certain current Operating Company Shareholders will have an opportunity to participate in the ownership of Common Shares. See *"Interest of Management and Others in Material Transactions"*. Maxxcom also intends to use Common Shares as a currency for future acquisitions, thereby ensuring that management of such acquisitions will have an opportunity to participate in Maxxcom's growth. Maxxcom will also grant options to purchase Common Shares to senior management of the operating companies. See *"Stock*

Option Plan". The Company believes that ownership of Maxxcom shares and options will align the interests of management with Maxxcom and encourage managers to work in the interests of all of the Company's operating subsidiaries and that the combination of ownership of Maxxcom shares and options with ownership of operating company shares under the Perpetual Partnership™ model provides an appropriately balanced compensation structure to optimize Maxxcom's growth and profitability.

Value Added to Operating Companies By Maxxcom. The support provided by Maxxcom's corporate group to its operating companies is a key differentiator between Maxxcom and independent agency networks or stand-alone agencies. Maxxcom's corporate resources add value and support growth through the provision of the following services to its operating companies:

- Business and strategic planning services;
- Human resource management, including the facilitation of management and partner succession;
- Merger and acquisition advisory services;
- Capital to support growth; and
- Facilitation of integration and cross-selling alliances between Maxxcom companies.

Successful Entrepreneurial Management. The management of Maxxcom operating companies are growth-minded entrepreneurs who have strong track records in building successful businesses. The senior management of the Maxxcom operating companies have worked in the marketing communications industry for an average of 20 years and have an average of nine years of service with their respective companies.

Long-Standing Clients. Maxxcom has cultivated long-standing client relationships by identifying and developing sectors or niches which have been historically underserved by other marketing communication services firms. These niches include the regional and specialized service requirements for some of North America's largest and most well-known companies including Kraft, Honda, Pfizer, Sears and Sprint. The Company services a variety of different industries. On a pro forma basis for the fiscal year ended December 31, 1999, consumer products, healthcare and telecommunications were the largest industry contributors to Maxxcom's gross income, contributing 44%, 11% and 9%, respectively. Approximately 65% of the Company's pro forma gross income for the fiscal year ended December 31, 1999 was derived from the United States, with the balance coming from Canada. The average length of client relationship for Maxxcom's top five clients based on pro forma gross income for the year ended December 31, 1999 is eight years. No single client constitutes more than 10% of the Company's pro forma gross income.

Selected Pro Forma and Actual Consolidated Financial Information

The selected pro forma and actual consolidated financial information set forth below has been derived from, and should be read in conjunction with, the Pro Forma Consolidated Statements of Operations of the Company for the years ended December 31, 1999 and December 31, 1998 and the Audited Consolidated Financial Statements of the Company for the fiscal years ended December 31, 1999, 1998 and 1997 and the respective notes thereto included elsewhere in this prospectus. The Pro Forma Statement of Operations Data for the fiscal years ended December 31, 1999 and December 31, 1998 give effect to the Reorganization and the acquisitions of Accent Marketing Services, L.L.C., Colle & McVoy, Inc., Margeotes/Fertitta + Partners, LLC, Source Marketing, LLC, Allard et Associés Inc. and Fletcher Martin Associates LLC, being the significant acquisitions during the past three fiscal years, as if each had occurred at the beginning of such period. The information set forth below should be read in conjunction with those financial statements and the notes thereto and *"Management's Discussion and Analysis of Financial Condition and Results of Operations"*.

Statement of Operations Data

	For the Pro Forma Fiscal Year Ended December 31, 1999 (1)	For the Pro Forma Fiscal Year Ended December 31, 1998 (1)	For the Fiscal Year Ended December 31,		
	(Unaudited)	(Unaudited)	1999	1998	1997
	(\$ thousands)				
Gross billings	521,381	403,474	368,384	159,412	71,814
Direct costs	<u>316,555</u>	<u>249,313</u>	<u>218,898</u>	<u>92,249</u>	<u>35,298</u>
Gross income	204,826	154,161	149,486	67,163	36,516
Operating expenses	<u>166,889</u>	<u>126,443</u>	<u>121,609</u>	<u>54,016</u>	<u>29,216</u>
Operating income	37,937	27,718	27,877	13,147	7,300
Minority interests (2)	11,360	7,677	8,365	4,364	2,060
Amortization and depreciation	5,152	3,976	2,879	1,528	556
Interest, net	<u>260</u>	<u>747</u>	<u>109</u>	<u>266</u>	<u>155</u>
Income before income taxes and goodwill charges	21,165	15,318	16,524	6,989	4,529
Income taxes	<u>7,393</u>	<u>4,502</u>	<u>7,107</u>	<u>3,004</u>	<u>2,008</u>
Income before goodwill charges	13,722	10,816	9,417	3,985	2,521
Goodwill charges net of income taxes of \$296 (1998 — \$121; 1997 — \$Nil)	<u>1,935</u>	<u>2,028</u>	<u>1,487</u>	<u>725</u>	<u>497</u>
Net income	<u>11,837</u>	<u>8,788</u>	<u>7,930</u>	<u>3,260</u>	<u>2,024</u>
Maxxcom's share of operating income (3) ..	<u>26,577</u>	<u>20,041</u>	<u>19,512</u>	<u>8,783</u>	<u>5,240</u>

Balance Sheet Data

	As at December 31,		
	1999	1998	1997
	(\$ thousands)		
Current assets	117,058	48,922	25,074
Total assets	<u>218,812</u>	<u>95,654</u>	<u>45,771</u>
Short-term bank indebtedness	398	151	860
Current liabilities	100,362	39,320	16,126
Long-term liabilities	11,222	1,808	875
Minority interest	<u>6,012</u>	<u>2,167</u>	<u>1,190</u>
	117,994	43,446	19,051
Equity	<u>100,818</u> (4)	<u>52,208</u>	<u>26,720</u>
	<u>218,812</u>	<u>95,654</u>	<u>45,771</u>

Notes:

- (1) The pro forma financial information does not purport to represent what the Company's results of operations would have been had the transactions been completed as of the date or for the year presented, or which may be obtained in the future.
- (2) These amounts represent payments to minority shareholders pursuant to their respective shareholder agreements and adjustments to the minority interest position.
- (3) Represents operating income less minority interests.
- (4) Effective upon the Reorganization, \$90,000 has been converted to Principal Shareholder Indebtedness. See "Reorganization" and "Capitalization".

THE COMPANY

Overview

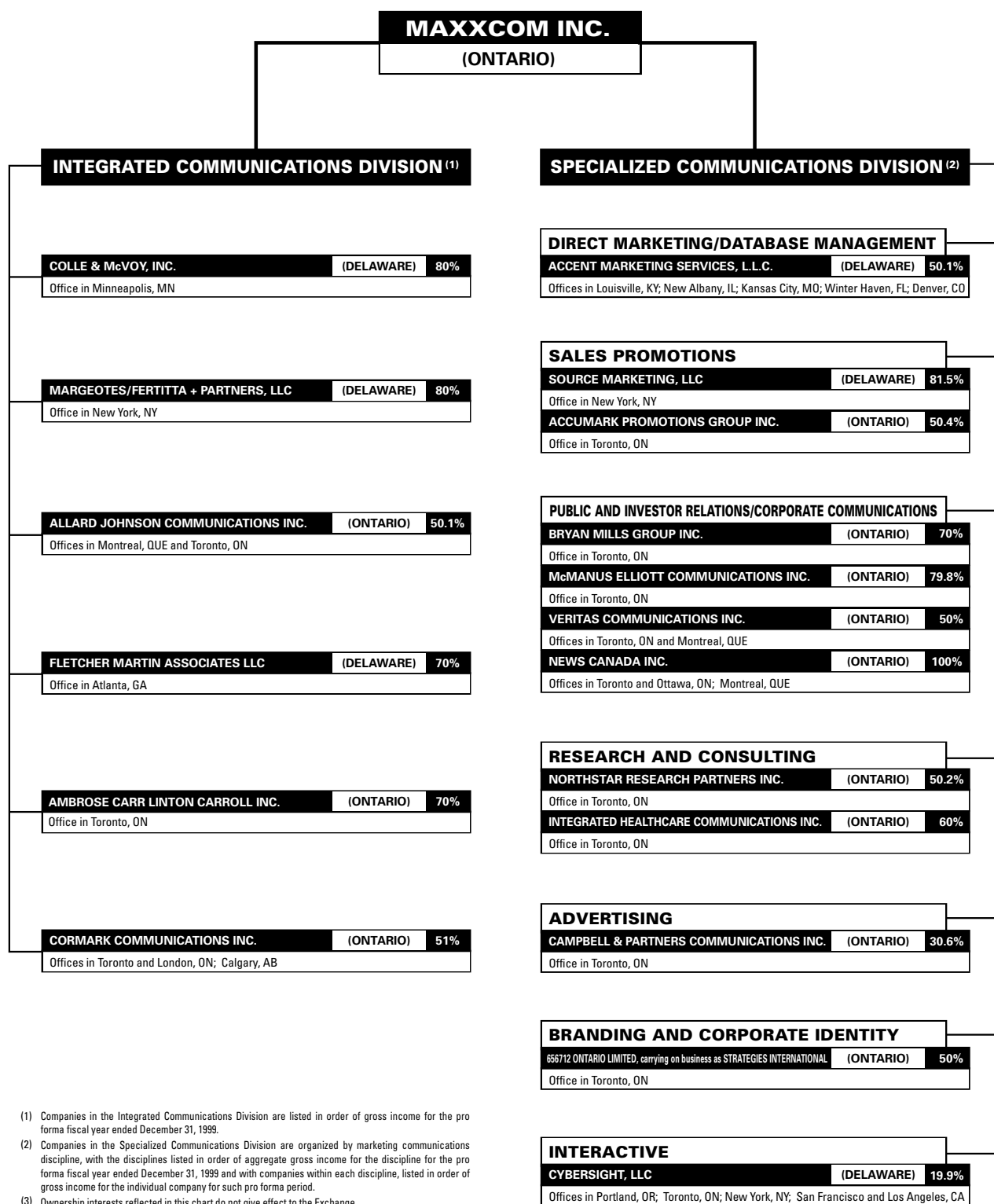
Maxxcom is the largest full-service marketing communications organization based in Canada, providing a comprehensive range of services to clients in Canada and the United States. These services include advertising, direct marketing/database management, sales promotions, corporate communications (including public and investor relations), branding and corporate identity, research and consulting, and the rapidly growing field of interactive marketing communications. The Company carries on business through operating companies in two divisions: Integrated Communications and Specialized Communications. Established in 1980, Maxxcom has grown rapidly in the 1990's through a combination of organic growth and strategic acquisitions. This growth has been enabled by Maxxcom's Perpetual Partnership™ business model.

Maxxcom was incorporated under the laws of the Province of Ontario on November 2, 1998 and had not carried on operations until the commencement of the Reorganization effective January 1, 2000. Prior to completion of the Offering and pursuant to the Reorganization, the Company acquired all of its assets from the Principal Shareholder, such assets being the ownership interests in the companies listed in the chart on the following page, together with related shareholder loans and agreements. These ownership interests comprised substantially all of the Communications and Marketing Services Division of the Principal Shareholder. *See "Reorganization"*.

The Company's principal and registered office is located at 35A Hazelton Avenue, Toronto, Ontario M5R 2E3, telephone (416) 960-6090.

Corporate Structure

The following chart sets forth the corporate structure of the Company and its operating subsidiaries after giving effect to the Reorganization but before giving effect to the Exchange (*see "Interest of Management and Others in Material Transactions"*), including the division, marketing communications discipline (if applicable), jurisdiction of incorporation, percentage of ownership interest held by the Company and office locations of each subsidiary.



THE MARKETING COMMUNICATIONS INDUSTRY

Overview of the Industry

The marketing communications industry helps clients identify and communicate with their target customers and build awareness of their products and services in order to increase their sales. The industry aims to establish long-term relationships with its clients through the provision of a variety of marketing services. According to industry sources, the gross income earned by the U.S. marketing communications industry was estimated at approximately US\$400 billion in 1998, having experienced a compound annual growth rate of more than 7% between 1994 and 1998, and is predicted to grow at a compound annual growth rate of more than 7% between 1999 and 2001.

Historically, advertising has been the primary service provided by the industry. However, as clients aim to establish one-to-one relationships with customers, and more accurately measure the effectiveness of their marketing expenditures, specialized communications services are consuming a growing portion of marketing dollars. According to industry sources, gross income earned from advertising now represents just one-third of the total gross income earned by the industry, while specialized services such as direct marketing/database management, sales promotions, corporate communications (including public and investor relations), branding and corporate identity, research and consulting and interactive marketing communications, absorb the balance. These specialized services have been referred to in industry journals as “below the line” or “non traditional” services. While industry sources report that the compound annual growth rate for advertising from 1994 to 1998 has exceeded that of specialized services (approximately 7.6% compared with approximately 6.9%, respectively), the same sources forecast that the compound annual growth rate during the period 1999 to 2001 will be approximately 6.3% for advertising compared with approximately 7.1% for specialized services.

Marketing communications companies offer the types of services described below.

Direct Marketing/Database Management

This industry segment incorporates a broad range of services, including strategic planning, design, execution, implementation and management of response programs. Response programs consist of incentives and premiums, direct mail, merchandising, point-of-purchase displays, database marketing and telemarketing programs, as well as targeted interactive campaigns. They are generally aimed at increasing short-term purchase frequency or longer-term brand loyalty. Direct marketing services are often used in conjunction with sales promotion activities. Database management services include the management and analysis of customers' responses to various client marketing campaigns. The analysis typically results in tailoring future campaigns to maximize sales.

Sales Promotion

This segment of the industry prompts the consumer to make an immediate purchase decision through the design of point-of-purchase displays, contests, coupons, co-op advertising, sponsorship programs, event marketing and other specialized programs.

Interactive Marketing

The development of the Internet has given rise to a new sector of the marketing communications industry. Interactive companies provide on-line marketing communications services such as on-line advertising and website design and development as well as off-line services to new and existing businesses which are seeking to take advantage of the new e-commerce opportunities presented by the Internet. The Internet is an effective marketing communications medium because of its multimedia capabilities and its ability to target, interact with, and elicit responses from specific interest groups.

Corporate Communications

These services address the requirement of organizations to maintain positive relationships and communications with key constituencies and stakeholders, including customers, employees, investors, and other financial and industry partners, communities, governments, the general public, the media and specific interest groups. Public relations and sponsorship can be used to raise awareness, support sales, build, protect and preserve corporate and brand image, manage reputation and gain support. Key public relations services include planning and strategic counseling, media-relations counseling, spokesperson training and the production or management of a variety of

communications tools and activities (for example, news conferences, news releases, brochures, annual reports, annual meetings and speeches).

Advertising

The main function of this service is to market products and services to potential buyers by increasing brand awareness, brand loyalty and purchase frequency. It is also used to build a distinctive corporate image for an advertiser. Typically, advertising services include the strategic development and planning of mass-communication campaigns; the creative development and production of advertisements; the planning and buying of time and/or space in a variety of media, including television, radio, newspapers, general interest/specialty magazines, billboards and the Internet; and the providing of marketing and consumer research to clients on an ongoing basis.

Research and Consulting

These services include qualitative and quantitative measurement techniques that can help improve the performance of communication efforts through better assessment of audiences as well as consumer perceptions and opinions, evaluation of communication strategies and tools and measurement of the results achieved. The main qualitative techniques employed are individual interviews and focus groups while the main quantitative technique is surveys.

Branding and Corporate Identity

Branding and corporate identity services aim to create, revitalize, manage and implement clients' corporate identity, brand image and nomenclature systems, as well as to design and produce all the communication tools required by organizations to support their corporate identity and communicate their messages, from stationery to annual reports. As a result of clients' increased focus on brand consistency, branding and corporate identity is a growing discipline.

Industry Trends

Significant trends that are shaping the dynamics of the marketing communications industry are summarized below.

Large and Expanding Market

According to industry sources, the gross income earned by the U.S. marketing communications industry was estimated at approximately US\$400 billion in 1998, having grown at a compound annual growth rate of more than 7% between 1994 and 1998, and is predicted to grow at a compound annual growth rate of more than 7% between 1999 and 2001. The expansion in the industry has been due mainly to the emergence of new media, increased demand by clients for a broader range of services and continued focus on brand building in response to increased competition from globalization and deregulation, and the easing of direct-to-consumer advertising regulations for prescriptive pharmaceuticals.

While packaged goods companies were once the primary source of marketing dollars, marketing communications services are now being employed in virtually all industries, led by health and medical service organizations, telecommunications and financial services. The proliferation of traditional broadcast media (television, radio and newspapers), together with new communication methods and technologies, such as direct marketing and the Internet, has resulted in an expansion of marketing expenditures.

Continuing Consolidation in a Highly Fragmented Industry

The marketing communications industry continues to be consolidated, led by such global organizations as Omnicom Group Inc., Interpublic Group of Companies, Inc., WPP Group plc, Young & Rubicam Inc., Snyder Communications, Inc. and True North Communications Inc., which are acquiring smaller companies to complete their service offerings and to extend their geographic reach. However, according to industry sources, these leading global marketing communications companies are estimated to control under 15% of the gross income generated from the sale of marketing communications services in North America. The remainder of the industry remains highly fragmented and as new media, such as the Internet, emerge, there is significant opportunity to acquire and integrate new companies.

Increased Emphasis on Broader Range of Services

Clients are demanding an increasing range of services, including in particular services which enable clients to target customers more directly and to measure more accurately the effectiveness of their marketing expenditures. These services, such as direct marketing/database management, sales promotion, interactive marketing and corporate communications, are called specialized, “below the line” or “non-traditional services”. Some clients seek to satisfy this demand for a broader range of services by retaining integrated communications firms which can offer all of the services required in addition to the client’s advertising requirements. Other clients prefer to retain highly specialized communications service providers with expertise in a specific marketing discipline.

Emergence of Interactive Media

One of the highest growth areas in one-to-one marketing is interactive media via the Internet. According to the Internet Advertising Bureau, spending on Internet advertising alone rose to US\$1.92 billion in 1998 from US\$906.5 million in 1997, an increase of more than 100%. Internet utilization is rapidly increasing, resulting in companies devoting a portion of their marketing dollars to this new media in an effort to capture customer attention and expenditures.

Initially characterized as a website and banner advertising opportunity by the marketing communications industry, the Internet is now perceived to be the vehicle by which clients can establish relationships, by targeting their customers more accurately, personalizing their customer communications, tracking their customers’ behaviour and facilitating purchases. Marketing communications companies are adding strategic, creative and technical capabilities to their interactive website and banner advertising services by launching or acquiring integrated capabilities or creating strategic alliances with existing interactive players. In addition to all of the new on-line activity generated by traditional and .com clients, clients are retaining marketing communications companies to develop “off-line” marketing to drive traffic to their sites. Where in the past, some believed that the Internet would replace traditional media, traditional media are now being employed to grow Internet activity.

Demand for Consistent Brand Communication

In an environment of increasing competition, new marketing communications technology and increased client demand for a broader range of services, clients are also demanding greater consistency in the communication of their brand and image through a variety of communications disciplines. Clients satisfy this demand either by retaining integrated communications firms and requiring those firms to manage brand consistency between services or by retaining several highly specialized service providers and internally managing brand consistency.

Maxxcom’s Response to Industry Trends

Maxxcom’s strategy is to respond to these industry trends by providing the full range of marketing communications services through two divisions, each aimed at a distinct type of client. For clients who prefer “one stop shopping”, the companies in Maxxcom’s Integrated Communications Division deliver integrated solutions and manage brand consistency across a broad range of communications services. The companies in Maxxcom’s Specialized Communications Division are focused on an individual communications discipline and are selected by clients who are seeking depth of expertise in that discipline and who have chosen to internally manage brand consistency between services provided by several suppliers. See “*Business of the Company — Strategy*”, “*Business of the Company — Organization and Client Services — Integrated Communications Division*” and “*Business of the Company — Organization and Client Services — Specialized Communications Division*”.

BUSINESS OF THE COMPANY

Overview

Maxxcom is the largest full-service marketing communications organization based in Canada, providing a comprehensive range of services to clients in Canada and the United States. These services include advertising, direct marketing/database management, sales promotions, corporate communications (including public and investor relations), branding and corporate identity, research and consulting, and the rapidly growing field of interactive marketing communications. The Company carries on business through operating companies in two divisions: Integrated Communications and Specialized Communications. Established in 1980, Maxxcom has grown

rapidly in the 1990's through a combination of organic growth and strategic acquisitions. This growth has been enabled by Maxxcom's Perpetual Partnership™ business model.

Maxxcom is composed of companies contained within the former Communications and Marketing Services Division of the Principal Shareholder (the Principal Shareholder was founded by Miles S. Nadal in 1980). Until 1997, Maxxcom companies served clients in Canada only. In 1998 and 1999, Maxxcom expanded geographically into the United States. The operating subsidiaries comprising the Maxxcom group have been engaged in the marketing communications business for an average of 15 years.

The Company services clients in a variety of different industries. On a pro forma basis for the fiscal year ended December 31, 1999, consumer products, healthcare and telecommunications were the largest industry contributors to Maxxcom's gross income, contributing 44%, 11% and 9%, respectively. Approximately 65% of the Company's pro forma gross income for the pro forma fiscal year ended December 31, 1999 was derived from the United States, with the balance coming from Canada.

The Company's gross billings for the fiscal years ended December 31, 1997 and 1999 were respectively \$71,814,000 and \$368,384,000, which represents a compound annual growth rate of 126%. For the same period, the Company's gross income grew from \$36,516,000 to \$149,486,000, its operating income grew from \$7,300,000 to \$27,877,000 and its net income grew from \$2,024,000 to \$7,930,000, representing a compound annual growth rate of 102%, 95% and 98%, respectively. For the same period, Maxxcom's share of operating income grew from \$5,240,000 to \$19,512,000, representing a compound annual growth rate of 93%.

The Company's gross billings for the pro forma years ended December 31, 1998 and 1999 were respectively \$403,474,000 and \$521,381,000, representing a 29.2% increase. For the same period, the Company's gross income grew from \$154,161,000 to \$204,826,000, its operating income grew from \$27,718,000 to \$37,937,000 and its net income grew from \$8,788,000 to \$11,837,000, representing increases of 32.9%, 36.9% and 34.7%, respectively. For the same period, Maxxcom's share of operating income grew from \$20,041,000 to \$26,577,000, representing an increase of 32.6%.

Since the end of 1996, Maxxcom has acquired 11 companies with aggregate gross income and operating income for the pro forma fiscal year ended December 31, 1999 of \$152,893,000 and \$34,556,000, respectively, representing 74.6% and 91% of Maxxcom's total pro forma gross income and operating income for the same period.

Strategy

Competitive Strategy

Maxxcom's client driven strategy is to respond to the increasing demand for a broader range of marketing communications services which enable clients to target customers more directly and to measure more accurately the effectiveness of their marketing expenditures. Maxxcom provides the full range of services through two divisions, each aimed at a distinct type of client. For clients who prefer "one stop shopping", the companies in Maxxcom's Integrated Communications Division deliver integrated solutions and manage brand consistency across a broad range of communications services. The companies in Maxxcom's Specialized Communications Division are focused on an individual communications discipline and are selected by clients who are seeking depth of expertise in that discipline and who have chosen to internally manage brand consistency between services provided by several suppliers.

Growth Strategy

Maxxcom intends to continue its rapid growth by (i) expanding its existing operations through focused business development initiatives, new business launches and tuck under acquisitions and (ii) making platform acquisitions to expand geographically (primarily in the United States) and broaden its range of services. The primary focus of Maxxcom's growth initiatives will be on integrated communications services and specialized communications services in high growth sectors such as interactive marketing, direct marketing/database management, sales promotions and public relations.

Maxxcom's growth strategy is to accelerate the growth of its operating companies beyond that which they would have contemplated without Maxxcom's involvement. Maxxcom's corporate resources support that strategy through the provision of business and strategic planning services, human resource management, mergers and acquisition advisory services, capital and the facilitation of integration and cross-selling alliances between Maxxcom

companies. See *“Business of the Company — Value Added to Operating Companies by Maxxcom”*. Maxxcom’s growth is further facilitated by the Perpetual Partnership model. See *“Business of the Company — Perpetual Partnership™ Model”*.

One of the key tenets of Maxxcom’s growth strategy is interactive marketing. In 1998, the Principal Shareholder purchased CyberSight, LLC (“CyberSight”), a dedicated interactive services company. Pursuant to the Reorganization, the Principal Shareholder transferred to Maxxcom ownership interests which represent a 19.9% interest in CyberSight and Maxxcom will provide accounting, legal, tax, strategic, human resource and acquisition services to CyberSight as required. The balance of the ownership interests in CyberSight are held by its operating management (as to 19.9%) and the Principal Shareholder (as to 60.2%). CyberSight provides an integrated offering of interactive strategy, marketing, site design and development and technology services to its client companies. CyberSight had gross income for the fiscal year ended December 31, 1999 of \$8,881,000.

In addition, Maxxcom has invested in the launch of interactive capabilities within its other operating companies, including Colle & McVoy, Inc. (“CMI”), Margeotes/Fertitta + Partners, LLC (“MF+P”), Bryan Mills Group Inc. (“Bryan Mills”) and McManus Elliott Communications Inc. (“McManus”). Based on the pro forma consolidated operations of the Company for the fiscal year ended December 31, 1999, 8.2% of the Company’s gross income was derived from the provision of interactive marketing and design services including brand strategy, creative campaign development, advertising analysis, site design and usability testing. Maxxcom intends to pursue other interactive acquisitions and to support CMI, MF+P, Bryan Mills, McManus and other operating companies as they develop their own interactive capabilities in response to client demands.

In addition to investing in the growth of its existing operations, Maxxcom will also continue to rely on acquisitions to execute its growth strategy. Maxxcom divides its acquisitions into two types: tuck under acquisitions and platform acquisitions. Tuck under acquisitions generally involve the purchase of 100% of the equity of smaller firms by existing Maxxcom operating companies. Tuck under acquisitions are driven by the need of Maxxcom operating companies to expand or complement their service offering or geographic reach. For example, CMI recently completed a tuck under acquisition of a firm specializing in original manufacturer advertising within sales channels (co-op advertising) in order to fulfill one of its existing client’s demands for co-op advertising. Maxxcom is currently pursuing tuck under acquisitions by its operating companies in multimedia interactive services, sales promotion, research and consulting, branding and corporate identity and loyalty marketing.

The recent acquisitions of Fletcher Martin Associates LLC (“Fletcher Martin”) and Accent Marketing Services, L.L.C. (“Accent”) are examples of platform acquisitions. Fletcher Martin is an Atlanta-based integrated communications firm which provides Maxxcom with a strong “platform” for growth initiatives in the southeastern United States. Accent provides Maxxcom with significant expertise in direct marketing and database management, accelerating Maxxcom’s expansion into this high growth sector of the industry. The Company intends to pursue platform acquisitions of integrated firms which have a minimum annual gross income target of Cdn\$15,000,000 and of specialized companies which have a minimum annual gross income target of Cdn\$7,500,000.

Maxxcom has a proven 19 year track record of acquiring growing businesses with entrepreneurial management who have long standing relationships with their clients. In evaluating potential acquisitions, the Company seeks businesses which have experienced management, a growing high quality client base, a reputation for creative excellence, an attractive growth rate and a history of profitability. The purchase price for acquisitions by the Company typically consists of an initial cash payment of up to 50% of the purchase price for the portion of the business acquired (generally a 50.1% to 80% interest) and earnout payments (contingent on the achievement of agreed earnings targets) for the balance of the purchase price. Key management are generally subject to employment agreements with initial terms equal to or longer than the earnout period including non-competition and non-solicitation provisions. After the Offering, the Company also intends to use Common Shares as currency for a portion or all of the purchase price of acquisitions.

Organization and Client Services

Maxxcom operates through its Integrated Communications and Specialized Communications divisions.

Integrated Communications Division

Companies in Maxxcom’s Integrated Communications Division deliver solutions to clients using a variety of marketing communications services. By carefully analyzing the requirements of each client, they select and combine

the relevant services to ensure consistency in the delivery of the client's image and brand. Because the integrated companies offer a full range of services, the solutions they deliver are client based, not service based. As a result, profitability is measured on a client basis, and not on a service basis. For the pro forma fiscal year ended December 31, 1999, the Integrated Communications Division accounted for approximately 52% of Maxxcom's gross income and approximately 61% of Maxxcom's operating income.

Maxxcom's Integrated Communications companies are listed below in order of aggregate gross income for the pro forma fiscal year ended December 31, 1999. All references to a company's top five clients are based on gross income for the fiscal year ended December 31, 1999.

Colle & McVoy, Inc. CMI was founded in Minneapolis in 1935 as an advertising agency. Approximately 15 years ago, CMI foresaw the need to provide clients with integrated communications solutions. Since that time, CMI has added research and consulting, direct marketing, database management, public relations, sales promotion and most recently interactive capabilities to service its clients. CMI was owned by its employees until it was purchased by Maxxcom in March 1999. CMI's top five clients are Pfizer, Dekalb, Swagelok, Cenex and Novartis.

Margeotes/Fertitta + Partners, LLC. MF+P is one of New York's best known advertising agencies, which has long relationships with such famous consumer brands as Godiva Chocolatier and the National Football League. MF+P was founded in 1973 and acquired by Maxxcom in 1998. It offers a full range of integrated communications services to its numerous clients. MF+P established an interactive division in 1995 and, in 1999, this division has grown to represent approximately 30% of total gross income. In 1999, MF+P acquired three New York-based public relations specialists and their clients to complete the full range of integrated services it can offer its varied clients. MF+P's top five clients are Benckiser USA, Triton PCS, ABOUT.COM, McGraw Hill Companies and Godiva Chocolatier.

Allard Johnson Communications Inc. Effective October 1999, LBJ.FRB Communications Inc., a Maxxcom operating company since 1992, merged with one of Quebec's oldest integrated communications agencies, Allard et Associés Inc. to form Allard Johnson Communications Inc. ("Allard Johnson"). Allard Johnson provides advertising, sales promotion, direct marketing, public relations and interactive services in the fields of wellness and social marketing, financial services and consumer products. Allard Johnson's top five clients are a Canadian chartered bank, Dairy Farmers of Canada, Human Resources Development Canada, Warner Lambert and Glaxo-Wellcome.

Fletcher Martin Associates LLC. Fletcher Martin is an integrated communications company operating in Atlanta, Georgia founded in 1979 and acquired by Maxxcom in 1999. For clients such as RTM Restaurants Group (including Arby's,) the Atlanta Journal Constitution, Best Manufacturer and Cellular South, Fletcher Martin provides strategic consulting, advertising, sales promotion and public relations services.

Ambrose Carr Linton Carroll Inc. Ambrose Carr Linton Carroll Inc. ("ACLC") develops integrated communications programs involving advertising, sales promotion, collateral, point-of-sale and direct marketing for a broad range of high profile clients. Its top five clients are Honda/Acura, Swiss Chalet, Harvey's, Paramount Canada's Wonderland and Hershey's chocolate bars. Maxxcom acquired ACLC in 1992.

Cormark Communications Inc. Cormark Communications Inc. ("Cormark") was launched in February 1978 and was acquired by Maxxcom in 1994. Cormark earned its reputation in the field of agricultural marketing in Canada by providing advertising, direct marketing and sales promotion programs for clients such as Zeneca, Pfizer, Growmark, Canada Trust and Secan.

Specialized Communications Division

The companies in Maxxcom's Specialized Communications Division are focused on an individual marketing communications discipline. These companies are selected by clients for their depth of expertise in their respective disciplines. Specialized Communications have been traditionally labeled the "below the line" component of the marketing communications services industry. Industry sources estimate that Specialized Communications represents two-thirds of the marketing services industry revenues, has grown at a five year compound annual growth rate of approximately 6.9% and will grow at an increased rate of approximately 7.1% between 1999 and 2001. For the pro forma fiscal year ended December 31, 1999, the Specialized Communications Division accounted for approximately 48% of Maxxcom's gross income and approximately 39% of Maxxcom's operating income.

Maxxcom's Specialized Communications operating companies are listed below under their respective marketing communications disciplines. The disciplines are listed in order of aggregate gross income for the companies within the discipline for the pro forma fiscal year ended December 31, 1999 and the companies within each discipline are listed in order of gross income for the individual company for such pro forma period. All references to a company's top five clients are based on gross income for the fiscal year ended December 31, 1999.

Direct Marketing/Database Management

For the pro forma fiscal year ended December 31, 1999, direct marketing/database management services provided by the Specialized Communications Division accounted for 16.9% of Maxxcom's gross income and 14.4% of Maxxcom's operating income. The operating company in the Specialized Communications Division which provides these services is:

Accent Marketing Services, L.L.C. Accent was founded in 1992 by two former General Electric direct marketing executives. Accent provides direct marketing/database management and customer service (inbound telemarketing) for such clients as Sprint, Sears, Humana, Amana and Murray. Maxxcom acquired Accent in 1999. Accent's direct marketing business provides clients with idea generation, strategy development, creative design, database/list management & computer services, media execution (mail telemarketing, Internet), fulfillment services, back-end analysis, and data processing and reporting. In the customer service business, Accent becomes their clients' customer service and telemarketing department.

Sales Promotion

For the pro forma fiscal year ended December 31, 1999, sales promotions provided by the Specialized Communications Division represented 15.3% of Maxxcom's gross income and 14.9% of Maxxcom's operating income. The operating companies in the Specialized Communications Division which provide these services are:

Source Marketing, LLC. Source Marketing, LLC ("Source") is a full service strategic and promotional marketing resource providing a wide range of integrated services to some of the world's leading brands and businesses. Source's top five clients are Beiersdorf, Kellogg's, Telepictures, Reckitt + Coleman and Home Box Office (HBO). Maxxcom acquired Source in 1998.

Accumark Promotions Group Inc. Accumark Promotions Group Inc. ("Accumark") operates in the specialized communications field of sales promotion. Accumark was acquired by Maxxcom in 1993. Their primary services include strategic consulting, trade, sales force and consumer promotional programs, in store merchandising and point of sale material, food service marketing and event marketing. Accumark's top five clients are Kraft, Warner Lambert, Borden Catelli, Pillsbury and Bayer.

Corporate Communications

For the pro forma fiscal year ended December 31, 1999, corporate communications provided by the Specialized Communications Division accounted for 6.5% of Maxxcom's gross income and 3.0% of Maxxcom's operating income. The companies which provide these services are:

Bryan Mills Group Inc. Bryan Mills was the winner of the 1998 Gold ARC Award in New York for its design work. Bryan Mills prides itself in providing clients with the right communications tools to address their shareholders, employees and the marketplace. Since its inception in 1978, Bryan Mills has been a creator of annual reports. This service has now expanded to include multi-media presentations to clients' stakeholders. Bryan Mills' top clients are Regal Greetings & Gifts, Franco Nevada, Cooperators Insurance, MDS and Descartes. Maxxcom acquired Bryan Mills in 1989.

McManus Elliott Communications Inc. McManus was acquired by Maxxcom in 1988 and has been one of the leaders in the financial services industry in developing stakeholder communications programs in Canada since 1981. McManus is based in Toronto and its top five clients in 1999 included E*Trade Canada, National Bank Financial, Scotia Capital Markets, Rhone Poulenc and Mackenzie Financial.

Veritas Communications Inc. Launched in 1993 and dedicated exclusively to the healthcare industry, Veritas Communications Inc. ("Veritas") is the largest Canadian public relations company servicing this field. Veritas' top five clients are Hoffman La-Roche, Canadian Blood Services, Bristol Myers Squibb, McNeil Consumer Products and Parke-Davis.

News Canada Inc. News Canada Inc. (“News Canada”) commenced operations in 1981 and was acquired by Maxxcom in 1997. News Canada provides public relations support to a growing list of major Canadian organizations such as Natural Resources Canada, Foreign Affairs and International Trade, Industry Canada (Y2K) and two Canadian chartered banks. The services offered by News Canada provide a unique and effective way for governments, companies and non-profit organizations to distribute tailored editorial messages with blanket distribution to more than 2,200 publications across Canada.

Research and Consulting

For the pro forma fiscal year ended December 31, 1999, research and consulting services provided by the Specialized Communications Division accounted for 5.0% of Maxxcom’s gross income and 3.2% of Maxxcom’s operating income. The principal operating companies which provide these services are:

Northstar Research Partners Inc. Northstar Research Partners Inc. was founded in 1998 by three senior executives of a global research firm and was acquired by Maxxcom in 1998. Northstar’s work is based on the idea that superior analysis must be rooted in an exceptional understanding of marketing strategy in order to assist clients in reaching their goals.

Integrated Healthcare Communications Inc. Integrated Healthcare Communications Inc. (“IHC”) specializes in strategic consulting for health care clients, helping them to communicate effectively with physicians, other health care providers and consumers of health care services. IHC joined Maxxcom in 1997. IHC’s top clients are Janssen Ortho, Parke-Davis, Astra, Glaxo Wellcome and Pfizer.

Advertising

For the pro forma fiscal year ended December 31, 1999, advertising services provided by the Specialized Communications Division represented 1.7% of Maxxcom’s gross income and 1.5% of Maxxcom’s operating income. The principal operating company providing specialized advertising services is:

Campbell & Partners Communications Inc. Acquired by Cormark in 1999, Campbell & Partners Communications Inc. (“Campbell”) was formed in 1995 to provide personalized advertising service to clients. Campbell’s top five clients are Novartis, Canada Bread, Keg Restaurants, Sobey’s and Vogue Bra.

Branding and Corporate Identity

For the pro forma fiscal year ended December 31, 1999, branding and corporate identity services provided by the Specialized Communications Division accounted for 1.5% of Maxxcom’s gross income and 1.2% of Maxxcom’s operating income. The principal operating company which provides these services is:

Strategies International. Founded in 1986 and acquired by Maxxcom in 1992, Strategies International (“Strategies”) creates corporate identities (e.g. logos) and designs packages and supporting systems that enable clients such as Atlas Wines, Tim Horton’s, Moosehead Breweries, Alberto Culver and McNeil Consumer Products to create and enhance brand equity with their customers.

Interactive Marketing

For the pro forma fiscal year ended December 31, 1999, interactive marketing services provided by the Specialized Communications Division accounted for 1.2% of Maxxcom’s gross income and 0.6% of Maxxcom’s operating income.

In addition to the operating subsidiaries in Maxxcom’s Specialized Communications Division, Maxxcom owns a 19.9% interest in CyberSight, a dedicated interactive services firm. CyberSight commenced operations in 1994 and has now become one of America’s top 50 interactive companies (see Adweek July 19, 1999 revised). In 1998, the Principal Shareholder purchased CyberSight. Pursuant to the Reorganization, the Principal Shareholder transferred to Maxxcom ownership interests which represent a 19.9% interest in CyberSight. The balance of the ownership interests in CyberSight are held by its operating management (as to 19.9%) and by the Principal Shareholder (as to 60.2%). CyberSight provides an integrated offering of interactive strategy, marketing, site design and development and technology services to its client companies. CyberSight’s top five clients are Visa, Quaker, Molson’s, Founders and Dreyfus.

Perpetual Partnership™ Model

The key asset in the marketing communications industry is people. Maxxcom's Perpetual Partnership™ model enables the Company to attract new firms and to retain the entrepreneurial talent which made those firms successful. The combination of the Company's competitive strategy with the Perpetual Partnership™ model has resulted in exceptional and profitable growth.

In contrast to many of the large global consolidators, which typically acquire 100% of an acquisition target, Maxxcom acquires between 50.1% and 80% of rapidly growing marketing communications firms. Maxxcom's entrepreneurial managers remain as owners or "partners" with a vested interest in continuing their success. Under the Perpetual Partnership™ model, only participants active in the business are shareholders, and there is an orderly transition of equity from those who cease to be active in the business to new management, thus providing for the retention of future generations of operating company management. The operating philosophy associated with the Perpetual Partnership™ model is one whereby Maxxcom provides value added services to, and supports and nurtures the unique cultures of, its partner companies and offers operational independence, responsibility and creative license. In exchange, Maxxcom expects its partner companies to meet growth and profitability targets, and to operate within a competitive environment for capital.

As part of the Offering, certain current Operating Company Shareholders will have an opportunity to participate in the ownership of Common Shares. See *"Interest of Management and Others in Material Transactions"*. Maxxcom also intends to use Common Shares as a currency for future acquisitions, thereby ensuring that management of such acquisitions will have an opportunity to participate in Maxxcom's growth. Maxxcom will also grant options to purchase Common Shares to senior management of the operating companies. See *"Stock Option Plan"*. The Company believes that ownership of Maxxcom shares and options will align the interests of management with Maxxcom and encourage managers to work in the interests of all of the Company's operating subsidiaries and that the combination of ownership of Maxxcom shares and options with ownership of operating company shares under the Perpetual Partnership™ model provides an appropriately balanced compensation structure to optimize Maxxcom's growth and profitability.

Value Added to Operating Companies by Maxxcom

The support provided by Maxxcom to its operating companies is a key differentiator between Maxxcom and independent agency networks or stand-alone agencies. Maxxcom's corporate resources add value and support growth through the provision of the following services to Maxxcom's operating companies.

Business and Strategic Planning Services

Each year, based on strategic analysis by the Company's corporate resources, the Company establishes the format for the preparation of annual business plans and works together with the operating companies to adjust or enhance their capabilities to respond to client needs and market trends. Prior to the presentation of the plan, the Company provides access to a strategic planning consultant to enhance the business planning dialogue at the operating company level.

Human Resource Management

In an entrepreneurial environment, one of the greatest challenges is to manage the succession of management and ownership of the firm. Maxxcom's corporate resources help existing operating company management to identify the need for management succession, source potential candidates if those candidates are not available internally and structure the transition arrangements in a manner which addresses the requirement for continued leadership from existing management while allowing successor management to obtain an ownership stake in the firm. In many cases, Maxxcom lends to successor management the funds necessary to effect a buyout of existing management.

Merger and Acquisition Advisory Services

Maxxcom's operating companies have access to the considerable mergers and acquisitions experience of Maxxcom's corporate resources and those of the Principal Shareholder. See *"Interest of Management and Others in Material Transactions"*. These resources help operating companies to identify the need for strategic mergers or tuck under acquisitions, source candidates for those transactions, value the candidates and structure the terms of the transaction, conduct due diligence and prepare and negotiate formal documentation.

Capital to Support Growth

As the launch of new services is contemplated by operating companies, the Company's corporate resources assist with the preparation of a business plan for the services to be launched, including the calculation of the capital required to fund the launch and then provide the capital to accelerate the successful launch of the new service. In the case of acquisitions, the Company may provide the capital required to complete the transaction.

Facilitation of Integration and Cross-Selling Alliances between Maxxcom Companies

Two-way referrals and the cross-selling of services occur between and within Maxxcom divisions based on expertise, and the complexity and service scope of client requirements. Maxxcom operating companies are able to effectively leverage their affiliation with other Maxxcom firms to provide clients with a full range of marketing services. Semi-annually, the Company convenes a meeting for all operating company presidents. The purpose of the meetings is to exchange information on marketing trends, provide education on emerging issues and most importantly, to facilitate business development between operating companies. On an ongoing basis, where cross-selling opportunities exist, the Company's corporate resources link operating company presidents.

Successful Entrepreneurial Management

The management of Maxxcom operating companies are growth-minded entrepreneurs who have strong track records in building successful businesses. The senior management of the Maxxcom operating companies have worked in the marketing communications industry for an average of 20 years and have an average of nine years of service with their respective companies. The Maxxcom companies operate under their own long-standing brands. There is no effort to homogenize companies which have been acquired; instead, Maxxcom seeks to enhance the capabilities of operating management.

As at December 31, 1999 on a pro forma basis, the Company had 1,664 employees, of which 415 were located in Canada and 1,249 in the United States.

The ability to attract and retain experienced and creative people provides Maxxcom companies with the ability to compete for, win and retain clients. The environment which exists in Maxxcom companies is perceived by management to be an attractive alternative for industry professionals who want to work in an entrepreneurial setting and own a stake in their business. The Perpetual Partnership™ program enables Maxxcom to retain prior owners and also to offer equity to successor generations of management. Owners of Maxxcom operating companies are generally subject to non-compete and non-solicitation employment agreements.

Long-Standing Clients

Maxxcom has cultivated long-standing client relationships by identifying and developing sectors or niches which have been historically underserved by other marketing communications services firms. These niches include the regional and specialized service requirements for some of North America's largest and most well-known companies including Kraft, Honda, Pfizer, Sears and Sprint. In addition, the local relationship and personal involvement of the operating management of Maxxcom's companies are critical. In most cases, one of the owners of the Maxxcom operating company is also the primary client contact, emphasizing the depth and supporting the longevity of Maxxcom's client relationships. The average length of client relationship for Maxxcom's top five clients based on gross income for the pro forma fiscal year ended December 31, 1999 is eight years. No single client constitutes more than 10% of the Company's pro forma gross income.

Competition

The marketing communications industry is highly competitive. Maxxcom believes that its Perpetual Partnership™ model, including the value-creating capabilities of its corporate resources and the structure of its two divisions, provide Maxxcom with a competitive advantage in the industry.

Maxxcom competes for acquisitions in the highly fragmented marketing and communications industry with large global consolidators such as Omnicom Group Inc., Interpublic Group of Companies, Inc., WPP Group plc, Young & Rubicam Cos. Inc., Snyder Communications, Inc. and True North Communications Inc. Maxxcom relies on the attributes of its Perpetual Partnership™ business model, including the opportunity for owners to maintain equity in the operating business and operational independence, to compete for and attract new acquisitions and to attract and retain experienced and talented professional staff.

Each of the operating companies within Maxxcom face competition from large multinational marketing communications companies operating in Canada and/or the United States, as well as numerous smaller agencies that only operate in one or more countries or local markets. The Company must compete with these other companies to maintain existing client relationships and to obtain new clients and assignments.

Maxxcom competes at this level by identifying and developing sectors or niches which have historically been underserved by other marketing communications companies. These niches include the regional operations of multinational corporations and national companies with mid-sized marketing budgets.

Maxxcom's Integrated Communications Division companies compete principally by offering clients integrated solutions and managing a client's brand consistency across a broad range of communications services including both advertising and non-traditional services. Maxxcom's Specialized Communications Division companies compete principally by offering clients depth of expertise in a specialized marketing communications discipline. Maxxcom also benefits from two-way referrals and cross-selling of services between and within Maxxcom divisions based on expertise, and the complexity and service scope of client requirements.

A company's ability to compete for new clients is affected in some instances by the policy, which many advertisers and marketers follow, of not permitting their agencies to represent competitive accounts in the same market. As a result, increasing size may limit a company's ability to compete for certain new clients. In the vast majority of cases, however, Maxxcom's consistent maintenance of separate, independent operating companies has enabled the Company to represent competing clients.

Premises

The Company and its subsidiaries lease a total of 27 offices throughout the United States and Canada for an aggregate of 347,950 square feet of office space. One of the Company's subsidiaries owns a 4,000 square foot location in Toronto, Ontario.

Regulatory Environment

In Canada, the marketing communications industry is regulated by the federal and provincial levels of government and self-regulating bodies. The regulatory regime is designed primarily to ensure truth and fairness in advertising, but there are also laws and regulations regarding advertising specific products, such as food, drugs, liquor and tobacco and advertising to children.

The Canadian Radio-Television and Telecommunications Commission (CRTC) and Industry Canada are involved in the regulation of advertising. Relevant federal legislation includes the *Competition Act* which prohibits false or misleading advertising, deceptive telemarketing solicitations, regulates contests, lotteries, games, certain offerings of products and also provides for the liability of corporations, their directors and officers. The *Canadian Code of Advertising Standards* is the basis of the advertising industry's system of self-regulation and is supplemented by standards set by media and advertising associations. In addition, television networks and other media have adopted standards governing the advertisements that they will broadcast or publish.

In the United States, the Company is subject to Sections 5 and 12 of the U.S. *Federal Trade Commission Act* (the "FTC Act") which regulate advertising in all media and prohibit the dissemination of false, deceptive, misleading and unfair advertising. The FTC Act grants the Federal Trade Commission powers to seek and impose civil penalties, consumer redress, injunctive relief and other remedies upon advertisers and agencies which disseminate prohibited advertisements.

Legal Proceedings

The Company is not involved in any legal proceedings which would have a material effect on the Company. To the knowledge of management, no legal proceedings of a material nature involving the Company are contemplated.

REORGANIZATION

The Company was incorporated under the laws of the Province of Ontario on November 2, 1998 and had not carried on operation until the Reorganization effective January 1, 2000.

Prior to the Reorganization, the activities now carried on by the Company were carried on as the Communications and Marketing Services Division of the Principal Shareholder. The purpose of the Reorganization

was to transfer to Maxxcom substantially all of the Principal Shareholder's interest in companies previously comprising such division.

Effective January 1, 2000, the Principal Shareholder and the Company completed a reorganization involving the following series of transactions. The Company entered into agreements with the Principal Shareholder for the purchase of all of the Principal Shareholder's interest in the companies listed in the chart on page 11 of this prospectus (other than CyberSight, as to which the Principal Shareholder transferred ownership interests which represent a 19.9% interest) and an aggregate of \$4,162,000 principal amount of shareholder loans and related security due from Operating Company Shareholders and management shareholders of CyberSight. The Principal Shareholder also assigned to the Company all of the Principal Shareholder's interest in, and the Company assumed all of the Principal Shareholder's obligations under, the shareholder agreements affecting each of Maxxcom's operating companies. The consideration received by the Principal Shareholder was:

- promissory notes of Maxxcom in the aggregate principal amount of \$90,000,000 payable on demand and bearing no interest; and
- securities convertible into ● Common Shares (the "Convertible Securities").

This prospectus qualifies the Common Shares issuable to the Principal Shareholder without additional payment upon the conversion of the Convertible Securities.

CAPITALIZATION

The following table sets forth the capitalization of the Company as at December 31, 1999 prior to giving effect to the Reorganization, the capitalization of the Company as at December 31, 1999 after giving effect to the Reorganization and the capitalization of the Company as at January 31, 2000 after giving effect to the Reorganization, the Exchange and the Offering. This table should be read in conjunction with the combined financial statements of the Company and the notes thereto appearing elsewhere in this prospectus.

	Outstanding as at December 31, 1999	As at December 31, 1999 After Giving Effect to the Reorganization	As at January 31, 2000 After Giving Effect to the Reorganization, the Exchange and the Offering (1)(2)(3)
	(\$ thousands, except for share amounts)		
Bank Indebtedness	398	398	●
Principal Shareholder Indebtedness	Nil	90,000	Nil
Long-Term Indebtedness	12,980	12,980	●
Equity			
Common Shares	Nil	10,818	●
(authorized: unlimited)	(100 shares)	(200 shares) (3)	(● shares)
Preferred Shares	Nil	Nil	Nil
(authorized: unlimited)	(0 shares)	(0 shares)	(0 shares)
Capital Contribution	88,980	Nil	Nil
Cumulative Translation Adjustment	(4,143)	Nil	Nil
Retained Earnings	15,981	Nil	Nil
Total Equity	<u>100,818</u>	<u>10,818</u>	<u>●</u>
TOTAL CAPITALIZATION	<u>114,196</u>	<u>114,196</u>	<u>●</u>

Notes:

- (1) Without giving effect to the possible issuance of any Common Shares pursuant to the Company's stock option plan. See "Stock Option Plan".
- (2) After deducting the Underwriters' fee and the estimated expenses of the Offering and the application of the estimated net proceeds as described under "Use of Proceeds". Does not give effect to the exercise of the Over-Allotment Option.
- (3) The Common Shares are represented by 200 Convertible Securities. On or before the closing of the Offering, the Principal Shareholder will convert its Convertible Securities into Common Shares and the articles of Maxxcom will be amended to remove the Convertible Securities from Maxxcom's authorized capital.

SELECTED PRO FORMA AND ACTUAL CONSOLIDATED FINANCIAL INFORMATION

The selected pro forma and actual consolidated financial information set forth below has been derived from, and should be read in conjunction with, the Pro Forma Consolidated Statements of Operations of the Company for the years ended December 31, 1999 and December 31, 1998 and the Audited Consolidated Financial Statements of the Company for the fiscal years ended December 31, 1999, 1998 and 1997 and the respective notes thereto included elsewhere in this prospectus. The Pro Forma Statement of Operations Data for the fiscal years ended December 31, 1999 and December 31, 1998 give effect to the Reorganization and the acquisitions of Accent, CMI, MF+P, Source, Allard et Associés Inc. and Fletcher Martin, being the significant acquisitions during the past three fiscal years, as if each had occurred at the beginning of such period. The information set forth below should be read in conjunction with those financial statements and the notes thereto and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”.

Statement of Operations Data

	For the Pro Forma Fiscal Year Ended December 31, 1999 (1)	For the Pro Forma Fiscal Year Ended December 31, 1998 (1)	For the Fiscal Year Ended December 31,		
	(Unaudited)	(Unaudited)	1999	1998	1997
		(\$ thousands)		(Audited)	
Gross billings	521,381	403,474	368,384	159,412	71,814
Direct costs	<u>316,555</u>	<u>249,313</u>	<u>218,898</u>	<u>92,249</u>	<u>35,298</u>
Gross income	204,826	154,161	149,486	67,163	36,516
Operating expenses	<u>166,889</u>	<u>126,443</u>	<u>121,609</u>	<u>54,016</u>	<u>29,216</u>
Operating income	37,937	27,718	27,877	13,147	7,300
Minority interests (2)	11,360	7,677	8,365	4,364	2,060
Amortization and depreciation	5,152	3,976	2,879	1,528	556
Interest, net	<u>260</u>	<u>747</u>	<u>109</u>	<u>266</u>	<u>155</u>
Income before income taxes and goodwill charges	21,165	15,318	16,524	6,989	4,529
Income taxes	<u>7,393</u>	<u>4,502</u>	<u>7,107</u>	<u>3,004</u>	<u>2,008</u>
Income before goodwill charges	13,722	10,816	9,417	3,985	2,521
Goodwill charges net of income taxes of \$296 (1998 — \$121; 1997 — \$Nil)	<u>1,935</u>	<u>2,028</u>	<u>1,487</u>	<u>725</u>	<u>497</u>
Net income	<u><u>11,837</u></u>	<u><u>8,788</u></u>	<u><u>7,930</u></u>	<u><u>3,260</u></u>	<u><u>2,024</u></u>
Maxxcom’s share of operating income (3) ..	<u><u>26,577</u></u>	<u><u>20,041</u></u>	<u><u>19,512</u></u>	<u><u>8,783</u></u>	<u><u>5,240</u></u>

Balance Sheet Data

	As at December 31,		
	1999	1998 (Audited) (\$ thousands)	1997
Current assets	117,058	48,922	25,074
Total assets	<u>218,812</u>	<u>95,654</u>	<u>45,771</u>
Short-term bank indebtedness	398	151	860
Current liabilities	100,362	39,320	16,126
Long-term liabilities	11,222	1,808	875
Minority interest	<u>6,012</u>	<u>2,167</u>	<u>1,190</u>
	117,994	43,446	19,051
Equity	<u>100,818⁽⁴⁾</u>	<u>52,208</u>	<u>26,720</u>
	<u>218,812</u>	<u>95,654</u>	<u>45,771</u>

Notes:

- (1) The pro forma financial information does not purport to represent what the Company's results of operations would have been had the transactions been completed as of the date or for the year presented, or which may be obtained in the future.
- (2) These amounts represent payments to minority shareholders pursuant to their respective shareholder agreements and adjustments to the minority interest position.
- (3) Represents operating income less minority interests.
- (4) Effective upon the Reorganization, \$90,000 has been converted to Principal Shareholder Indebtedness. See "Reorganization" and "Capitalization".

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

The following discussion should be read in conjunction with the information set forth elsewhere in this prospectus, in particular under "Business of the Company", and with the Company's consolidated financial statements and the notes thereto appearing elsewhere in this prospectus.

Overview

From 1997 to 1999, the Company recorded a two-year compounded growth rate of its gross income, operating income and its share of operating income of 102%, 95% and 93%, respectively. The growth through this period was the result of both organic activity and acquisition growth. In 1997 and prior years, the Company derived 100% of its gross billings from Canada. With the U.S. acquisitions of MF+P and Source in 1998, 25.1% of gross income was derived from the United States. In 1999, 65% of the Company's gross income was derived from the United States.

Gross Billing. Gross billings generally consist of the total amounts billed to clients for media placements, production of advertisements and commissions and fees earned by the Company.

Gross Income. Gross income equals gross billings less billings for media placements.

Expenses. Expenses include the costs of production of advertisements, salaries and benefits and general and administrative costs.

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

Gross Income. Gross income totaled \$149.5 million in 1999, an increase of \$82.3 million or 123% over the \$67.2 million in 1998. The acquisitions in 1999 of CMI, Accent, Allard, and Fletcher (the "1999 Acquisitions") accounted for \$42.1 million or 51.2% of the year-over-year increase in gross income, with the remaining \$40.2 million representing internal growth of 59.8% over 1998.

Operating Expenses. Operating expenses increased \$67.6 million to \$121.6 million in 1999 representing a 125% increase over the \$54.0 million incurred in 1998. The 1999 Acquisitions accounted for \$33.5 million or 49.6% of the 1999 increase. Corporate expenses accounted for \$2.2 million or 3.3% of the increase. Corporate expenses increased with the development of head office functions (e.g. finance, corporate development and human resources) required to support the growth of Maxxcom's operations. The balance of the increase in operating expenses, amounting to \$31.9 million, was incurred in support of growth within the existing operations.

Operating Income. Operating income totaled \$27.9 million in 1999, up \$14.7 million over the \$13.1 million achieved in 1998. The 1999 increase reflected the operating income of the 1999 Acquisitions, amounting to \$8.6 million, and growth in existing operations of \$8.3 million, which was offset by growth in corporate expenses of \$2.2 million.

Minority Interests. Minority interests increased \$4.0 million to \$8.4 million in 1999 representing a 91% increase over the \$4.4 million incurred in 1998. The 1999 Acquisitions accounted for \$1.9 million or 47.5% of the 1999 increase. The remaining \$2.1 million or 52.5% was incurred across the remaining operating subsidiaries and was directly attributable to the increase in operating income and the fact that operating income growth was greatest in operating subsidiaries with a higher minority interest percentage ownership.

Amortization and Depreciation. Amortization and depreciation amounted to \$2.9 million in 1999, up \$1.4 million or 88% over the \$1.5 million incurred in 1998. This increase was primarily attributable to the increased asset base of the Company as a result of the acquisitions which took place in 1999 and 1998.

Income Taxes. Income tax expense was \$7.1 million in 1999 compared with \$3.0 million in 1998. This increase was directly attributable to the Company's increased income in 1999. Income taxes were 43% of income before income taxes and goodwill, similar to the rate incurred in 1998.

Income Before Goodwill Charges. Income before goodwill charges in 1999 was \$9.4 million, up \$5.4 million or 136% over the \$4.0 million earned in 1998. The increase in net income was the result of the items as discussed above.

Goodwill Charges Net of Income Taxes. Goodwill charges net of income taxes were \$1.5 million in 1999 compared with \$0.7 million in 1998. The increase was attributable to the 1999 Acquisitions and a full year impact of acquisitions in 1998.

Net Income. Net income for 1999 was \$7.9 million, up \$4.7 million from the results in 1998.

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

Gross Income. Gross income totaled \$67.2 million in 1998, an increase of \$30.7 million or 84.1% over the \$36.5 million in 1997. The acquisitions of MF+P, Source and IHC (the “1998 Acquisitions”) and the full consolidation of Accumark, Strategies and Veritas (“Full Consolidation”) accounted for \$27.3 million or 89% of the \$30.7 million increase in gross income in 1998 over 1997. The remaining \$3.4 million represented internal growth of 12% over 1997.

Operating Expenses. Operating expenses increased \$24.8 million to \$54.0 million in 1998 representing an 85% increase over the \$29.2 million incurred in 1997. The 1998 Acquisitions and Full Consolidation accounted for \$21.6 million or 87% of the 1998 increase. The remaining \$3.2 million was incurred across the operating units to support internal growth.

Operating Income. Operating income totaled \$13.2 million in 1998, up \$5.9 million or 80% over the \$7.3 million in 1997. The 1998 Acquisitions and Full Consolidation accounted for virtually all of the increase in 1998.

Minority Interests. Minority interests increased \$2.3 million to \$4.4 million in 1998 representing a 110% increase over the \$2.1 million incurred in 1997. The 1998 Acquisitions and Full Consolidation accounted for \$2.0 million or 87% of the 1998 increase.

Amortization and Depreciation. Amortization and depreciation amounted to \$1.5 million in 1998, up \$1.0 million or 175% over the \$0.6 million incurred in 1997. This increase was primarily attributable to the increased asset base of the Company as a result of the 1998 Acquisitions.

Income Taxes. Income tax expense was \$3.0 million in 1998 compared with \$2.0 million in 1997. This increase was directly attributable to the Company’s increased income in 1998. Income taxes decreased to 43% of income before income taxes from the 44.3% incurred in 1997.

Income Before Goodwill Charges. Income before goodwill charges in 1998 was \$4.0 million, up \$1.5 million or 60% over the income before goodwill charges of \$2.5 million earned in 1997. The increase in income before goodwill charges was the result of the items as discussed above.

Goodwill Charges net of Income Taxes. Goodwill charges net of income taxes in 1998 were \$0.7 million compared with \$0.5 million in 1997. The increase was directly attributable to acquisitions.

Net Income. Net income for 1998 was \$3.2 million, up \$1.2 million from the results in 1997.

Liquidity and Capital Resources

The Company has financed its acquisitions to date from advances by the Principal Shareholder. The net proceeds of the Offering to be received by the Company are estimated to be \$ ● after deduction of the Underwriters’ fees and estimated expenses of the Offering payable by the Company. Of the net proceeds to be received by the Company, (i) substantially all, amounting to approximately \$ ● million, will be used to repay indebtedness of the Company to the Principal Shareholder incurred in connection with the Reorganization; and (ii) the balance, amounting to approximately \$ ● , will be used for working capital and general corporate purposes. *See “Use of Proceeds”.*

The Company has financed its operations to date primarily from internally generated cash flows. The Company’s operations are not capital intensive by nature and, as such, the Company expects to continue to fund its internal growth from cash flow from operations.

The Company has operating lines of credit with a total authorized amount of \$12,290,000 with \$6,274,000 in Accent, \$2,884,000 in CMI, \$235,000 in McManus, \$700,000 in Cormark and \$440,000 in Bryan Mills. The total amount outstanding at December 31, 1999 was \$4,969,684.

The Company is currently negotiating and intends to conclude prior to the closing of the Offering a credit facility with third party financial institutions to fund future acquisitions and the Company’s growth strategy.

Year 2000

The advent of the Year 2000 may cause difficulties for date sensitive systems to accurately process and retain information on an ongoing basis. These Year 2000 difficulties could impact the Company because of its use of information technology systems including internal accounting systems. *See "Risk Factors — Year 2000"*. Given this potential problem, the Company appointed a task force and established a rigid methodology to ensure Year 2000 compliance. The task force was comprised of a member of the board of directors, senior head office personnel and divisional personnel. In addition, the Company retained an outside consultant to coordinate and provide guidance to the Company in its Year 2000 efforts.

The Company transitioned through January 1, 2000 and has not experienced any business disruptions or other adverse effects from the Year 2000 issue to date. Costs associated with Year 2000 compliance are estimated to be nominal and have been expensed as incurred.

USE OF PROCEEDS

The net proceeds of the Offering to be received by the Company are estimated to be \$ ● , after deduction of the Underwriters' fee and the estimated expenses of the Offering payable by the Company. Of the net proceeds to be received by the Company: (i) substantially all, amounting to approximately \$ ● million, will be used to repay indebtedness of the Company to the Principal Shareholder incurred in connection with the Reorganization; and (ii) the balance, amounting to approximately \$ ● , will be used for working capital and general corporate purposes. *See "Reorganization"*. Any remaining indebtedness of the Company to the Principal Shareholder will be converted into additional Convertible Securities on closing of the Offering.

Five of the Underwriters are direct or indirect subsidiaries of Canadian chartered banks which have extended credit facilities to the Principal Shareholder. Accordingly, Maxxcom may be considered to be a connected issuer of such Underwriters within the meaning of applicable Canadian securities legislation. *See "Plan of Distribution"*.

DIRECTORS AND OFFICERS

The following table sets forth the name, municipality of residence, position held with the Company and principal occupation of each of the directors and senior officers of the Company.

<u>Name and Municipality of Residence</u>	<u>Position with the Company</u>	<u>Principal Occupation</u>
MILES S. NADAL (2) Toronto, Ontario	Chairman and a director	Chairman of Maxxcom and Chairman, President and Chief Executive Officer of MDC Corporation Inc.
BEVERLEY MORDEN Toronto, Ontario	President and Chief Executive Officer and a director	President and Chief Executive Officer of Maxxcom
JOHN MADURI Newmarket, Ontario	Executive Vice President and Chief Financial Officer	Executive Vice President and Chief Financial Officer of Maxxcom
STEPHEN O. MARSHALL Toronto, Ontario	Executive Vice President, Corporate Development	Executive Vice President, Corporate Development of MDC Corporation Inc.
RODNEY S. DAVIS Pickering, Ontario	Vice President, Corporate Development	Vice President, Corporate Development of Maxxcom
JOHN P. CURTIN, JR. (2)(3) New York, New York	Director	Managing Director, Goldman Sachs Group Inc. (a financial services company)
LLOYD S.D. FOGLER, Q.C. Toronto, Ontario	Director	Partner, Fogler, Rubinoff (a law firm)
ALBERT GNAT, Q.C. Caledon, Ontario	Director	Partner, Lang Michener (a law firm)

<u>Name and Municipality of Residence</u>	<u>Position with the Company</u>	<u>Principal Occupation</u>
SENATOR MICHAEL KIRBY (1)(3) .. Ottawa, Ontario	Director	Member of the Senate of Canada
STEPHEN M. PUSTIL (1)(3)	Director	President, Penwest Development Corporation Limited (a real estate development company)
DAVID R. SHAW (1)(3)	Director	Executive
DAVID M. VEIT (2)(3)	Director	Independent Consultant
Chappaqua, New York		

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Corporate Governance Committee.

The following is a brief biography of each of the Company's directors and senior officers:

Miles S. Nadal founded the Company in 1980 and has acted as Chairman, President and Chief Executive Officer of the Principal Shareholder since 1986. The Company is comprised primarily of companies which were formerly the Principal Shareholder's Communications and Marketing Services Division. Mr. Nadal also serves as a director of Imax Corporation, Mount Sinai Hospital of Toronto, Junior Achievement of Canada and the Canadian Club.

Beverley Morden joined the Company as President and Chief Operating Officer in 1998 and was appointed Chief Executive Officer in November 1999. Prior to joining the Company, Ms. Morden was President and Chief Executive Officer of Southex Exhibitions Inc. (one of the largest trade and consumer show companies in North America) for five years. Ms. Morden's prior experience includes human resources and business development roles in multinational and privately held Canadian companies. Ms. Morden has a Bachelor of Arts degree from York University.

John Maduri recently joined the Company as Executive Vice President and Chief Financial Officer. Prior to joining the Company, Mr. Maduri was Executive Vice President, Finance and Planning and Chief Financial Officer with Rogers Cantel Inc. where he held a number of executive positions since 1990. Mr. Maduri is a Chartered Accountant with a Bachelor of Business Administration degree from York University.

Stephen O. Marshall is the Executive Vice President, Corporate Development of both the Principal Shareholder and the Company, having joined the Principal Shareholder in July 1999. Prior to joining the Principal Shareholder, Mr. Marshall was a senior partner of Torys specializing in mergers and acquisitions and corporate finance. Mr. Marshall holds an LL.B from the University of Western Ontario and a Masters of Science in Management from the MIT Sloan School of Management.

Rodney S. Davis joined the Company in 1999 as Vice President, Corporate Development. Prior to joining the Company, he was Vice President and Corporate Controller at Southam Inc. for four years. Mr. Davis is a chartered accountant and spent the first two years of his career at KPMG where he was initially an auditor and then became a manager in the Corporate Finance practice.

John P. Curtin, Jr. is a Managing Director of Goldman Sachs Group Inc. in New York, New York and was the Chairman of Goldman Sachs Canada from 1995 to 1999. He is also a director of Cadillac Fairview Corporation, a former Governor of The Toronto Stock Exchange and a Trustee of the Art Gallery of Ontario Foundation.

Lloyd S.D. Fogler, Q.C. is a senior partner in the law firm of Fogler, Rubinoff LLP. In addition, he serves as a director of the Principal Shareholder, Brampton Brick Limited, First International Asset Management Inc. and First Mercantile Currency Fund and is Chairman Emeritus of Mount Sinai Hospital of Toronto and Chairman of the Mount Sinai Hospital Foundation of Toronto, director of the Canadian Opera Company and Honorary Counsel to the Holy Blossom Temple Foundation.

Albert Gnat, Q.C. is a senior partner in the law firm of Lang Michener. He serves as a director of, among other companies, the Principal Shareholder, Leitch Technology Limited, IKEA Limited and Rogers Communications Inc. Mr. Gnat holds an Honours B.A. and an LL.B from the University of Toronto.

Senator Michael Kirby is a member of the Senate of Canada and has had a distinguished career in education, civil service and business. He is currently a director of Extendicare Inc. and The Goldfarb Corporation and has been a director of Quaker Oats (Canada) and RJR Macdonald Inc. He holds a B.Sc. and an M.A. in Mathematics, a Ph.D. in Applied Mathematics from Northwestern University and an honorary Doctor of Laws from Dalhousie University.

Stephen M. Pustil has been the President of Penwest Development Corporation Limited since 1972. He is also Vice Chairman and a director of the Principal Shareholder, First International Asset Management Inc. and Equivest Capital Corporation and is Vice Chairman and a director of Mount Sinai Hospital of Toronto.

David R. Shaw was formerly the President and Chief Executive Officer of Pepsi Cola Canada Beverages from 1996 to 1999. He serves as Chairman of the North York General Hospital \$150 MM Capital Campaign, Vice Chair of the North York General Hospital Foundation and a director of the North York General Hospital. He is also a member of the International Advisory Board of the Schulich School of Business. He holds a B.Comm. from Queen's University.

David M. Veit was the Chief Executive Officer of Jostens Learning Corporation from May 1998 to July 1999. Prior thereto, he was the President of Pearson Inc. and an Executive Director of Pearson plc, an international media company, where he was the Director of the Entertainment Division. He is also a member of the Financial Times International Advisory Board and a director of Simmons & Company International. He holds a B.A. from Oxford University and an MBA from Stanford University.

Board Committees

The board of directors of the Company has established a Corporate Governance Committee, a majority of the members of which are independent and unrelated to the Company and the Principal Shareholder (as defined in The Toronto Stock Exchange Guidelines on Corporate Governance). The mandate of the Corporate Governance Committee includes approving and monitoring all related party transactions of the Company, including any arrangements between Maxxcom and the Principal Shareholder.

The Compensation Committee established by the board of directors is responsible for evaluating, reviewing and supervising the procedures of the Company with regard to human resources, for assessing the performance of the officers of the Company, reviewing annually the remuneration of the directors and for recommending to the board of directors general remuneration policies regarding salaries, bonuses and other forms of remuneration for the directors and executive officers of the Company. The Compensation Committee is composed of three directors, the majority of whom are unrelated directors.

The board of directors has also established an Audit Committee. The Audit Committee is responsible for recommending the firm to be appointed as auditors to audit financial statements and to perform services related to the audit, reviewing the scope and results of the audit with the auditors, reviewing with management and the auditors the Company's annual operating results and considering the adequacy of the internal accounting procedures and the effect of such procedures on the auditors' independence. The Audit Committee is composed of three directors, the majority of whom are unrelated directors.

EXECUTIVE COMPENSATION

Management Agreement

Prior to the closing of the Offering, Maxxcom will enter into a management services agreement with Nadal Financial Corporation, a management corporation wholly-owned by Miles S. Nadal ("NFC"), whereby NFC will provide certain management and financial advisory services as well as general advice of a strategic nature, including the personal services of Mr. Nadal reasonably necessary to carry out the duties of the Chairman of the Company. In consideration for these services, Maxxcom will pay NFC an annual retainer fee of \$300,000, subject to adjustment annually by the board of directors, reimburse NFC for all of its expenses incurred in the performance of its services and grant options to NFC or Mr. Nadal to purchase Common Shares at the Offering price. The term of the management services agreement will be three years and will be automatically renewable for successive one year terms unless either party gives the other written notice not to renew or as otherwise provided in the agreement. The management services agreement will also include severance and change of control provisions to be agreed by the Compensation Committee.

Prior to the closing of the Offering, the Principal Shareholder will grant to Mr. Nadal options to purchase up to ● Common Shares owned by the Principal Shareholder at an exercise price equal to the Offering price. See *“Interest of Management and Others in Material Transactions”*.

Employment Agreements

Prior to the closing of the Offering, Maxxcom will amend the employment agreement with Beverley Morden, the President and Chief Executive Officer of the Company. The amended employment agreement will provide for an annual base salary of \$300,000 together with the right to earn a cash bonus based upon achieving performance objectives to be established by the board of directors of the Company of up to 100% of the base salary. In addition, Ms. Morden will be granted options to purchase Common Shares at the Offering price. Ms. Morden will also be entitled to borrow from the Company up to one times her total compensation for the purchase of Common Shares at the Offering price. The loan will be interest free unless Ms. Morden sells the Common Shares within three years, in which event an interest rate of 10% will be imputed from the commencement of the loan, or unless Ms. Morden resigns and sells the Common Shares within three years, in which event an interest rate of 15% will be imputed from the commencement of the loan (in each case the interest charge will not be greater than the capital gain). The loan is repayable within 12 months of termination of employment. The amended employment agreement will also include severance and change of control provisions to be agreed by the Compensation Committee.

Prior to the closing of the Offering, the Principal Shareholder will grant to Ms. Morden options to purchase up to ● Common Shares owned by the Principal Shareholder at an exercise price equal to \$ ● per share. See *“Interest of Management and Others in Material Transactions”*.

The Company has entered into an employment agreement with John Maduri, the Executive Vice President and Chief Financial Officer of the Company. The employment agreement provides for an annual base salary of \$275,000, a guaranteed bonus of \$250,000 for the first year of the agreement together with the right to earn a cash bonus based upon achieving performance objectives to be established by the board of directors of the Company of up to 60% of the base salary. Under the employment agreement, the Company has extended a \$300,000 interest-free mortgage loan to Mr. Maduri, \$200,000 of which is forgivable on January 1, 2001 and \$100,000 of which is forgivable one year thereafter. The Company has agreed to pay to Mr. Maduri the amount of income taxes otherwise payable by him in connection with this mortgage benefit. In addition, Mr. Maduri will be granted options to purchase Common Shares at the Offering price. Mr. Maduri is also entitled to borrow from the Company up to one times his total compensation for the purchase of Common Shares at the Offering price on the same terms and conditions as those to be offered to Ms. Morden. Pursuant to the terms of his employment agreement, Mr. Maduri's employment may be terminated by the Company at any time without cause upon payment of a minimum of 12 months the annual salary and bonus paid in respect of the last completed fiscal year of the Company.

Prior to the closing of the Offering, the Principal Shareholder will grant to Mr. Maduri options to purchase up to ● Common Shares owned by the Principal Shareholder at an exercise price equal to \$ ● per share. See *“Interest of Management and Others in Material Transactions”*.

The Company has entered into an employment agreement with Rodney S. Davis, the Vice President, Corporate Development of the Company. The employment agreement provides for an annual base salary of \$160,000, together with the right to earn a cash bonus based upon achieving performance objectives to be established by the board of directors of the Company of up to 40% of the base salary. In addition, Mr. Davis will be granted options to purchase Common Shares at the Offering price. Mr. Davis will also be entitled to borrow from the Company up to one times his annual salary for the purchase of Common Shares at the Offering price on the same terms and conditions as those to be offered to Ms. Morden.

Prior to the closing of the Offering, the Principal Shareholder will grant to Mr. Davis options to purchase up to ● Common Shares owned by the Principal Shareholder at an exercise price equal to \$ ● per share. See *“Interest of Management and Others in Material Transactions”*.

Compensation of Directors

Directors of the Company, who are not employees of the Company, are entitled to receive director's fees of \$5,000 per year plus \$1,000 for each meeting of the board or any committee thereof (\$500 if attended by telephone). Directors who are chairs of any committees of the board of directors are also entitled to an annual retainer fee of \$2,500 per committee. Directors are also eligible to participate in the Company's stock option plan. Prior to the closing of the Offering, the directors of the Company who are not also employees of the Company will

be granted stock options to purchase an aggregate of ● Common Shares at an exercise price equal to the Offering price.

DESCRIPTION OF SHARE CAPITAL

At the closing of the Offering, the authorized share capital of the Company will consist of an unlimited number of Common Shares and an unlimited number of preference shares, issuable in series (the “Preferred Shares”), of which ● Common Shares and no Preferred Shares will be outstanding.

Common Shares

The holders of Common Shares are entitled to one vote per share at all meetings of shareholders of Maxxcom and to receive dividends, if, as and when declared by the board of directors of Maxxcom. In the event of voluntary or involuntary liquidation, dissolution or winding-up after payment of all outstanding debts, the remaining assets of Maxxcom available for distribution shall be distributed *pro rata* to the holders of Common Shares. The holders of Common Shares have no preemptive, redemption or conversion rights.

Preferred Shares

The Preferred Shares are issuable, from time to time, in one or more series, as determined by the board of directors of the Company. The Preferred Shares, if issued, rank prior to the Common Shares with respect to the payment of dividends and the distribution of assets. In the event of the dissolution of the Company, the distribution of its assets upon its liquidation or the distribution of all or part of its assets among the shareholders, holders of Preferred Shares are entitled to receive, in cash or in property, an amount equal to the value of the consideration paid in respect of such outstanding shares, as credited to the Company’s issued and paid-up share capital account, plus such amount equal to accrued and unpaid dividends, or declared and unpaid dividends and, if any, any amount specified in the articles of the Company. Subject to the provisions of the *Business Corporations Act* (Ontario), the Preferred Shares do not carry voting rights.

PRINCIPAL SHAREHOLDER

The only person holding as of record, or known to the Company to beneficially own, directly or indirectly, more than 10% of the issued and outstanding Common Shares after giving effect to the Reorganization and the Exchange is the following:

<u>Name and Municipality of Residence of Beneficial Owner</u>	<u>Number of Shares</u>	<u>Percentage of Common Shares After Giving Effect to the Offering (1)</u>
MDC Corporation Inc. (2) Toronto, Ontario	● Common Shares (3)	● %

Notes:

- (1) Does not give effect to the exercise of the Over-Allotment Option.
- (2) Miles S. Nadal, the Chairman and a director of the Company, owns directly or indirectly, 2,064,326 Class A subordinate voting shares and 447,968 Class B multiple voting shares of the Principal Shareholder, and exercises control or direction over 16,666 Class A subordinate voting shares of the Principal Shareholder, all of which shares represent 14.17% of the issued and outstanding equity shares of the Principal Shareholder.
- (3) The Common Shares are represented by 200 Convertible Securities. On or before the closing of the Offering, the Principal Shareholder will convert such Convertible Securities into Common Shares.

The directors and officers of the Company, as a group, beneficially own, directly or indirectly, no Common Shares prior to giving effect to the Offering. Upon completion of the Offering, the directors and officers of the Company, as a group, will beneficially own, directly or indirectly, ● Common Shares, representing approximately ● % of the issued and outstanding Common Shares.

STOCK OPTION PLAN

The Company has established a stock option plan for the directors, executive officers, employees and consultants of the Company and subsidiaries of the Company (the “Plan”) in order to attract and retain competent directors, executive officers, employees and consultants motivated to work toward ensuring the Company’s success

and to encourage such persons to acquire shares of the Company. Individuals who are eligible to receive options to purchase Common Shares under the Plan are directors, executive officers, employees and consultants of the Company and subsidiaries of the Company, as determined by the board of directors of Maxxcom. The board of directors administers the Plan and has the power to amend, modify, suspend or terminate the Plan, subject to any necessary regulatory approvals.

All of the options that will be granted under the Plan may be exercised within a maximum period of ten years following the grant date thereof. The board of directors will designate the recipients of options and determine the number of Common Shares covered by each of such options, the date of vesting of each option, the exercise price of each option, the expiry date and any other question relating thereto, in each case in accordance with the applicable legislation of the securities regulatory authorities. Upon the listing of the Common Shares on a stock exchange, the price at which the Common Shares may be purchased pursuant to the Plan will not be lower than the closing price of the Common Shares on such stock exchange where the shares are listed on the trading day prior to the date of grant.

The maximum number of Common Shares that are issuable under the Plan will not exceed ● shares. The maximum number of Common Shares that may be granted to any person will not exceed 5% of the outstanding Common Shares.

As at the date of this prospectus, there are stock options under the Plan outstanding entitling the holders thereof to acquire up to ● Common Shares. The outstanding stock options held by the executive officers, the directors and the employees of the Company and others as of the date hereof are as follows:

Name or Description of Option Holder	Date of Grant	Number of Common Shares Under Option (1)	Exercise Price per Common Share (\$)	Market Value of Securities Optioned at date of grant (\$/share)	Market Value of Securities Optioned at ● , 2000 (\$/share)	Expiry Date
Executive Officers as a group (● persons)	● , 2000	●	●	●	●	● , 2010
Directors other than Executive Officers as a group (● persons)	● , 2000	●	●	●	●	● , 2010
Employees other than Executive Officers as a group (● persons)	● , 2000	●	●	●	●	● , 2010
Other Persons (● persons)	● , 2000	●	●	●	●	● , 2010
Total		●				

Note:

- (1) All of these stock options vest as to 20% per year at the end of each of the first two years following the closing of the Offering with the balance vesting on the third anniversary of the closing of the Offering.

ESCROWED SECURITIES

Prior to the closing of the Offering, the Principal Shareholder will enter into an agreement (the “Escrow Agreement”) with the Company and CIBC Mellon Trust Company (the “Escrow Trustee”) pursuant to which, at the closing of the Offering, a total of ● Common Shares (the “Escrowed Shares”), representing ● % of the Common Shares held by the Principal Shareholder, will be deposited in escrow with the Escrow Trustee. The Escrow Agreement provides that the Escrowed Shares shall be released from escrow on the basis that ● of the Escrowed Shares will be released on the expiration of twelve months following the closing of the Offering (the “Initial Release”) and ● of the Escrowed Shares will be released on each of the first and second anniversaries of the Initial Release.

Pursuant to the Escrow Agreement, the Escrowed Shares which remain in escrow and the beneficial ownership or any interest in them cannot be sold, assigned, hypothecated, alienated, released from escrow, transferred within escrow or dealt with in any manner without the prior consent, order or direction in writing of the applicable securities regulatory authorities except in accordance with the provisions of the Escrow Agreement.

Common Shares issued by the Company on the Exchange to Operating Company Shareholders in Canada will be deposited with the Escrow Trustee and cannot be sold until they are released from escrow. One-half of the Common Shares will be released from escrow annually commencing on the first anniversary of the closing of the Offering. Common Shares issued by the Company on the Exchange to Operating Company Shareholders in the United States will be subject to contractual resale restrictions to the same effect, except that, after the expiry of the standstill period imposed by the underwriters of the Offering under the Underwriting Agreement (as hereinafter defined), Operating Company Shareholders resident in the U.S. will be entitled to sell a portion of the Common Shares received by them on the Exchange for the sole purpose of paying any capital gains or income taxes attributable to the Exchange. See *“Interest of Management and Others in Material Transactions”*.

DIVIDEND RECORD AND POLICY

Maxxcom has not declared nor paid any dividends on the Common Shares since its incorporation. It is the present policy of Maxxcom to retain all earnings to support the growth of its various businesses. Accordingly, it is expected that no dividends will be paid by Maxxcom on the Common Shares in the foreseeable future. Any future payment of dividends will be determined by the board of directors of Maxxcom on the basis of the Company's earnings, financial requirements and other relevant factors.

Maxxcom's operating subsidiaries generally distribute to Maxxcom and the other shareholders on a quarterly, annual or other periodic basis all available cash flow.

DILUTION

After giving effect to the Reorganization and the Exchange, the offering price per Common Share, namely \$ ●, exceeds the consolidated net tangible book value per Common Share as at December 31, 1999, after giving effect to the sale of the Common Shares offered hereby, representing a dilution factor of ● % as indicated below.

The consolidated net tangible book value of the Company as at December 31, 1999 was \$ ● or \$ ● per Common Share. “Consolidated net tangible book value per Common Share” represents the amount of total tangible assets of the Company reduced by the amount of liabilities, divided by the number of Common Shares outstanding.

The following table sets forth the dilution to the Common Shares offered by this prospectus based upon the consolidated net tangible book value of the Company as at December 31, 1999.

Dilution per Common Share

Offering price	\$ ●
Consolidated net tangible book value per share as at December 31, 1999 (1)	\$ ●
Increase in consolidated net tangible book value per share attributable to the Offering (1)(2)	\$ ●
Consolidated net tangible book value per share after the Offering (1)(2)	\$ ●
Dilution to subscribers per share (1)	\$ ●
Percentage of dilution in relation to the offering price (2)	\$ ● %

Notes:

- (1) After giving effect to the Reorganization and the Exchange. See *“Reorganization”* and *“Interest of Management and Others in Material Transactions”*.
- (2) If the Over-Allotment Option is exercised in full, the increase in the pro forma consolidated net tangible value attributable to the Offering and to the exercise of the Over-Allotment Option will be \$ ● per Common Share and the pro forma consolidated net tangible book value after the Offering and the exercise of the Over-Allotment Option will be \$ ● per Common Share, representing a dilution factor of ● % in relation to the offering price or \$ ● per Common Share.

INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS

Except as disclosed under *“Executive Compensation”*, none of the directors or senior officers of the Company are now or have been during the Company's most recently completed financial year indebted to the Company.

Certain of the Operating Company Shareholders are indebted to Maxxcom in the aggregate principal amount of \$4,162,000 in respect of loans provided to them to purchase shares in their respective operating companies.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The only material transactions within the past three years in which the directors, senior officers or principal shareholder of Maxxcom or their respective associates or affiliates have or have had an interest that is material to the Company are as follows:

1. Pursuant to the long-term incentive plan of the Principal Shareholder, the Principal Shareholder will, prior to the completion of the Offering, grant to certain senior officers of the Principal Shareholder and the Company options to purchase up to ● Common Shares owned by the Principal Shareholder at an exercise price equal to \$ ● per share and up to ● Common Shares owned by the Principal Shareholder at an exercise price equal to the Offering price. The options exercisable at the Offering price will vest (except in the event of death, disability or termination without cause of the senior officer, in which event the options will vest immediately) as to 20% per year at the end of each of the first two years following the closing of the Offering with the balance vesting on the third anniversary of the closing of the Offering. The options exercisable at an exercise price of \$ ● will vest (except in the event of death, disability or termination without cause of the senior officer, in which event the options will vest immediately) on the third anniversary of the closing of the Offering. All options will be exercisable at any time thereafter until the tenth anniversary of the closing of the Offering. The options will provide that, if the Principal Shareholder is prohibited by law, contract or otherwise from issuing Common Shares to the holder upon exercise of the option, the Principal Shareholder will pay to the holder an amount equal to the difference between the fair market value of the Common Shares to be issued and the aggregate exercise price of the options exercised.
2. Immediately prior to the closing of the Offering, the Company will issue ● Common Shares to certain of the Operating Company Shareholders in exchange for a portion of the shares of such subsidiaries (the "Exchange"). The effect of the Exchange will be to increase Maxxcom's share of operating income for the pro forma fiscal year ended December 31, 1999 by \$ ● . Common Shares issued by the Company on the Exchange to Operating Company Shareholders in Canada will be deposited with the Escrow Trustee and cannot be sold until they are released from escrow. One-half of the Common Shares will be released from escrow annually commencing on the first anniversary of the closing of the Offering. Common Shares issued by the Company on the Exchange to Operating Company Shareholders in the United States will be subject to contractual resale restrictions to the same effect, except that, after the expiry of the standstill period imposed by the underwriters of the Offering under the Underwriting Agreement (as hereinafter defined), Operating Company Shareholders resident in the U.S. will be entitled to sell a portion of the Common Shares received by them on the Exchange for the sole purpose of paying any capital gains or income taxes attributable to the Exchange.
3. The Principal Shareholder will provide services to the Company from time to time as needed in connection with mergers and acquisitions advisory and other services on arm's length terms. The terms of any such services will be reviewed and approved by the Corporate Governance Committee. In addition, the Principal Shareholder will provide certain administrative services and benefits to the Company, including support services in the payroll, insurance, employee benefits, general accounting, tax and other administrative areas. The Principal Shareholder has agreed to provide these services to the Company in consideration of a fee of \$10,000 per month.

RISK FACTORS

Prospective investors should carefully consider the following risk factors, together with other factors set out in this prospectus, before investing in the Common Shares offered hereby:

Competition

The communications and marketing services industry is highly competitive. The Company has competition in all major markets in which it does business from competitors that range from large multinationals to small and mid-size agencies. The Company must compete with these companies, firms and agencies in order to maintain existing client relationships and to obtain new clients and assignments. Competitive factors include creative

reputation, management, personal relationships, quality and reliability of service and expertise in particular niche areas of the marketplace. Although the price of services may be a competitive factor in obtaining new clients, it is generally of lesser importance once a client relationship has been established. See *“Business of the Company — Competition”*.

Dependence on Key Personnel

The success of the Company has been in the past and is expected to continue to be dependent upon the leadership shown by a number of key executive and management personnel. If any of these key individuals leave the Company, the relationships they have with the Company’s clients could be lost. In addition, the ability of the Company to generate revenue is dependent upon the number and expertise of individuals it has to work on projects. The competition for experienced and able employees is, and is expected to continue to be, intense. As a result, if the Company fails to retain existing employees or hire new employees when necessary, the Company’s business, financial condition and operating results could be materially and adversely affected.

Although certain members of senior management of Maxxcom operating companies have entered into employment contracts, non-competition and non-solicitation agreements and while certain members of senior management have entered into shareholder agreements under which they may be subject to adverse consequences as shareholders if they leave their employment voluntarily, those agreements may not be effective in helping the Company retain qualified personnel.

Availability and Integration of Acquisition Targets

The Company’s acquisition strategy depends on its ability to identify and acquire appropriate businesses. There can be no assurance that the Company will be able to identify suitable acquisition candidates or, if identified, negotiate their acquisition successfully. Failure by the Company to successfully implement its acquisition strategy will limit the Company’s growth potential and negatively affect its results of operations.

Competition for acquisition candidates may result in fewer acquisition opportunities being available to the Company and less advantageous acquisition terms. Further, many of the Company’s competitors for such acquisitions are larger, better known companies with significantly greater resources than the Company. These circumstances may increase acquisition costs to levels beyond the Company’s financial capability, or may make it necessary for the Company to raise additional funds through public or private financing. There can be no assurance that any necessary equity or debt financing, if available at all, will be on terms acceptable to the Company.

Economic Uncertainty

The communications and marketing services industry is cyclical and is subject to the effects of economic downturns. The Company is also exposed to the risk of clients changing their business plans and/or reducing their marketing budgets. As a result, the Company’s business, financial condition or operating results may be affected in a materially adverse manner.

Consolidation of Accounts

Recently, multinational organizations have shown a tendency towards consolidating their communications and marketing services providers so that one firm provides these services to all international locations. As a result, communications and marketing services providers with a broader geographical scope that better positions them to provide services that meet these needs may be more successful at maintaining existing or winning new business. To the extent that Maxxcom is unsuccessful at capitalizing on this trend, the Company’s business, financial condition or operating results may be affected in a materially adverse manner.

Risk of Media Account Default

The Company incurs expenses on behalf of clients in order to secure a variety of media time and space for which it receives a fee. The difference between the gross cost of the media and the net revenue earned by the Company can be significant. While the Company takes any precautions against default on payment for these services (such as advance billing clients), and has historically had a very low incidence of default, it is still exposed to the risk of significant uncollectible receivables.

Relationship with Principal Shareholder

Upon completion of the Offering, the Principal Shareholder will beneficially own approximately ● % of the outstanding Common Shares (approximately ● % if the Over-Allotment Option is exercised in full). As a result of such ownership, the Principal Shareholder will be able to exercise control over all matters requiring shareholder approval, including the election of directors and approval of various corporate transactions as well as certain matters which require approval by way of special resolution under applicable corporate law such as certain fundamental changes. Such concentration of ownership may have the effect of delaying or preventing a change in control of the Company. *See “Principal Shareholder”.*

The Principal Shareholder will provide services to the Company from time to time as needed in connection with mergers and acquisitions advisory and other services on arm’s length terms. The Company has established a Corporate Governance Committee whose mandate includes approving and monitoring all related party transactions of the Company, including any arrangements between Maxxcom and the Principal Shareholder. *See “Directors and Officers — Board Committees”.*

The Chairman of the Company is also a member of senior management and a director of the Principal Shareholder. It is contemplated that such executive will spend the majority of his time in connection with the business and affairs of the Principal Shareholder. Such executive will also be engaged in activities on behalf of the Principal Shareholder not related directly to the business of the Company. Four directors and one senior officer of the Company (including the Chairman) also serve as directors of the Principal Shareholder.

Exchange Rate Fluctuations

The Company derives a significant portion of its income from the United States and reports its results in Canadian dollars. As a result, significant fluctuations in exchange rates could have a material adverse affect on the Company’s business, financial position and operating results.

Absence of Dividends

The Company does not currently anticipate paying dividends in the foreseeable future. The Company’s current intention is to reinvest its earnings to finance its long-term growth. *See “Dividend Record and Policy”.*

Potential Absence of Market

There is currently no organized market on which to trade the Common Shares and there can be no assurance that an active market for the trading of such shares will develop or be maintained after the Offering. The offering price was established through negotiations between the Company and the Underwriters on the basis of a number of factors, including the history of, and prospects for, the Company’s business, the industry in which it competes, and an assessment of the Company’s management, operations and financial results.

Dilution Factor

Purchasers of the Common Shares offered hereby will suffer immediate and substantial dilution in the pro forma consolidated net tangible book value per Common Share from the Offering price. *See “Dilution”.*

Year 2000

The Company makes use of information systems, including the exchange of financial data and other information with suppliers, clients and other counterparties. The Company also uses software and information systems provided by third parties in its accounting, business and investment systems. The Year 2000 risk, as it is commonly known, is the result of computer programs being written using two digits rather than four, to define the applicable year. Any of the computer programs used by the Company that have date-sensitive software may recognize a date using “00” as the year 1900 rather than the year 2000. This could result in systems failures or miscalculations causing disruptions of operations, including among other things, a temporary inability to process transactions, make payments or engage in other normal business activities.

Although the Company transitioned through January 1, 2000 without any business disruptions or adverse effects, there can be no assurance that the systems operated by other companies upon which the Company relies, including suppliers and others, will continue to be Year 2000 compliant. In addition, the business, financial

condition or results of operations of the Company could be materially adversely affected by the failure of the internal systems and applications of the Company to properly operate or manage data as a result of the Year 2000 issue.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated March 1, 2000 (the "Underwriting Agreement") between CIBC World Markets Inc., RBC Dominion Securities Inc., Bunting Warburg Dillon Read Inc., Griffiths McBurney & Partners, National Bank Financial Inc., Nesbitt Burns Inc., Scotia Capital Inc., TD Securities Inc. Canaccord Capital Corporation and Thomson Kernaghan & Co. Ltd. (collectively, the "Underwriters") and the Company, the Company has agreed to issue and sell 1,000,000 Common Shares and the Underwriters have each agreed to severally purchase, as principals, subject to the conditions set out in the Underwriting Agreement, on the closing date, the aggregate only, unless otherwise indicated herein below, of such Common Shares at the price of \$ 10.00 per Common Share payable in cash to the Company upon delivery of the certificates evidencing the Common Shares, in respect of which the Underwriters' fee will amount to \$ 1,000,000 per Common Share.

Subscriptions for Common Shares 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 definitive share certificates for the Common Shares will be available for delivery at closing of the Offering, which is expected to occur on or about March 1, 2000, or on such later date as may be agreed between Maxxcom and the Underwriters, but in any event, not later than March 1, 2000 (the "Closing Date").

The Company has granted to the Underwriters the Over-Allotment Option enabling them to purchase up to a maximum of 1,000,000 additional Common Shares at a price of \$ 10.00 per Common Share, payable in cash to the Company upon delivery of such Common Shares. The Over-Allotment Option may be exercised in whole or in part during a 30 day period commencing on the Closing Date solely for the purposes of covering the over-allotments, if any, effected by the Underwriters in connection with the Offering. If such Over-Allotment Option is exercised in full, the Underwriters will receive a fee of \$ 1,000,000 per additional Common Share purchased pursuant to such Over-Allotment Option. This prospectus qualifies the distribution of the Common Shares issuable upon exercise of the Over-Allotment Option.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated in certain stated circumstances and upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all the Common Shares offered by this prospectus if any of such Common Shares are purchased under the Underwriting Agreement. The Company has agreed to indemnify the Underwriters for certain liabilities, including liabilities under applicable securities laws.

Pursuant to policy statements of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the Underwriters may not, throughout the period of distribution under this prospectus, bid for or purchase Common Shares. The restriction is subject to certain exceptions, on the condition that the bid or purchase is not 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. Subject to the foregoing and applicable laws, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

This prospectus also qualifies the distribution of 1,000,000 Common Shares which will be issued to the Operating Company Shareholders in exchange for shares of subsidiaries of the Company pursuant to the Exchange and the Common Shares issuable to the Principal Shareholder without additional payment upon the conversion of the Convertible Securities and in connection with the conversion of any indebtedness relating thereto. See *"Interest of Management and Others in Material Transactions"* and *"Reorganization"*.

The Common Shares offered hereby have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "1933 Act"), and subject to certain exceptions, they may not be offered or sold within the United States. The Underwriting Agreement enables the Underwriters to offer and resell the Common Shares that they have acquired pursuant to the Underwriting Agreement to certain eligible institutional purchasers in the United States provided such new offers and new sales are made only in accordance with

Rule 144A adopted under the 1933 Act. In addition, until 40 days have elapsed after the commencement of the offering of the Common Shares offered herein, an offer or sale of such Common Shares within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer or sale is made otherwise than in accordance with Rule 144A adopted under the 1933 Act.

Five of the Underwriters are direct or indirect subsidiaries of Canadian chartered banks which have extended credit facilities to the Principal Shareholder. Accordingly, the Company may be considered a connected issuer of such Underwriters under applicable Canadian securities legislation. Such Underwriters will not receive any benefit in connection with the Offering other than their respective portion of the Underwriters' fee.

MATERIAL CONTRACTS

The only material contracts which the Company has entered in the previous two years or will enter into prior to the closing of the Offering and which may be regarded as presently material, other than contracts entered into in the ordinary course of business, are the following:

- (a) the Escrow Agreement referred to under "*Escrowed Shares*"; and
- (b) the Underwriting Agreement referred to under "*Plan of Distribution*".

Copies of the material contracts may be inspected at the Company's registered office at 35A Hazelton Avenue, Toronto, Ontario during normal business hours during the period of distribution of the Common Shares pursuant to the Offering.

PRIOR SALES OF SECURITIES

During the past 12 months, the Company has issued Convertible Securities convertible into an aggregate of ● Common Shares in connection with the Reorganization as described under "*Reorganization*" and will issue an aggregate of ● Common Shares in connection with the Exchange as described under "*Interest of Management and Others in Material Transactions*", including those that will be issued on or immediately prior to the Closing Date.

The only sales of Common Shares or securities convertible into or carrying rights to acquire Common Shares during the preceding 12 months are as follows:

- (a) the issuances described in the preceding paragraph;
- (b) the grant by the Principal Shareholder to certain senior officers of the Principal Shareholder and the Company of options to purchase an aggregate of ● Common Shares. See "*Interest of Management and Others in Material Transactions*"; and
- (c) the grant on ●, 2000 of stock options to acquire up to ● Common Shares pursuant to the Plan. See "*Stock Option Plan*".

PROMOTER

The Principal Shareholder may be considered to be the promoter of the Company within the meaning of applicable securities legislation by reason of the initiative taken by the Principal Shareholder in founding and organizing the Company. See "*Reorganization*" and "*Interest of Management and Others in Material Transactions*".

LEGAL MATTERS

Certain legal matters relating to the Offering have been reviewed on behalf of the Company by Fogler, Rubinoff LLP, counsel to the Company, and on behalf of the Underwriters by Torys, counsel to the Underwriters. As of the date hereof, partners and associates of Fogler, Rubinoff LLP and Torys own, directly or indirectly, less than 1% of the outstanding Common Shares.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Company are BDO Dunwoody LLP, Chartered Accountants, 60 Columbia Way, Suite 400, Markham, Ontario L3R 0C9.

The registrar and transfer agent for the Common Shares in Canada is CIBC Mellon Trust Company at its principal offices in the cities of Toronto, Montreal and Vancouver.

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 thereto. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus or any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages must be exercised by the purchaser within the time limit prescribed by the securities legislation of the applicable province. The purchaser should refer to the securities legislation of the province in which the purchaser resides for the particulars of these rights or consult with a legal adviser.

MAXXCOM INC.
Financial Statements

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Auditors' Report

To the Directors of
Maxxcom Inc.

We have audited the consolidated balance sheets of Maxxcom Inc. as at December 31, 1999 and 1998 and the consolidated statements of operations and surplus and cash flows for each of the years in the three year period 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 audits.

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

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

Chartered Accountants

January 30, 2000 (except for note 11 which is as of ●)

MAXXCOM INC.
CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars)

	<u>December 31,</u>	
	<u>1999</u>	<u>1998</u>
ASSETS		
Current		
Cash and cash equivalents	\$ 29,018	\$15,047
Accounts receivable (note 2)	86,724	33,152
Prepaid expenses and sundry	<u>1,316</u>	<u>723</u>
	117,058	48,922
Capital and other assets (note 3)	20,753	5,705
Goodwill (note 4)	<u>81,001</u>	<u>41,027</u>
	<u>\$218,812</u>	<u>\$95,654</u>
LIABILITIES AND EQUITY		
Current		
Bank indebtedness	\$ 398	\$ 151
Accounts payable and accrued liabilities	79,843	26,868
Income taxes payable	2,108	2,980
Deferred revenue	15,960	9,247
Current portion of long-term indebtedness (note 5)	<u>2,451</u>	<u>225</u>
	100,760	39,471
Long-term indebtedness (note 5)	10,529	1,716
Deferred income taxes	<u>693</u>	<u>92</u>
	111,982	41,279
Minority interest	<u>6,012</u>	<u>2,167</u>
	<u>117,994</u>	<u>43,446</u>
Equity		
Capital contribution (note 6)	88,980	44,714
Cumulative translation adjustment	(4,143)	(557)
Surplus	<u>15,981</u>	<u>8,051</u>
	100,818	52,208
	<u>\$218,812</u>	<u>\$95,654</u>

On behalf of the Board:

(Signed) BEVERLEY MORDEN
Director

(Signed) MILES S. NADAL
Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MAXXCOM INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND SURPLUS

(in thousands of Canadian dollars)

	Year ended December 31,		
	1999	1998	1997
Gross billings	\$368,384	\$159,412	\$71,814
Direct costs	218,898	92,249	35,298
Gross income	149,486	67,163	36,516
Operating expenses	121,609	54,016	29,216
Operating income	27,877	13,147	7,300
Other charges			
Amortization	2,879	1,528	556
Interest	109	266	155
Minority interests (note 6)	8,365	4,364	2,060
	11,353	6,158	2,771
Income before income taxes and goodwill charges	16,524	6,989	4,529
Income taxes (note 7)	7,107	3,004	2,008
Income before goodwill charges	9,417	3,985	2,521
Goodwill charges net of income taxes of \$296 (1998 — \$121; 1997 — \$nil)	1,487	725	497
Net income for the year	7,930	3,260	2,024
Surplus, beginning of year	8,051	4,791	2,767
Surplus, end of year	<u>\$ 15,981</u>	<u>\$ 8,051</u>	<u>\$ 4,791</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MAXXCOM INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	Years ended December 31,		
	1999	1998	1997
Cash provided from (used in)			
Operating activities			
Net income for the year	\$ 7,930	\$ 3,260	\$ 2,024
Adjustments to reconcile net income to net cash provided by operating activities			
Amortization — capital assets	2,879	1,528	1,053
— goodwill	1,783	846	—
Other	372	989	13
Changes in non-cash working capital	13,419	1,280	(860)
Cash flows from operating activities	<u>26,383</u>	<u>7,903</u>	<u>2,260</u>
Investing Activities			
Investments and other acquisitions	(51,791)	(20,426)	(3,223)
Capital and other assets	<u>(6,236)</u>	<u>(4,002)</u>	<u>(1,620)</u>
Cash flows used in investing activities	<u>(58,027)</u>	<u>(24,428)</u>	<u>(4,843)</u>
Financing Activities			
Bank indebtedness	248	(709)	292
Long-term indebtedness	1,960	1,000	182
Capital contributions	<u>44,446</u>	<u>26,691</u>	<u>4,902</u>
Cash flows from financing activities	<u>46,654</u>	<u>26,982</u>	<u>5,376</u>
Foreign exchange loss on cash held in foreign currency	<u>(1,039)</u>	<u>(124)</u>	<u>—</u>
Increase in cash and equivalents	13,971	10,333	2,763
during the year			
Cash and cash equivalents, beginning of year	<u>15,047</u>	<u>4,714</u>	<u>1,951</u>
Cash and cash equivalents, end of year	<u><u>\$ 29,018</u></u>	<u><u>\$ 15,047</u></u>	<u><u>\$ 4,714</u></u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MAXXCOM INC.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

December 31, 1999, 1998 and 1997

Basis of Presentation

These financial statements include the consolidated balance sheets and consolidated statements of operations of the companies operating under the MDC Corporation Inc. (MDC) — Communications and Marketing Services division. Collectively, these entities are referred to as “Maxxcom Inc.” Maxxcom Inc. (the “Company”) has operating units in Canada and the United States and works in distinct market segments.

Maxxcom Inc. is a wholly owned subsidiary of MDC. The Company was incorporated by MDC on November 2, 1998. The ownership of these companies is to be transferred to the entity under Section 85 of the Canadian Income Tax Act at their respective income tax costs.

The carrying amounts of the assets and liabilities recorded in these financial statements are unchanged from the carrying amounts in the predecessor company financial statements.

These financial statements reflect the consolidated balance sheets of Maxxcom Inc. as at December 31, 1999 and 1998 and the consolidated statements of operations for each of the years in the three year period ended December 31, 1999.

These financial statements have been prepared from historical information of the operations that will comprise Maxxcom Inc.

The operating subsidiaries of the Company, with country of incorporation, are as follows:

Accent Marketing Services, LLC (US)
Accumark Promotions Group Inc. (Canada)
Allard Johnson Communications Inc. (Canada)
Ambrose Carr Linton Carroll Inc. (Canada)
Bryan Mills Group Inc. (Canada)
Campbell & Partners Communications Inc. (Canada)
Colle & McVoy Inc. (U.S.)
Cormark Communications Inc. (Canada)
Fletcher Martin Associates LLC (US)
Integrated Healthcare Communications Inc. (Canada)
Margeotes/Fertitta & Partners, LLC (U.S.)
McManus Elliott Communications Inc. (Canada)
News Canada Inc. (Canada)
Northstar Research Partners Inc. (Canada)
Source Marketing, LLC (U.S.)
Strategies International (Canada)
Veritas Communications Inc. (Canada)

Investment

Investments in which the Company does not control or have significant influence are carried at the lower of cost or market.

Capital Assets

Capital assets are recorded at cost. Amortization is provided as follows:

Building	— 4% declining balance
Computer, furniture and fixtures and office equipment	— 20 - 50% declining balance
Leasehold improvements	— Straight line over term of lease

Deferred Charges	The Company capitalizes direct costs related to the start up of operations until the commencement of commercial operations, at which time all related costs are amortized on a straight line basis over their estimated useful life.
Deferred Income Taxes	Deferred income taxes result from the deferral of work in progress revenue for income tax purposes and the difference between amortization recorded in the accounts and capital cost allowance claimed for income tax purposes.
Foreign Currency Translation	With the exception of the Company's foreign subsidiaries, foreign currency assets and liabilities carried at current prices are translated into Canadian dollars using the rate of exchange in effect at the year end; other foreign currency assets and liabilities are translated using the rates of exchange in effect at the dates of the transaction; revenue and expense items are translated at the average monthly rate of exchange for the year, except for amortization of capital and other assets which is translated at the historical rates of the related assets. The accounts of foreign subsidiaries' self-sustaining operations, are translated using the rate of exchange in effect at the year end. The unrealized foreign exchange gains and losses on translation of the accounts of foreign subsidiaries are reflected as a separate component of shareholders' equity. The unrealized foreign exchange gains and losses relating to translation of long-term monetary assets and liabilities of a fixed term are deferred and amortized over the remaining life of the related term. All other foreign exchange gains and losses are included in net income or loss in the current period.
Goodwill	Goodwill represents the price paid for acquisitions in excess of the fair market value of net tangible assets acquired. The Company amortizes goodwill on a straight-line basis over 40 years. The carrying value of goodwill is assessed annually by reviewing the estimated future undiscounted cash flows of the underlying businesses of the Company. Any permanent impairment in the carrying value of goodwill is expensed in the period in which the assessment is made.
Revenue Recognition	Revenue is recognized using the percentage of completion method with respect to contracts having a specified time period for the performance of the service. Work in progress is estimated as the portion of revenue which has been earned but not billed. Customer billings in advance are recorded as deferred revenue. Potential losses, if any, on work in progress are provided for as soon as the possibility of a loss becomes apparent. All other revenue is recorded when the service is completed and/or the product is delivered.
Financial Instruments	The Company's financial instruments consist of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and long-term indebtedness. Credit Risk The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. Concentrations of credit risk with respect to accounts receivable are limited due to the number of customers serviced by the Company and their generally short payment terms. Fair Value The fair value of long term indebtedness that bears interest at fixed rates is based on discounted future cash flows using rates currently available for debt of similar terms and maturities. The carrying value of other financial

instruments, cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities, approximates fair value due to their short-term maturities.

Cash and Cash Equivalents

The Company considers all cash and highly liquid investments purchased with an initial maturity of three months or less to be cash or cash equivalents.

The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents.

Accounting Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

MAXXCOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except per share amounts)

December 31, 1999, 1998 and 1997

1. Acquisitions

The following are the acquisitions during the period. These acquisitions were accounted for by the purchase method and consolidated from the respective effective date of acquisition.

1997 Acquisitions:

Effective March 1, 1997, the Company acquired 100% of News Canada Inc.

Effective June 1, 1997, the Company acquired Freeman Rogers Battaglia Inc. and amalgamated it with LBJ Advertising Ltd. to form LBJ.FRB Communications Inc. The Company owns 50.1% of LBJ.FRB Communications Inc.

1998 Acquisitions:

Effective January 1, 1998, the Company acquired 60% of Integrated Healthcare Communication Inc.

Effective April 1, 1998, the Company acquired 80% of Margeotes/Fertitta + Partners, LLC.

Effective October 15, 1998, the Company acquired 81.5% of Source Marketing, LLC.

1999 Acquisitions:

Effective April 1, 1999, the company acquired 80% of Colle & McVoy, Inc.

Effective October 1, 1999, the Company acquired Allard-Associés, Inc. and amalgamated it with LBJ-FRB Communications Inc. to form Allard Johnson Communications Inc. The Company owns 50.1% of Allard Johnson Communications Inc.

Effective November 1, 1999, the Company acquired 50.1% of Accent Marketing Services, LLC.

Effective November 30, 1999 the Company acquired 70% of Fletcher Martin, LLC.

The assets acquired and consideration given are as follows:

	<u>1999</u>	<u>1998</u>
Assets acquired, at fair value		
Assets, gross	\$74,972	\$ 18,503
Liabilities, gross	(61,528)	(17,358)
Minority interest	(4,307)	(274)
Net assets acquired, at fair value		
Assets, net of liabilities	9,137	871
Goodwill	42,279	20,700
	<u>\$51,416</u>	<u>\$ 21,571</u>
Consideration		
Cash and promissory notes	\$47,616	\$ 20,261
Other consideration	1,165	767
Other acquisition costs	2,635	543
	<u>\$51,416</u>	<u>\$ 21,571</u>

In addition to the cash consideration paid by the Company in respect of its acquisitions, additional consideration is payable based on the achievement of certain threshold levels of earnings. Should the 1999 level of earnings be maintained by these acquired companies, the following approximate additional consideration would be earned in each of the following years:

2000	\$14,607
2001	15,967
2002	2,533

Further additional consideration for two of the acquisitions is also payable based on earnings which exceed the threshold.

2. Accounts Receivable

	December 31,	
	1999	1998
Trade receivables	\$71,359	\$25,832
Unbilled work in progress	8,894	4,368
Notes receivable	6,471	2,952
	<u>\$86,724</u>	<u>\$33,152</u>

Notes receivable include amounts owing from officers and directors of the Company's subsidiaries. The notes are interest bearing at rates varying from 3.5% fixed to prime plus 1/2%, repayable from profit distributions of the various subsidiary companies and are secured by shares of the respective subsidiary companies.

3. Capital and Other Assets

	December 31,			
	1999		1998	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
(a) Capital Assets				
Land	\$ 313	\$ —	\$ 204	\$ —
Buildings	1,252	209	619	172
Computer, furniture and fixtures and office equipment	29,172	15,159	8,312	5,998
Leasehold improvements	6,138	3,128	2,587	1,099
	<u>36,875</u>	<u>18,496</u>	<u>11,722</u>	<u>7,269</u>
(b) Other Assets				
Deferred charges	2,887	513	1,357	105
	<u>39,762</u>	<u>19,009</u>	<u>13,079</u>	<u>7,374</u>
Cost less accumulated amortization		<u>\$20,753</u>		<u>\$5,705</u>

(Included in capital assets are assets under capital lease with a cost of \$2,254 (December 31, 1998 — \$366) and accumulated amortization of \$551 (December 31, 1998 — \$183).

Other assets include a 19.9% investment in CyberSight Acquisition Company made in 1998, which has a controlling interest in CyberSight, LLC, an interactive professional services company based in Portland, Oregon.

4. Goodwill

	December 31,	
	1999	1998
Cost	\$85,768	\$44,003
Accumulated amortization	4,767	2,976
	<u>\$81,001</u>	<u>\$41,027</u>

5. Long-term Indebtedness

	1999	1998
First mortgage loan, interest at 7.65% per annum, secured by land and building, repayable in blended monthly instalments of \$5, due March 2002	\$ 342	\$ 362
Mortgage payable, interest at 7.4% per annum and 2.75% over the current average yield on the one year U.S. Treasury Securities, secured by land and building, repayable in monthly instalments of \$5 (US — \$4), due January 2004	568	—
Term bank notes, interest at 8.92% and 8.95%, repayable in monthly instalments to December 2001, secured by property and equipment	1,716	—
Term bank loans	676	845
Note Payable, interest at 8.7%, due in monthly instalments through June 2002, secured by certain equipment and inventory	1,116	—
Note payable, interest at 8.5%, repayable in principal payments of \$69 (US — \$48) plus accrued interest annually in June	208	—
Note Payable, interest at 4.5%, due February 2004	565	543
Note Payable; interest at 3.53%, repayable in three principal payments of \$288 (US — \$200) plus interest beginning April 1, 2001	865	—
Note Payable, interest at 7%, repayable in quarterly instalments of \$13 (US — \$9), due November 2002	139	—
Revolving bank loan up to US \$4,250, interest at 8.25% payable monthly, principal balance due May 1, 2002, repayment date subject to extension annually on May 1 at the bank's discretion	4,321	—
Other	773	—
	11,289	1,750
Obligations under capital leases, secured by equipment	1,691	191
	12,980	1,941
Less: current portion	2,451	225
	<u>\$10,529</u>	<u>\$ 1,716</u>

The term bank loans, maturing December 31, 2003, bear interest at prime plus ¾%. \$244 of the balance is repayable \$5 plus interest monthly. The remaining \$432 is repayable interest only monthly with minimum annual principal reductions as follows:

2000	\$ 85
2001	120
2002	125
2003	135

The term bank loans are secured by a general assignment of accounts receivable, a general security agreement covering all subsidiary company's assets now and acquired in the future and a letter of comfort from MDC.

Aggregate principal repayments due in the next five years are approximately as follows:

2000	\$2,451
2001	2,041
2002	6,160
2003	577
2004	35

6. Equity

By Articles of Amendment dated October 25, 1999 the authorized share capital was amended to:

An unlimited number of participating, voting Special shares, convertible at the option of the holder into one common share for each Special share.

An unlimited number of common shares.

At December 31, 1998 and 1999, 100 special shares were issued and outstanding.

See note 11.

7. Minority Interests

These amounts represent payments to minority shareholders of subsidiary companies pursuant to their respective shareholder agreements and adjustments to the minority interest position.

8. Income Taxes

The Company's provision for income taxes is comprised as follows:

Reconciliation to statutory rates is as follows:

	1999	1998	1997
Provision for income taxes based on combined basic Canadian federal and provincial tax rate of 44.3%	\$7,327	\$3,099	\$2,008
Reduction in taxes resulting from benefit of lower U.S. tax rates	(220)	(95)	—
Total provision	<u>\$7,107</u>	<u>\$3,004</u>	<u>\$2,008</u>

9. Commitments

(a) The Company has leased real estate and equipment at the following approximate annual base rental:

2000.....	\$5,779
2001.....	5,420
2002.....	4,843
2003.....	3,487
2004.....	2,406

(b) The Company, under agreements with respect to the terms of shareholder agreements, may be required to acquire part or all of the minority shareholdings at an amount based on the net income of the respective subsidiary companies.

10. Contingent Liabilities

As at December 31, 1999 there are claims against the Company in varying amounts. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims, however, management believes that any such amounts would not have a material impact on the business or financial position of the Company.

11. Subsequent Events

(a) Effective January 1, 2000 the Company entered into agreements with MDC for the purchase of MDC's interest in companies previously operating in MDC's Communications and Marketing Services division and an aggregate of \$4,162 of principal amount of shareholder loans and related security due from operating company shareholders and management. The Company assumed all of MDC's obligations under the shareholder agreements affecting the operating companies.

The consideration consisted of:

- promissory notes of Maxxcom in the aggregate principal amount of \$90,000 payable on demand and bearing no interest; and
- securities convertible into common shares.

(b) On , 2000, the issued and outstanding Special shares were converted into 200 common shares. On the same day the Company amended its Articles of Incorporation to change the authorized share capital to:

- An unlimited number of common shares.
- An unlimited number of preference shares, issuable in series.

Subsequently the 200 issued and outstanding common shares were exchanged for common shares.

(c) The Company entered into an underwriting agreement to sell common shares of the Company for an aggregate amount of \$ after deducting fees to underwriters and estimated expenses of the offering of \$.

12. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may effect the Company, including those related to customers, suppliers, or other third parties, have been fully resolved.

13. Segmented Information

Geographic Information

	Canada	United States	Total
Gross Billings			
December 31, 1999	\$137,722	\$230,662	\$368,384
December 31, 1998	95,213	64,199	159,412
Capital Assets and Goodwill			
December 31, 1999	\$ 27,337	\$ 74,417	\$101,754
December 31, 1998	22,930	23,802	46,732

COMPILATION REPORT

To the Directors of
MAXXCOM INC.

We have reviewed, as to compilation only, the accompanying pro forma consolidated statement of operations of Maxxcom Inc. ("Maxxcom") for the year then ended December 31, 1999 which has been prepared for inclusion in the prospectus relating to the issue of Common Shares. In our opinion, the pro forma consolidated financial statement has been compiled to give effect to the transactions and the assumption described in the Notes thereto.

Chartered Accountants

Markham, Ontario
February 9, 2000

MAXXCOM INC.

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31, 1999
(in thousands of Canadian dollars)
(unaudited)

		Ten months ended October 31, 1999	Eight months ended September 30, 1999	Three months ended March 31, 1999	Eleven months ended November 30, 1999	Pro Forma Adjustments	Pro Forma
	Maxxcom (audited)	Accent (audited)	Allard (unaudited)	Colle & McVoy (audited)	Fletcher Martin (audited)	(unaudited)	(unaudited)
Gross billings	\$368,384	\$39,231	\$14,592	\$30,368	\$68,806	\$ —	\$521,381
Direct costs	218,898	11,019	9,713	21,406	55,519	—	316,555
Gross income	149,486	28,212	4,879	8,962	13,287	—	204,826
Operating expenses	121,609	23,417	3,539	9,386	11,096	(2,158)	166,889
Operating income	27,877	4,795	1,340	(424)	2,191	2,158	37,937
Other charges							
Amortization and depreciation	2,879	1,335	103	168	667	—	5,152
Interest, net	109	147	5	34	(35)	—	260
Minority interests	8,365	—	—	—	—	2,995	11,360
	11,353	1,482	108	202	632	2,995	16,772
Income before income taxes and goodwill charges	16,524	3,313	1,232	(626)	1,559	(837)	21,165
Income taxes	7,107	—	445	(52)	—	(107)	7,393
Income before goodwill charges	9,417	3,313	787	(574)	1,559	(730)	13,772
Goodwill charges net of income taxes	1,487	—	—	—	—	448	1,935
Net income for the period ...	\$ 7,930	\$ 3,313	\$ 787	\$ (574)	\$ 1,559	\$ (1,178)	\$ 11,837

MAXXCOM INC.

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999
(in thousands of Canadian dollars)
(unaudited)

1. Basis of Presentation

The unaudited pro forma consolidated statement of operations has been prepared based on the audited statement of operations of Maxxcom Inc. ("Maxxcom") as at and for the year ended December 31, 1999, the statement of operations of Accent Marketing Services Inc. ("Accent") for the ten month period ended October 31, 1999, the statement of operations of Colle & McVoy, Inc. ("Colle & McVoy") for the three month period ended March 31, 1999, the statement of operations of Fletcher Martin Associates LLC ("Fletcher Martin") for the eleven month period ended November 30, 1999 and the unaudited statement of operations of Allard et Associés Inc. ("Allard") for the eight month period ended September 30, 1999 (the "Acquisitions").

The unaudited pro forma consolidated financial statement gives effect to the acquisitions of Accent, Allard, Colle & McVoy and Fletcher Martin. The unaudited pro forma financial statement is provided for informational purposes only and does not purport to be indicative of the Company's results of operations which would actually have been obtained had such transactions been completed as of the date or for the period presented, or which may be obtained in the future.

The unaudited pro forma consolidated financial statement should be read in conjunction with the historical financial statements and notes thereto for the respective companies, which are included in the prospectus.

The historical statement of operations of Accent, Colle & McVoy and Fletcher Martin are stated in U.S. dollars which have been translated for purposes of the pro forma statement of operations into Canadian dollars at the average foreign exchange rate of US\$1.00 = Cdn \$1.4822.

2. Pro Forma Assumption

The pro forma consolidated statement of operations for the year ended December 31, 1999 reflects the Acquisitions as if they were consummated on January 1, 1999.

3. Pro Forma Adjustments

Income statement pro forma adjustments are as follows:

- (i) Decrease in operating expenses due to the discontinuance of ESOP payments and a portion of management bonuses and shareholder expenses, which are in excess of new management contract amounts.
- (ii) Recording of minority interest earnings pick up.
- (iii) Income tax adjustment calculated at the combined individual company statutory rate.
- (iv) Incremental amortization of \$582, relating to goodwill arising from acquisitions, on a straight life basis over forty years, net of income taxes of \$134.

COMPILATION REPORT

To the Directors of
MAXXCOM INC.

We have reviewed, as to compilation only, the accompanying pro forma consolidated statement of operations of Maxxcom Inc. ("Maxxcom") for the year ended December 31, 1998 which has been prepared for inclusion in the prospectus relating to the issue of Common Shares. In our opinion, the pro forma consolidated financial statement has been compiled to give effect to the transactions and the assumption described in the Notes thereto.

Chartered Accountants

Markham, Ontario
February 9, 2000

MAXXCOM INC.

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31, 1998
(in thousands of Canadian dollars)
(unaudited)

					Twelve Months ended January 31, 1999	Three Months ended March 31, 1998	Nine Months ended September 30, 1998		
	Maxxcom	Colle & McVoy	Accent	Fletcher Martin	Allard	Margeotes/ Fertitta	Source	Pro Forma Adjustments	Pro Forma
	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)
Gross billings	\$159,412	\$88,631	\$37,708	\$68,611	\$20,422	\$23,355	\$5,335	\$ —	\$403,474
Direct costs	92,249	57,516	10,819	55,569	13,463	17,901	1,796	—	249,313
Gross income	67,163	31,115	26,889	13,042	6,959	5,454	3,539	—	154,161
Operating expenses	54,016	30,243	23,581	11,433	5,698	4,311	3,500	(6,339)	126,443
Operating income	13,147	872	3,308	1,609	1,261	1,143	39	6,339	27,718
Other charges									
Amortization	1,528	592	929	681	132	66	48	—	3,976
Interest	266	13	330	175	31	(36)	(32)	—	747
Minority interests	4,364	—	—	—	—	—	—	3,313	7,677
	6,158	605	1,259	856	163	30	16	3,313	12,400
Income before income taxes and goodwill charges	6,989	267	2,049	753	1,098	1,113	23	3,026	15,318
Income taxes	3,004	128	24	—	347	39	—	960	4,502
Income before goodwill charges	3,985	139	2,025	753	751	1,074	23	2,066	10,816
Goodwill charges net of income taxes	725	—	—	255	—	—	—	1,048	2,028
Net income for the period	\$ 3,260	\$ 139	\$ 2,025	\$ 498	\$ 751	\$ 1,074	\$ 23	\$ 1,018	\$ 8,788

MAXXCOM INC.

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENT

December 31, 1998

(in thousands of Canadian dollars)
(unaudited)

1. Basis of Presentation

The unaudited pro forma consolidated statement of operations has been prepared based on the audited statement of operations of Maxxcom Inc. ("Maxxcom"), Accent Marketing Services, Inc. ("Accent"), Colle & McVoy, Inc. ("Colle & McVoy") and Fletcher Martin Associates Inc. ("Fletcher Martin") for the year ended December 31, 1998, the audited statement of operations of Allard et Associés Inc. ("Allard") for the year ended January 31, 1999, the audited statement of operations of Margeotes/Fertitta + Partners, Inc. ("Margeotes/Fertitta") for the three month period ended March 31, 1998 and the unaudited statement of operations of Source Marketing Inc. ("Source") for the nine month period ended September 30, 1998 (the "Acquisitions").

The unaudited pro forma consolidated financial statement gives effect to the acquisitions of Accent, Allard, Colle & McVoy, Fletcher Martin, Margeotes/Fertitta and Source. The unaudited pro forma financial statement is provided for informational purposes only and does not purport to be indicative of the Company's results of operations which would actually have been obtained had such transactions been completed as of the date or for the period presented, or which may be obtained in the future.

The unaudited pro forma consolidated financial statement should be read in conjunction with the historical financial statements and notes thereto for the respective companies, which are included in the prospectus.

The historical statement of operations of Accent, Colle & McVoy, Fletcher Martin, Margeotes/Fertitta and Source are stated in U.S. dollars which have been translated for purposes of the pro forma statement of operations into Canadian dollars at the average foreign exchange rate of US\$1.00 = Cdn \$1.4896.

2. Pro Forma Assumption

The pro forma consolidated statement of operations for the year ended December 31, 1998 reflects the Acquisitions as if they were consummated on January 1, 1998.

3. Pro Forma Adjustments

Income statement pro form adjustments are as follows:

- (i) Decrease in operating expenses due to the discontinuance of ESOP payments and a portion of management bonuses and shareholder expenses, which are in excess of new management contract amounts.
- (ii) Recording of minority interest earnings pick-up.
- (iii) Income tax adjustment calculated at the combined individual company statutory rate.
- (iv) Incremental amortization of \$1,340, relating to goodwill arising from acquisitions, on a straight line basis over forty years, net of income taxes of \$292.

INDEPENDENT AUDITOR'S REPORT

To the Stockholders

AMS Holdings, Inc. & Subsidiaries
Louisville, Kentucky

We have audited the accompanying consolidated balance sheet of AMS Holdings, Inc. & Subsidiaries as of October 31, 1999, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the ten months then ended. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AMS Holdings, Inc. & Subsidiaries as of October 31, 1999, and the consolidated results of their operations and their cash flows for the ten months then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included on page 68 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Louisville, Kentucky
February 9, 2000

AMS HOLDINGS, INC. & SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(Stated in U.S. dollars)

October 31, 1999

ASSETS

Current Assets

Cash	\$ 1,074
Accounts receivable	5,988,403
Due from affiliates	268,271
Inventory	381,328
Other current assets	<u>145,198</u>

Total current assets align="right">6,784,274

Property and Equipment, net align="right">5,059,380

Other Assets

Cash surrender value of insurance	27,289
Other	<u>10,225</u>

37,514

\$11,881,168

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities

Accounts payable	\$ 1,848,418
Accrued liabilities	1,730,912
Deferred postage deposits	643,133
Current portion of long-term debt	586,373
Distributions payable	295,261
Current portion of capital leases	189,946
Deferred revenue	<u>15,403</u>

Total current liabilities align="right">5,309,446

Long-Term Debt, less current portion align="right">761,389

Long-Term Capital Leases, less current portion align="right">511,682

Revolving Note With Bank align="right">2,650,000

Total liabilities align="right">9,232,517

Contingencies align="right">—

Stockholders' Equity

Common stock, no par value; 2,000 shares authorized, 1,300 shares issued and outstanding	2,299
Additional paid-in capital	89,580
Retained earnings	<u>2,556,772</u>

2,648,651

\$11,881,168

See accompanying independent auditor's report and notes to consolidated financial statements.

AMS HOLDINGS, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
(Stated in U.S. dollars)

Ten months ended October 31, 1999

Revenues		
Direct marketing	\$14,234,210	44.4%
Inbound customer service	12,234,010	38.2
Service contract marketing	<u>5,574,926</u>	<u>17.4</u>
Total revenues	<u>32,043,146</u>	<u>100.0</u>
Cost of Revenues		
Direct marketing	10,825,380	33.8
Inbound customer service	5,765,449	18.0
Service contract marketing	4,428,550	13.8
Depreciation	<u>340,447</u>	<u>1.0</u>
Total cost of revenues	<u>21,359,826</u>	<u>66.6</u>
Gross margin	10,683,320	33.4
Operating Expenses	<u>8,542,732</u>	<u>26.7</u>
Operating income	<u>2,140,588</u>	<u>6.7</u>
Other Expenses		
Interest expense	257,000	.8
Other	<u>84,859</u>	<u>.3</u>
Total other expenses	<u>341,859</u>	<u>1.1</u>
Income before income taxes	1,798,729	5.6
Income Taxes	<u>45,200</u>	<u>.1</u>
Net Income	<u>\$ 1,753,529</u>	<u>5.5%</u>

See accompanying independent auditor's report and notes to consolidated financial statements.

AMS HOLDINGS, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Stated in U.S. dollars)

Ten months ended October 31, 1999

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 1998	\$2,299	\$89,580	\$1,445,017	\$1,536,896
Net income	—	—	1,753,529	1,753,529
Distributions	—	—	(641,774)	(641,774)
Balance, October 31, 1999	<u>\$2,299</u>	<u>\$89,580</u>	<u>\$2,556,772</u>	<u>\$2,648,651</u>

See accompanying independent auditor's report and notes to consolidated financial statements.

AMS HOLDINGS, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Stated in U.S. dollars)

Ten months ended October 31, 1999

Cash Flows From Operating Activities

Net income	\$ 1,753,529
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	849,153
Bad debts	5,686
Increase in cash surrender value of insurance	(14,496)
Changes in assets and liabilities:	
Accounts receivable	(2,065,636)
Inventory	(98,247)
Accounts payable	(456,412)
Deferred postage deposits	382,207
Other assets and liabilities	<u>1,297,618</u>
	<u>(100,127)</u>
Net cash provided by operating activities	1,653,402

Cash Flows From Investing Activities

Purchase of equipment	(3,230,516)
-----------------------------	-------------

Cash Flows From Financing Activities

Net proceeds from line of credit	1,350,000
Payments on long-term debt	(440,046)
Net payments on capital lease	(121,035)
Net proceeds from sale-leaseback	793,271
Distributions to stockholders	<u>(641,774)</u>
Net cash provided by financing activities	<u>940,416</u>

Net Decrease in Cash	(636,698)
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Cash, Beginning of Year	<u>637,772</u>
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Cash, End of Year	<u><u>\$ 1,074</u></u>
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See accompanying independent auditor's report and notes to consolidated financial statements.

AMS HOLDINGS, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in U.S. dollars)

October 31, 1999

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company utilizes the following significant accounting policies which are in accordance with generally accepted accounting principles in the United States and which are not materially different from generally accepted accounting principles in Canada.

Nature of Business:

AMS Holdings, Inc. & Subsidiaries, Service Net, Inc. and ACCENT Marketing Services, LLC (referred to as the Company) is a comprehensive customer management company. The Company focuses on three core product and service offerings: i) warranties and service contracts on consumer durable goods; ii) continuous direct marketing campaigns for service related industries; iii) inbound customer service programs with outbound capabilities. Its customers are located throughout the United States and are typically "Fortune 500" companies.

On October 19, 1999, ACCENT Marketing Services, Inc. legally changed its name to AMS Holdings, Inc. In addition, AMS Holdings, Inc. contributed assets of \$11,019,812 and liabilities of \$7,898,386 to a new entity, ACCENT Marketing Services, LLC, in exchange for a 99% ownership interest in the LLC (Limited Liability Company). Due to its controlling interest, the LLC has been consolidated in the Company's financial statements at October 31, 1999.

Principals of Consolidation:

The consolidated financial statements include the accounts of AMS Holdings, Inc., its wholly-owned subsidiary Service Net, Inc. and ACCENT Marketing Services, LLC. All significant intercompany transactions and accounts have been eliminated in consolidation.

Cash and Equivalents:

For purposes of the statement of cash flows the Company considers highly liquid investments with a maturity of three months or less to be cash equivalents. Cash paid for interest for the ten months ended October 31, 1999 is not materially different from that reported on the statements of income.

Accounts Receivable:

The Company believes all receivables are fully collectable at October 31, 1999, thus no allowance for doubtful accounts has been established.

Inventory:

Inventory primarily consists of envelopes and brochures and is priced at average cost and is held in print shop warehouses throughout the United States.

Property and Equipment:

Property and equipment is stated at cost, less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives (5 to 7 years) of the respective assets.

Deferred Postage Deposits:

The Company holds deposits for postage on drop mailings of brochures and envelopes. Any funds received that correspond to mailings that haven't occurred are unearned and are not recognized as revenue until the period in which the services are provided.

Income Taxes:

AMS Holdings, Inc. and Service Net, Inc. have elected S Corporation status and ACCENT Marketing Services, LLC is a Limited Liability Company, whereby all taxable income flows through directly to the stockholders and members. As a result, no federal income tax expense has been accrued in the accompanying financial statements. Income tax expense represents the taxation of income by local authorities which do not recognize the S Corporation election or LLC status, and state composite tax paid on behalf of the stockholders and members. Cash paid for income taxes amounted to approximately \$32,000 for the ten months ended October 31, 1999.

Revenue Recognition:

Revenues from marketing services are recognized during the period in which the related services are provided.

Use of Estimates:

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

NOTE B — PROPERTY AND EQUIPMENT

Property and equipment at October 31, 1999 consists of the following:

Equipment	\$4,973,046
Furniture and fixtures	1,043,651
Leasehold improvements	<u>1,233,258</u>
	7,249,955
Less accumulated depreciation	<u>(2,190,575)</u>
	<u>\$5,059,380</u>

Depreciation and amortization expense approximated \$849,000 for the ten months ended October 31, 1999.

NOTE C — DEBT

Long-term debt at October 31, 1999 consists of the following:

Term note payable to bank, due July 2001, due in monthly installments including interest at 8.92%, secured by certain equipment	\$ 482,479
Term note payable to bank, due in monthly installments including interest at 8.70% through June 2002, secured by certain equipment and inventory	<u>865,283</u>
	1,347,762
Less current portion	<u>586,373</u>
	<u>\$ 761,389</u>

As of October 31, 1999, repayment of debt is as follows:

2000	\$ 586,373
2001	551,624
2002	<u>209,765</u>
	<u>\$1,347,762</u>

Under a revolving loan agreement with a bank, formally a line of credit, the Company may borrow up to \$4,350,000 with the entire amount due on May 1, 2002. Interest is payable monthly at the prime rate of 8.25% at October 31, 1999. The loan is collateralized by accounts receivable and inventory of the Company and a personal guarantee by a stockholder of the Company. The revolver is subject to extension annually on May 1 at the bank's discretion. The outstanding balance on the revolver was \$2,650,000 at October 31, 1999.

Certain obligations require restrictive covenants, including financial ratios and other restrictions. The Company is in compliance with the covenants for the ten months ended October 31, 1999.

NOTE D — RETIREMENT PLAN

The Company sponsors a retirement plan that covers substantially all employees and contains a deferred-salary arrangement under IRC Section 401(k). Under the deferred-salary arrangement, employees can contribute up to 15% of their earnings. Company contributions to the Plan are made at the discretion of the Board of Directors. Contributions accrued to the Plan and charged to operations amounted to approximately \$30,000 for the ten months ended October 31, 1999.

The Company has a profit sharing component as part of the deferred salary arrangement. At October 31, 1999, the Company accrued a profit sharing contribution in the amount of \$50,000. This amount is included in accrued expenses on the consolidated balance sheet.

NOTE E — RELATED PARTY TRANSACTIONS

The Company used an affiliated (through common ownership) limited liability company, as a broker for its marketing efforts of extended warranty contracts at a commission based upon the current market rate. Approximately \$666,900 was charged to cost of revenues for the ten months ended October 31, 1999. A payable in the amount of approximately \$84,600 is included in accounts payable for broker services at October 31, 1999.

The Company used an affiliated (through common ownership) corporation as the administrator of its extended warranty contracts efforts. The amount charged to expense as commissions and administrative cost approximated \$306,200 for the ten months ended October 31, 1999. A receivable of approximately \$268,300 is included in current assets for administration services at October 31, 1999.

NOTE F — CONCENTRATIONS

The Company had two customers that accounted for approximately 58% of total revenues for the ten months ended October 31, 1999.

The Company maintains its cash balances in financial institutions, located in Louisville, Kentucky and Kansas City, Missouri. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per bank. At October 31, 1999, excluding outstanding items, the Company's uninsured cash balances totaled approximately \$773,000.

NOTE G — DEFERRED REVENUE

The Company markets extended warranty contracts. Revenue received for this service is recorded as deferred until the contract is formed between a third party and the warranty holder. Revenue is recognized when the contract is complete.

NOTE H — CONTINGENCIES

The Company maintains letters of credit with a bank totaling \$450,000 to extend the terms of operating leases. The personal guarantee of a stockholder of the Company is used as collateral. At October 31, 1999, there were no outstanding balances on the letters of credit.

NOTE I — LEASES

The Company sold certain assets for approximately \$780,000 during 1999. The assets were leased back from the purchaser over a period of four years. This transaction is being accounted for as a financing arrangement and the resulting gain of approximately \$29,500 is being amortized over the four-year lease term.

The Company leases offices, vehicles, and equipment under various leases expiring through July 2004.

Future scheduled minimum lease payments under capital and noncancelable operating leases as of October 31, 1999, are as follows:

	<u>Operating</u>	<u>Capital</u>
2000.....	\$ 778,000	\$ 235,955
2001.....	638,710	235,955
2002.....	439,280	235,955
2003.....	198,254	83,038
2004 and thereafter	36,435	6,312
Total minimum lease payments	<u>\$2,090,679</u>	<u>797,215</u>
Imputed interest		(95,587)
Present value of capitalized lease payments		701,628
Less current portion		<u>(189,946)</u>
Long-term capitalized lease obligations		<u>\$ 511,682</u>

Total lease expense amounted to \$819,850 for the ten months ended October 31, 1999.

Fixed assets under capital leases as of October 31, 1999, are as follows:

Equipment	\$482,266
Furniture and fixtures	133,342
Leasehold improvements	<u>164,975</u>
	780,583
Less accumulated amortization	<u>(97,387)</u>
	<u>\$683,196</u>

NOTE J — SUBSEQUENT EVENT

As of November 1, 1999, the Company sold 50.1% of the total membership of ACCENT Marketing Services, LLC to an unrelated party for \$10,000,000 in cash plus additional contingent consideration as defined in the purchase agreement.

AMS HOLDINGS, INC. & SUBSIDIARIES

SCHEDULE OF CONSOLIDATED OPERATING EXPENSES

(Stated in U.S. dollars)

Ten months ended October 31, 1999

Operating Expenses	
Wages	\$4,377,917
Leases	819,850
Payroll taxes	637,678
Utilities	509,201
Depreciation and amortization	508,706
Employee benefits	435,078
Operating expenses	292,411
Taxes and licenses	173,877
Travel	172,761
Office supplies	167,990
Professional services	112,597
Employee incentives	109,018
Maintenance and repairs	103,686
Insurance	63,011
Meals and entertainment	53,265
Bad debts	5,686
	<u>\$8,542,732</u>

See accompanying independent auditor's report

INDEPENDENT AUDITOR'S REPORT

To the Stockholders

ACCENT MARKETING SERVICES, INC. & SUBSIDIARY
Louisville, Kentucky

We have audited the accompanying consolidated balance sheets of ACCENT Marketing Services, Inc. & Subsidiary (S Corporations) as of December 31, 1998 and 1997, and the related consolidated statements of income, consolidated changes in stockholders' equity, and consolidated cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ACCENT Marketing Services, Inc. & Subsidiary as of December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included on page 77 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Louisville, Kentucky
January 29, 1999
(except for Note J, as to
which the date is November 12, 1999)

ACCENT MARKETING SERVICES, INC. & SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Stated in U.S. dollars)

	December 31,	
	1998	1997
ASSETS		
Current Assets		
Cash	\$ 637,772	\$ 12,267
Accounts receivable	3,928,453	2,328,408
Due from stockholders	—	6,594
Inventory	283,081	199,907
Other current assets	<u>239,452</u>	<u>131,566</u>
Total current assets	<u>5,088,758</u>	<u>2,678,742</u>
Property and Equipment, net	<u>2,648,625</u>	<u>1,667,102</u>
Other Assets		
Cash surrender value of insurance	12,793	—
Other	<u>10,226</u>	<u>10,424</u>
	<u>23,019</u>	<u>10,424</u>
	<u><u>\$7,760,402</u></u>	<u><u>\$4,356,268</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Checks written in excess of bank balances	\$ —	\$ 156,669
Accounts payable	2,304,830	581,551
Line of credit	—	350,000
Postage	260,926	467,634
Current portion of long-term debt	564,627	313,828
Accrued liabilities	518,426	364,100
Deferred revenue	<u>51,516</u>	<u>147,071</u>
Total current liabilities	3,700,325	2,380,853
Long-Term Debt , less current portion	1,223,181	998,258
Revolving Note With Bank	<u>1,300,000</u>	<u>—</u>
Total liabilities	6,223,506	3,379,111
Contingencies	—	—
Stockholders' Equity		
Common stock, no par value; 2,000 shares authorized, 1,300 shares issued and outstanding	2,299	2,299
Additional paid-in capital	89,580	89,580
Retained earnings	<u>1,445,017</u>	<u>885,278</u>
	<u>1,536,896</u>	<u>977,157</u>
	<u><u>\$7,760,402</u></u>	<u><u>\$4,356,268</u></u>

See accompanying accountant's review report and notes to consolidated financial statements.

ACCENT MARKETING SERVICES, INC. & SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Stated in U.S. dollars)

	Year ended December 31,			
	1998	Percent	1997	Percent
Revenues				
Direct marketing	\$18,026,682	61.15%	\$13,446,296	68.89%
Inbound customer service	7,287,633	24.72	4,057,119	20.79
Service contract marketing	4,163,946	14.13	2,014,055	10.32
Total revenues	<u>29,478,261</u>	<u>100.00</u>	<u>19,517,470</u>	<u>100.00</u>
Cost of Revenues				
Direct marketing	13,655,325	46.32	9,888,611	50.66
Inbound customer service	3,334,813	11.31	1,835,368	9.40
Service contracts	3,417,949	11.59	1,621,160	8.31
Depreciation	343,418	1.16	298,206	1.53
Total cost of revenues	<u>20,751,505</u>	<u>70.40</u>	<u>13,643,345</u>	<u>69.90</u>
Gross margin	<u>8,726,756</u>	<u>29.60</u>	<u>5,874,125</u>	<u>30.10</u>
Operating Expenses	<u>7,309,785</u>	<u>24.80</u>	<u>4,948,649</u>	<u>25.35</u>
Operating income	<u>1,416,971</u>	<u>4.81</u>	<u>925,476</u>	<u>4.74</u>
Other Income (Expense)				
Loss on disposal of equipment	—	—	(168,944)	(.87)
Interest expense	(224,413)	(.76)	(114,107)	(.58)
Interest income	1,772	.01	3,621	.02
Other	1,111	—	17,876	.09
Total other expense	<u>(221,530)</u>	<u>(.75)</u>	<u>(261,554)</u>	<u>(1.34)</u>
Income before income taxes	<u>1,195,441</u>	<u>4.06</u>	<u>663,922</u>	<u>3.4</u>
Income Taxes	<u>15,802</u>	<u>.05</u>	<u>26,395</u>	<u>.14</u>
Net Income	<u>\$ 1,179,639</u>	<u>4.00%</u>	<u>\$ 637,527</u>	<u>3.27%</u>

See accompanying independent auditor's report and notes to consolidated financial statements.

ACCENT MARKETING SERVICES, INC. & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended December 31, 1998 and 1997

(Stated in U.S. dollars)

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 1996	\$2,299	\$89,567	\$ 474,449	\$ 566,315
Net income	—	—	637,527	637,527
Additional paid-in capital	—	13	—	13
Distributions to pay income tax liabilities	—	—	(226,698)	(226,698)
Balance, December 31, 1997	2,299	89,580	885,278	977,157
Net income	—	—	1,179,639	1,179,639
Distributions	—	—	(619,900)	(619,900)
Balance, December 31, 1998	<u>2,299</u>	<u>\$89,580</u>	<u>\$1,445,017</u>	<u>\$1,536,896</u>

See accompanying independent auditor's report and notes to consolidated financial statements.

ACCENT MARKETING SERVICES, INC. & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in U.S. dollars)

	Year ended December 31,	
	1998	1997
Cash Flows From Operating Activities		
Net income.....	\$ 1,179,639	\$ 637,527
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	628,093	421,249
Loss on disposal of property	—	168,944
Reserve for doubtful accounts	(16,342)	16,342
Increase in cash surrender value	(12,793)	—
Changes in assets and liabilities		
Accounts receivable.....	(1,583,703)	(850,170)
Inventory.....	(83,174)	119,158
Accounts payable.....	1,723,279	54,087
Deposits	(302,263)	43,990
Other assets and liabilities	46,638	126,727
	<u>399,735</u>	<u>100,327</u>
Net cash provided by operating activities	1,579,374	737,854
Cash Flows From Investing Activities		
Purchase of equipment	(1,609,616)	(1,240,920)
Proceeds from certificate of deposit.....	—	50,000
Net cash used by investing activities	(1,609,616)	(1,190,920)
Cash Flows From Financing Activities		
Net proceeds (payments) from line of credit	950,000	(284,282)
Proceeds from long-term debt	1,258,593	1,400,000
Payments on long-term debt	(782,871)	(536,253)
Payments on capital lease	—	(85,707)
Checks written in excess of bank balance	(156,669)	156,669
Distributions to stockholders	(619,900)	(226,698)
Stockholder loans.....	6,594	—
Additional paid-in capital	—	13
Net cash provided by financing activities	655,747	423,742
Net Increase (Decrease) in Cash	625,505	(29,324)
Cash, Beginning of Year	12,267	41,591
Cash, End of Year	<u>\$ 637,772</u>	<u>\$ 12,267</u>

See accompanying independent auditor's report and notes to consolidated financial statements.

ACCENT MARKETING SERVICES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998 and 1997

(Stated in U.S. dollars)

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company follows the following significant accounting policies which are in accordance with generally accepted accounting principles in the United States and which are not materially different from generally accepted accounting principles in Canada.

Nature of Business: ACCENT Marketing Services, Inc. & Subsidiary, Service Net, Inc. (referred to as the Company) is a comprehensive customer management company. The Company focuses on three core product and service offerings: i) warranties and service contracts on consumer durable goods; ii) continuous direct marketing campaigns for service related industries; iii) inbound customer service programs with outbound capabilities. Its customers are located throughout the United States and are typically "Fortune 500" companies.

Principals of Consolidation: The consolidated financial statements include the accounts of ACCENT Marketing Services, Inc. and its wholly-owned subsidiary Service Net, Inc. All significant intercompany transactions and accounts have been eliminated in consolidation.

Cash and Equivalents: For purposes of the statement of cash flows, the Company considers highly liquid investments with a maturity of three months or less to be cash equivalents. Cash paid for interest for the years ending December 31, 1998 and 1997, is not materially different from that reported on the statements of income.

Accounts Receivable: The Company believes all receivables are fully collectable at December 31, 1998, thus no allowance for doubtful accounts has been established. However, during 1997, the company had established a reserve for a specific customer, in the amount of \$16,342, which was reversed in 1998.

Inventory: Inventory primarily consists of envelopes and brochures and is priced at average cost and is held in print shop warehouses throughout the United States.

Property and Equipment: Property and equipment is stated at cost, less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives (5 to 7 years) of the respective assets.

Postage Deposits: The Company holds deposits for postage on drop mailings of brochures and envelopes. Any funds received that correspond to mailings that haven't occurred are unearned and are not recognized as revenue until the period in which the services are provided.

Income Taxes: The Company has elected S Corporation status whereby all taxable income flows through directly to the stockholders. No federal income tax expense has been accrued in the accompanying financial statements due to this election. Income tax expense represents the taxation of income by local authorities which do not recognize the S Corporation election, and state composite tax, paid on behalf of the shareholders. At December 31, 1998 and 1997, the Company has \$11,400 and \$500, respectively included in accrued liabilities for income taxes due.

Revenue Recognition: Revenues from marketing services are recognized during the period in which the related services are provided.

Use of Estimates: Preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those reported.

Reclassification: Certain reclassifications have been made to the 1997 financial statements to conform with 1998 presentation.

NOTE B — PROPERTY AND EQUIPMENT

Property and equipment at December 31, 1998 and 1997, consists of the following:

	<u>1998</u>	<u>1997</u>
Equipment	\$2,862,773	\$1,780,756
Furniture and fixtures	664,250	392,763
Leasehold improvements	486,295	225,181
	<u>4,013,318</u>	<u>2,398,700</u>
Less accumulated depreciation	<u>(1,364,693)</u>	<u>(731,598)</u>
	<u>\$2,648,625</u>	<u>\$1,667,102</u>

NOTE C — DEBT

Long-term debt at December 31, 1998 and 1997, consists of the following:

	<u>1998</u>	<u>1997</u>
Term note payable to bank, due December 2001, due in monthly installments including interest at 8.95%, secured by property and equipment	\$ —	\$ 400,000
Term note payable to bank, due July 2001, due in monthly installments including interest at 8.92%, secured by certain equipment	686,538	912,086
Term note payable, due in monthly installments including interest at 8.70% through June 2002, secured by certain equipment and inventory	<u>1,101,270</u>	<u>—</u>
	1,787,808	1,312,086
Less current portion	<u>(564,627)</u>	<u>(313,828)</u>
	<u>\$1,223,181</u>	<u>\$ 998,258</u>

As of December 31, 1998, repayment of debt is as follows:

1999	\$ 564,627
2000	585,638
2001	480,120
2002	<u>157,423</u>
	<u>\$1,787,808</u>

Under a revolving loan agreement with a bank, formally a line of credit, the Company may borrow up to \$1,600,000 with the entire amount due on May 1, 2001. Interest is payable monthly at prime plus .75% (effective rate of 9.0% and 9.25% at December 31, 1998 and 1997, respectively). The loan is collateralized by accounts receivable and inventory of the Company and a personal guarantee by a stockholder of the Company. The revolver is subject to extension annually on May 1 at the bank's discretion. The outstanding balance on the revolver was \$1,300,000 at December 31, 1998. At December 31, 1997, \$350,000 was due under the line of credit agreement.

Certain obligations require restrictive covenants, including financial ratios and other restrictions. The Company is in compliance with the covenants for 1998 and 1997.

NOTE D — RETIREMENT PLAN

The Company sponsors a retirement plan that covers substantially all employees and contains a deferred-salary arrangement under IRC Section 401(k). Under the deferred-salary arrangement, employees can contribute up to 15% of their earnings. Company contributions to the Plan are made at the discretion of the Board of Directors. Contributions accrued to the Plan and charged to operations amounted to approximately \$43,000 and \$28,000 for the years ended December 31, 1998 and 1997, respectively.

The Company has a profit sharing plan as part of the deferred salary arrangement. At December 31, 1998 and 1997, the Company accrued a profit sharing contribution in the amount of \$386,000 and \$103,000, respectively. This amount is included in accrued expenses on the consolidated balance sheet.

NOTE E — RELATED PARTY TRANSACTIONS

The Company used an affiliated (through common ownership) limited liability company, as a broker for its marketing efforts of extended warranty contracts at a commission based upon the current market rate. Approximately \$503,000 and \$253,000 was charged to cost of revenues for December 31, 1998 and 1997, respectively. A payable in the amount of approximately \$48,000 and \$30,000 is included in accounts payable for broker services at December 31, 1998 and 1997, respectively.

The Company used an affiliated (through common ownership) corporation as the administrator of its extended warranty contracts efforts. The amount charged to expense as commissions and administrative cost approximated \$230,000 at December 31, 1998.

NOTE F — CONCENTRATIONS

The Company had two customers that accounted for approximately 44% of total revenues for the year ended December 31, 1998.

The Company maintains its cash balances in financial institutions, located in Louisville, Kentucky and Kansas City, Missouri. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per bank. At December 31, 1998, excluding outstanding items, the Company's uninsured cash balances totaled approximately \$814,000.

NOTE G — DEFERRED REVENUE

The Company markets extended warranty contracts. Revenue received for this service is recorded as deferred until the contract is formed between a third party and the warranty holder. Revenue is recognized when the contract is complete.

NOTE H — CONTINGENCIES

The Company maintains letters of credit that total \$425,000 with a bank to extend the terms of operating leases. The personal guarantee of a stockholder of the Company is used as collateral. At December 31, 1998, there were no outstanding balances on the letter of credit.

NOTE I — OPERATING LEASES

The Company has entered into noncancelable operating leases for automobiles, office equipment, furniture and fixtures, and office space, expiring on various dates through 2002.

The following is a schedule of future minimum rental payments required under the operating leases:

1999.....	\$ 676,269
2000.....	534,597
2001.....	326,795
2002.....	<u>61,055</u>
	<u>\$1,598,716</u>

Total lease expense amounted to approximately \$802,000 and \$732,000 for the years ended December 31, 1998 and 1997, respectively.

NOTE J — RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated financial statements for the 1998 and 1997 presentation compared to previously issued consolidated financial statements. These reclassifications primarily include changes in the revenues and cost of revenues sections of the consolidated statement of income. Management believes that the classification of direct marketing should include all direct marketing activity, including the activity related to service contract marketing. As such, the direct marketing portion of service contract marketing revenue, and the related costs of revenues have been reclassified to direct marketing for December 31, 1998 and 1997.

ACCENT MARKETING SERVICES, INC. & SUBSIDIARY
SCHEDULES OF CONSOLIDATED OPERATING EXPENSES
(Stated in U.S. dollars)

	<u>Year ended December 31,</u>	
	<u>1998</u>	<u>1997</u>
Operating Expenses		
Wages	\$3,518,233	\$2,558,375
Leases	802,724	732,392
Utilities	450,427	332,458
Employee benefits	386,364	210,083
Payroll taxes	369,189	217,886
Depreciation and amortization	287,867	123,043
Bad debts	247,860	126,615
Office supplies	212,459	154,009
Operating expenses	211,490	100,897
Professional services	159,154	77,480
Employee incentives	157,607	98,823
Travel	149,050	66,842
Taxes and licenses	106,531	71,180
Insurance	103,399	31,779
Maintenance and repairs	94,309	36,124
Meals and entertainment	53,122	10,663
	<u>\$7,309,785</u>	<u>\$4,948,649</u>

See accompanying independent auditor's report.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Allard et Associés Inc. as at January 31, 1999, 1998 and 1997, and the consolidated statements of earnings, retained earnings, contributed surplus and cash flows for each of the years in the three-year period ended January 31, 1999. 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 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 January 31, 1999, 1998 and 1997 and the results of its operations and its cash flows for each of the years in the three-year period ended January 31, 1999 in accordance with generally accepted accounting principles.

Chartered Accountants

Montréal, Canada
April 21, 1999

ALLARD ET ASSOCIÉS INC.
CONSOLIDATED BALANCE SHEETS

	September 30,		January 31,		
	1999	1998	1999	1998	1997
	(Unaudited)				
Assets					
Current assets:					
Cash	\$ 955,263	\$1,558,620	\$ 177,645	\$ 610,424	\$1,384,007
Temporary Investment	—	1,000,000	1,750,000	—	—
Accounts receivable (note 2)	3,957,491	1,974,818	3,207,709	3,894,344	3,117,003
Work in process	822,333	658,302	137,822	113,887	753,762
Prepaid expenses	56,333	25,206	70,431	11,205	52,646
	5,791,420	4,216,946	5,343,607	4,629,860	5,307,418
Capital assets (note 3)	445,291	316,399	403,559	310,242	331,012
Deferred income taxes	14,867	26,892	14,867	26,892	—
Goodwill	31,683	36,467	34,883	39,669	49,600
	<u>\$6,283,261</u>	<u>\$4,596,704</u>	<u>\$5,796,916</u>	<u>\$5,006,663</u>	<u>\$5,688,030</u>
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable and accrued charges	\$3,767,358	\$2,509,235	\$3,734,412	\$3,390,062	\$3,651,956
Income taxes	182,162	105,059	104,457	64,959	7,483
Short-term portion of long-term debt (note 4)	67,950	101,775	157,526	205,725	84,825
	4,017,470	2,716,069	3,996,395	3,660,746	3,744,264
Deferred income taxes	—	—	—	—	12,556
Long-term debt (note 4)	67,950	259,301	101,775	262,301	221,205
Shareholders' equity:					
Share capital (note 5)	469,001	709,369	715,702	729,434	618,495
Contributed surplus	305,424	305,424	305,424	305,424	305,424
Retained earnings	1,423,416	606,541	677,620	48,758	786,086
	2,197,841	1,621,334	1,698,746	1,083,616	1,710,005
Commitments (note 7)					
	<u>\$6,283,261</u>	<u>\$4,596,704</u>	<u>\$5,796,916</u>	<u>\$5,006,663</u>	<u>\$5,688,030</u>

See accompanying notes to consolidated financial statements.

ALLARD ET ASSOCIÉS INC.

CONSOLIDATED STATEMENTS OF EARNINGS

	September 30,		January 31,		
	1999	1998	1999	1998	1997
	(Unaudited)				
	(8 months)				
Gross billing	\$14,591,796	\$12,205,467	\$20,421,776	\$20,749,066	\$23,554,485
Direct costs	<u>9,847,969</u>	<u>8,167,409</u>	<u>13,765,831</u>	<u>14,930,887</u>	<u>16,788,586</u>
Commissions and fees	4,743,827	4,038,058	6,655,945	5,818,179	6,765,899
Other revenues	<u>135,432</u>	<u>203,897</u>	<u>303,160</u>	<u>180,577</u>	<u>244,861</u>
	4,879,259	4,241,955	6,959,105	5,998,756	7,010,760
Operating charges:					
Salaries, fees and benefits	2,683,269	2,375,216	4,389,017	3,846,867	4,743,580
Administration	657,338	588,406	1,008,180	925,147	1,246,616
Communication and representation	301,116	211,190	432,456	444,862	580,414
Financial	<u>4,670</u>	<u>7,953</u>	<u>30,793</u>	<u>20,230</u>	<u>34,334</u>
	<u>3,646,393</u>	<u>3,182,765</u>	<u>5,860,446</u>	<u>5,237,106</u>	<u>6,604,944</u>
Earnings before income taxes	1,232,866	1,059,190	1,098,659	761,650	405,816
Income taxes (note 8):					
Current	445,000	389,267	334,697	258,500	161,027
Deferred	<u>—</u>	<u>—</u>	<u>12,025</u>	<u>(22,975)</u>	<u>(90,395)</u>
	445,000	389,267	346,722	235,525	70,632
Net earnings	<u>\$ 787,866</u>	<u>\$ 669,923</u>	<u>\$ 751,937</u>	<u>\$ 526,125</u>	<u>\$ 335,184</u>

See accompanying notes to consolidated financial statements.

ALLARD ET ASSOCIÉS INC.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	September 30,		January 31,		
	1999	1998	1999	1998	1997
	(Unaudited) (8 months)				
Retained earnings, beginning of year	\$ 677,620	\$ 48,758	\$ 48,758	\$ 786,086	\$ 731,772
Net earnings	787,866	669,923	751,937	526,125	335,184
Dividends	(14,745)	(19,395)	(19,395)	—	(30,403)
Refundable taxes	—	—	—	—	1,311
Excess of redemption amount over book value of shares	(27,325)	(92,745)	(103,680)	(1,194,263)	(251,778)
Amalgamation charges, net of income taxes of \$21,000	—	—	—	(69,190)	—
Retained earnings, end of year	<u>\$1,423,416</u>	<u>\$606,541</u>	<u>\$ 677,620</u>	<u>\$ 48,758</u>	<u>\$ 786,086</u>

See accompanying notes to consolidated financial statements.

ALLARD ET ASSOCIÉS INC.

CONSOLIDATED STATEMENTS OF CONTRIBUTED SURPLUS

	September 30,		January 31,		
	1999	1998	1999	1998	1997
	(Unaudited) (8 months)				
Balance, beginning of year	\$305,424	\$305,424	\$305,424	305,424	—
Contributed surplus from disposal of investment to a related party	—	—	—	—	305,424
Balance, end of year	<u>\$305,424</u>	<u>\$305,424</u>	<u>\$305,424</u>	<u>\$305,424</u>	<u>\$305,424</u>

See accompanying notes to consolidated financial statements.

ALLARD ET ASSOCIÉS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	September 30,		January 31,		
	1999	1998	1999	1998	1997
	(Unaudited) (8 months)				
Cash flows from operating activities:					
Net income.....	\$ 787,866	\$ 669,923	\$ 751,937	\$ 526,125	\$ 335,184
Items not affecting cash:					
Depreciation of capital assets	99,360	93,031	127,166	130,758	213,371
Amortization of goodwill	3,200	3,202	4,786	4,785	8,159
Gain on disposal of investment	—	—	—	—	(8,200)
Deferred income taxes	—	—	12,025	(18,448)	(90,395)
Other.....	—	—	—	(12,546)	126
Net changes in non-cash working capital items (note 9)	(1,309,544)	520,383	987,322	(300,443)	(66,002)
	(419,118)	1,286,539	1,883,236	330,231	392,243
Cash flows from financing activities:					
Increase in long-term debt	—	—	—	951,353	169,125
Long-term debt reimbursement	(123,401)	(106,950)	(208,725)	(789,357)	(223,344)
Class A and E shares redemption	(274,026)	(194,345)	(208,147)	(1,406,572)	(395,968)
Issue of Class A shares.....	—	81,535	90,735	323,248	—
Amalgamation charges	—	—	—	(90,190)	—
Dividends paid	(14,745)	(19,395)	(19,395)	—	(30,403)
Refundable taxes received	—	—	—	—	6,745
Refundable taxes paid	—	—	—	—	(5,434)
	(412,172)	(239,155)	(345,532)	(1,011,518)	(479,279)
Cash flows from investing activities:					
Proceeds on disposal of capital assets ..	—	—	16,249	—	2,122
Capital asset purchases	(141,092)	(99,188)	(236,732)	(92,296)	(34,868)
Proceeds on disposal of temporary investment	—	—	—	—	199,500
Proceeds on disposal of investment	—	—	—	—	443,083
Increases in advances and notes receivable from common control companies	—	—	—	—	(442,704)
	(141,092)	(99,188)	(220,483)	(92,296)	167,133
Increase (decrease) in cash and temporary investment	(972,382)	948,196	1,317,221	(773,583)	80,097
Cash and temporary investment, beginning of year	1,927,645	610,424	610,424	1,384,007	1,303,910
Cash and temporary investment, end of year	<u>\$ 955,263</u>	<u>\$ 1,558,620</u>	<u>\$ 1,927,645</u>	<u>\$ 610,424</u>	<u>\$ 1,384,007</u>

See notes to consolidated financial statements.

ALLARD ET ASSOCIÉS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended January 31, 1999, 1998 and 1997

(Information as at September 30, 1999 and 1998 and for the eight-month period then ended is unaudited.)

The Company was incorporated February 7, 1997 under Part IA of the Québec Corporations Act and operates a publicity agency and a graphic arts studio.

1. Accounting policies:

(a) Basis of presentation:

On February 7, 1997, Natcom Publicité-Promotion Inc. (Natcom), operating in the communications sector, and 9001-1800 Québec Inc. (9001), operating a publicity agency and a graphic arts studio, concluded an amalgamation agreement (the agreement) to form the new company Allard et Associés inc. (Allard).

Immediately prior to amalgamation, the book value of each of the companies was as follows:

	<u>Natcom</u>	<u>9001</u>
Assets	\$2,721,778	\$3,205,334
Liabilities	<u>1,709,005</u>	<u>2,508,102</u>
Shareholders' equity	<u>\$1,012,773</u>	<u>\$ 697,232</u>

As specified in the agreement:

- i) Shareholders of the 2,000 Class A shares of Natcom received 84,880 Class A shares of Allard;
- ii) Shareholders of the 11,206 Class B shares of Natcom received 36,619 Class A shares of Allard;
- iii) Shareholders of the 2 Class F shares of Natcom received 1 Class A share of Allard;
- iv) Shareholders of the 60,590 Class G shares of Natcom received 551,275 Class A shares of Allard;
- v) Shareholders of the 672,775 Class A shares of 9001 received 672,775 Class A shares of Allard;
- vi) Shareholders of the 38,695 Class D shares of 9001 received 38,695 Class A shares of Allard.

Following the amalgamation, shareholders of the shares of Natcom held 50% of the voting shares of Allard and shareholders of the shares of 9001 held 50% of the voting shares of Allard.

The amalgamation of the two companies was accounted for as a pooling of interest and accordingly, comparative figures for the prior year include the accounts of the two amalgamated companies as if the transaction had occurred at the beginning of the year.

Amalgamation charges, amounting to \$69,190, net of related deferred income taxes of \$21,000, were recorded as a reduction of retained earnings.

(b) Consolidation:

Consolidated financial statements include the Company's accounts and those of its wholly-owned subsidiary.

(c) Revenue recognition:

Revenue from advertising and related services is composed of commissions and fees derived from billings to clients for media and production activities.

Revenue from media placements are recognized on publication date. Revenues from publicity productions are recognized once the contract is completed. Work in process related to these two types of revenues is recorded at cost. Fees are recorded at a billing rate according to the percentage of completion method. Anticipated losses on work in process are recorded in the year they become known.

(d) Capital assets:

Capital assets are recorded at cost and presented in the statements, net of related accumulated depreciation and related deferred credits. The Company provides for depreciation based on estimated useful life using the straight-line method (except for furniture and office equipment, which are amortized using the decreasing balance method) at the following annual rates:

<u>Asset</u>	<u>Rate/period</u>
Computer equipment	4 years
Furniture and office equipment	20%
Leasehold improvements and related deferred credits	Term of lease

(a) Goodwill:

Goodwill is recorded at cost and is amortized using the straight-line method over a ten-year period.

On an ongoing basis, management reviews the valuation and amortization of goodwill, taking into consideration any events and circumstances which might have impaired the fair value. Goodwill is written down to fair value when declines in value are considered to be other than temporary based upon expected cash flows.

2. Accounts receivable:

	September 30,		January 31,		
	1999	1998	1999	1998	1997
	(Unaudited)				
Accounts receivable from clients	\$3,937,138	\$1,928,961	\$3,188,109	\$3,800,112	\$2,073,728
Companies under common control	—	—	—	—	739,947
Advances to an employee for the purchase of shares bearing no interest	—	—	9,200	89,000	—
Other	20,353	45,857	10,400	5,232	303,328
	<u>\$3,957,491</u>	<u>\$1,974,818</u>	<u>\$3,207,709</u>	<u>\$3,894,344</u>	<u>\$3,117,003</u>

3. Capital assets:

	September 30,		January 31,		
	Cost	Accumulated depreciation	1999	1998	1997
	(Unaudited)				
Computer equipment	\$344,027	\$ 96,720	\$247,307	\$171,470	
Furniture and office equipment	618,982	420,998	197,984	144,929	
	<u>\$963,009</u>	<u>\$517,718</u>	<u>\$445,291</u>	<u>\$316,399</u>	
	Cost	Accumulated depreciation	1999	1998	1997
Computer equipment	\$1,031,138	\$ 769,425	\$261,713	\$187,043	\$ 199,904
Furniture and office equipment	781,599	639,753	141,846	123,199	148,800
Leasehold improvements	—	—	—	—	208,520
Deferred credits	—	—	—	—	(226,212)
	<u>\$1,812,737</u>	<u>\$1,409,178</u>	<u>\$403,559</u>	<u>\$310,242</u>	<u>\$ 331,012</u>

4. Long-term debt:

	September 30,		January 31,		
	1999	1998	1999	1998	1997
	(Unaudited)				
Note payable bearing interest at bank prime rate, repayable in annual payments of \$33,825, maturing in January 2001	\$ —	\$101,475	\$ 67,650	\$101,475	\$135,300
Loan bearing interest at bank prime rate, secured by computer equipment, repayable in monthly payments of \$3,000 in principal, maturing in February 1999	—	—	—	39,000	75,000
Note payable to a former shareholder on redemption of Class A shares, bearing interest at bank prime rate, repayable in a payment of \$67,950 in February 1998 and three equal annual payments of \$67,950 starting January 31, 1999	135,900	203,850	135,900	271,800	—
Notes payable to shareholders, bearing no interest, repayable on or before March 31, 1999	—	55,751	55,751	55,751	80,730
Loan bearing interest at bank prime rate, secured by equipment, repayable in monthly payments of \$1,250	—	—	—	—	15,000
	135,900	361,076	259,301	468,026	306,030
Short-term portion	67,950	101,775	157,526	205,725	84,825
	<u>\$ 67,950</u>	<u>\$259,301</u>	<u>\$101,775</u>	<u>\$262,301</u>	<u>\$221,205</u>

Principal payments on long-term debt over the next two years are as follows:

Year ending January 31:

2000	\$ 67,950
2001	67,950

5. Share capital:

Authorized:

An unlimited number of Class A shares without par value, voting, participating

An unlimited number of Class B shares without par value, non-voting, non-participating, cumulative dividend of 6% on redemption price, having priority over Class E shares, redeemable or retractable at a price determined at amalgamation

An unlimited number of Class C shares, voting, non-participating, cumulative dividend of ½ of 1% on redemption price, redeemable or retractable at a price determined at amalgamation

63,500 Class D shares, without par value, non-voting, no dividend, redeemable at \$1.92 per share, with a priority over other classes of shares of \$1.92 per share in case of dissolution or liquidation.

An unlimited number of Class E shares, without par value, non-voting, non-participating, cumulative dividend of 6% on redemption price, redeemable or retractable at par value in annual portions of 25% of the number of shares held by the shareholder, starting at the first anniversary date of the issue of shares

	September 30,		January 31,		
	1999	1998	1999	1998	1997
	(Unaudited)				
Issued and paid:					
989,785 Class A shares (994,050 in 1999; 1,012,050 in 1998; 1,345,550 in 1997) ..	\$469,001	\$466,933	\$473,266	\$406,186	\$544,202
Nil Class D share (nil in 1999; nil in 1998; 38,695 in 1997)	—	—	—	—	74,293
Nil Class E share (136,200 in 1999; 181,600 in 1998; nil in 1997)	—	242,436	242,436	323,248	—
	<u>\$469,001</u>	<u>\$709,369</u>	<u>\$715,702</u>	<u>\$729,434</u>	<u>\$618,495</u>

During the eight-month period ended September 30, 1999, the Company redeemed 4,265 Class A shares for a cash consideration of \$31,590, of which \$27,325 were recorded as a reduction of retained earnings.

Also during the eight-month period ended September 30, 1999, the Company redeemed 136,200 Class E shares for a cash consideration of \$242,436.

During the year ended January 31, 1999, the Company issued 39,450 Class A shares for a cash consideration of \$90,735.

During the year ended January 31, 1999, the Company redeemed 39,450 Class A shares for a total consideration of \$90,735, of which \$74,509 were recorded as a reduction of retained earnings.

Also during the year ended January 31, 1999, the Company redeemed 18,000 Class A shares according to the share redemption agreement (note 7 (a)), for a consideration of \$36,600, of which \$29,171 were recorded as a reduction of retained earnings.

Also during the year ended January 31, 1999, the Company redeemed 45,400 Class E shares for a consideration of \$80,812.

During the year ended January 31, 1998, the Company issued 181,600 Class E shares for a cash consideration of \$323,248.

During the year ended January 31, 1998, the Company redeemed 333,500 Class A shares for a cash consideration of \$627,878, of which \$492,995 were recorded as a reduction of retained earnings.

Also during the year ended January 31, 1998, prior to the amalgamation, Natcom redeemed 6,133 Class B shares for a cash consideration of \$35,684 of which \$33,537 were recorded as a reduction of retained earnings and 643,869 Class F shares for a cash consideration of \$643,869 of which \$642,883 were recorded as a reduction of retained earnings.

Also during the year ended January 31, 1998, the Company redeemed shares in accordance with the share redemption agreement (note 7 (a)). The excess of redemption price over book value of the shares amounting to \$24,848 was recorded as a reduction of retained earnings.

Also during the year ended January 31, 1998, the Company redeemed 38,695 Class D shares for a consideration of \$74,293.

6. Related party transactions:

During normal course of business, the Company entered in the following transactions with one of the shareholder companies, at exchange value:

	September 30,		January 31,		
	1999	1998	1999	1998	1997
	(Unaudited)				
	(8 months)				
Gross billing	\$ —	\$ —	\$ —	\$1,004,605	\$1,380,985
Salaries, fees and benefits	—	—	—	5,675	—
Direct costs	—	—	—	—	31,402

7. Commitments:

(a) Share redemption agreement:

If a Class A shareholder ceases to be an employee of the Company or any other related company, the Company should repurchase the shares held by this employee at a value determined by the Board of Directors.

(b) Operating leases:

Minimum payments on operating leases for office premises, maturing December 2000 and for equipment, maturing December 2001, are as follows:

2000	\$282,230
2001	214,782
	<u>\$497,012</u>

These contracts include lease agreements containing supplementary annual rent charges clauses based on a percentage of real estate property taxes and certain operating expenses.

8. Income taxes:

The reconciliation between the effective tax rate and the statutory tax rate is detailed as follows:

	September 30,		January 31,		
	1999	1998	1999	1998	1997
	(Unaudited)				
	(8 months)				
Combined federal and provincial tax rate	38 %	38 %	38 %	38 %	38 %
Manufacturing and processing tax credit	(5)%	(4)%	(5)%	(5)%	(10)%
Small business deduction	—	(3)%	(4)%	(5)%	(9)%
Non-deductible expenses	2 %	3 %	3 %	3 %	2 %
Prior years adjustments	—	—	—	—	(4)%
Other	1 %	3 %	—	—	—
	<u>36 %</u>	<u>37 %</u>	<u>32 %</u>	<u>31 %</u>	<u>17 %</u>

9. Changes in non-cash working capital items:

	September 30,		January 31,		
	1999	1998	1999	1998	1997
	(Unaudited)				
	(8 months)				
Decrease (increase) in:					
Accounts receivable	\$ (749,782)	\$1,919,526	\$686,635	\$ (777,341)	\$ 448,619
Work in progress	(684,511)	(544,415)	(23,935)	639,875	124,470
Prepaid expenses	14,098	(14,001)	(59,226)	41,441	(2,658)
Increase (decrease) in:					
Accounts payable and accrued charges	32,946	(880,827)	344,350	(261,894)	(567,299)
Income taxes	77,705	40,100	39,498	57,476	(69,134)
	<u>\$(1,309,544)</u>	<u>\$ 520,383</u>	<u>\$987,322</u>	<u>\$(300,443)</u>	<u>\$ (66,002)</u>
Additional information:					
Interest paid	\$ 888	\$ 3,396	\$ 23,853	\$ 13,380	\$ 25,000
Income taxes paid	<u>367,295</u>	<u>339,900</u>	<u>285,932</u>	<u>209,331</u>	<u>125,000</u>

10. Financial instruments:

The Company's financial instruments recognized in the balance sheet consist of temporary investment, accounts receivable, accounts payable and accrued charges and long-term debt. The fair market values of these financial instruments approximate their carrying values due to their short-term maturity, or with regard to the long-term debt, due to the variable interest rate.

11. Segment information:

The Company operates in one business segment located in Canada. Commissions and fees from the three largest clients represent approximately 44% of the Company's total commissions and fee revenues for the eight-month period ended September 30, 1999.

12. Uncertainty due to the Year 2000 Issue:

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders

COLLE & McVOY, INC.

Minneapolis, Minnesota

We have audited the accompanying balance sheets of Colle & McVoy, Inc. as of March 31, 1999 and December 31, 1998, and the related statements of income, stockholders' equity, and cash flows for the three months ended March 31, 1999, and the year ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colle & McVoy, Inc. at March 31, 1999 and December 31, 1998, and the results of its operations and its cash flows for the three month period and year then ended in conformity with generally accepted accounting principles.

St. Paul, Minnesota

May 14, 1999

COLLE & McVOY, INC.**BALANCE SHEETS**

March 31, 1999 and December 31, 1998

(Stated in U.S. dollars)

	<u>1999</u>	<u>1998</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ —	\$ 1,056,229
Accounts Receivable — Trade	9,150,107	7,939,272
Work In Process Inventory	3,405,564	1,801,848
Employee Receivables	241,495	—
Prepaid Expenses	60,646	28,913
Income Taxes Receivable	80,000	104,712
Current Portion of Deferred Income Taxes	54,000	—
Total Current Assets	<u>\$12,991,812</u>	<u>\$10,930,974</u>
PROPERTY AND EQUIPMENT		
Furniture and Equipment	\$ 1,017,781	\$ 814,744
Electronic Equipment	2,120,551	2,100,844
Leasehold Improvements	67,044	67,044
Land	75,000	—
Building	439,088	—
Construction in progress	—	566,422
Total	<u>\$ 3,719,464</u>	<u>\$ 3,549,054</u>
Less: Accumulated Depreciation	<u>(1,874,902)</u>	<u>(1,771,645)</u>
Total Property and Equipment (at Depreciated Cost)	<u>\$ 1,844,562</u>	<u>\$ 1,777,409</u>
OTHER ASSETS		
Deferred Income Taxes (Net of Current Portion Shown Above)	\$ 100,000	\$ 100,000
Other Assets	<u>190,001</u>	<u>200,000</u>
Total Other Assets	<u>\$ 290,001</u>	<u>\$ 300,000</u>
Total Assets	<u><u>\$15,126,375</u></u>	<u><u>\$13,008,383</u></u>

See accompanying Notes to Financial Statements.

	<u>1999</u>	<u>1998</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable — Trade	\$ 7,698,098	\$ 4,476,718
Customer Deposits	2,078,361	2,116,337
Checks Written in Excess of Cash	121,116	—
Current Maturities of Long-Term Debt	66,573	69,654
Current Portion of Accrued Rent	32,388	32,388
Current Portion of Deferred Taxes	—	6,000
Accrued Taxes and Other Expenses	<u>213,877</u>	<u>1,271,468</u>
Total Current Liabilities	\$10,210,413	\$ 7,972,565
ACCRUED RENT	516,048	524,145
LONG-TERM DEBT (Net of Current Maturities Shown Above)	<u>533,956</u>	<u>537,938</u>
Total Liabilities	<u>\$11,260,417</u>	<u>\$ 9,034,648</u>
STOCKHOLDERS' EQUITY		
Common Stock, No Par Value, Authorized 1,000,000 Shares; 334,637 Shares		
Issued and Outstanding at March 31, 1999 and December 31, 1998	\$ 708,679	\$ 708,679
Retained Earnings	<u>3,414,537</u>	<u>3,602,043</u>
Total	\$ 4,123,216	\$ 4,501,722
Employee Stock Notes Receivable	<u>(257,258)</u>	<u>(536,967)</u>
Total Stockholders' Equity	<u>\$ 3,865,958</u>	<u>\$ 3,973,735</u>
Total Liabilities and Stockholders' Equity	<u><u>\$15,126,375</u></u>	<u><u>\$13,008,383</u></u>

See accompanying Notes to Financial Statements.

COLLE & McVOY, INC.

STATEMENTS OF INCOME

For the three months ended March 31, 1999,
and the year ended December 31, 1998

(Stated in U.S. dollars)

	1999		1998	
	<u>Amount</u>	<u>Percent of Sales</u>	<u>Amount</u>	<u>Percent of Sales</u>
REVENUE				
Media Sales	\$ 8,727,690	100.0%	\$20,674,480	100.0%
Cost of Media Sold	<u>8,505,251</u>	97.5	<u>19,717,298</u>	95.4
Media Gross Profit	\$ 222,439	2.5	\$ 957,182	4.6
Production and Art Sales	\$11,697,201	100.0	\$38,646,360	100.0
Cost of Product and Art Sole	<u>5,937,064</u>	50.8	<u>18,894,646</u>	48.9
Production and Art Gross Profit	\$ 5,760,137	49.2	\$19,753,714	51.1
Service Fees and Other Income	\$ 46,397		\$ 141,746	
Net Discount Income	\$ 17,287		\$ 35,347	
Total Agency Profit	<u>\$ 6,046,260</u>	100.0	<u>\$20,887,989</u>	100.0
OPERATING EXPENSE				
Salaries	\$ 3,958,805	65.5	\$13,482,661	64.5
Retirement Plan Contributions	49,015	0.8	821,879	3.9
Insurance — Group	168,497	2.8	584,431	2.8
Sales Expense	303,952	5.0	1,311,872	6.3
General Expense	1,733,352	28.7	3,916,415	18.8
Office Supplies	166,544	2.8	368,077	1.8
Provision for Uncollectible Accounts	<u>65,429</u>	1.1	<u>214,650</u>	1.0
Total Operating Expense	<u>\$ 6,445,594</u>	106.6	<u>\$20,699,985</u>	99.1
(LOSS) INCOME FROM OPERATIONS	<u>\$ (399,334)</u>	(6.6)	<u>\$ 188,004</u>	0.9
OTHER EXPENSE				
Interest Expense	\$ 23,172	0.4	\$ 9,050	—
(LOSS) INCOME BEFORE INCOME TAXES	<u>\$ (422,506)</u>	(7.0)	<u>\$ 178,954</u>	0.9
(BENEFIT OF) PROVISION FOR INCOME TAXES	<u>(35,000)</u>	(0.6)	<u>\$ 86,000</u>	0.4
NET (LOSS) INCOME	<u>\$ (387,506)</u>	(6.4)	<u>\$ 92,954</u>	0.4
(LOSS) EARNINGS PER SHARE	<u>\$ (1.16)</u>		<u>\$ 0.29</u>	

See accompanying Notes to Financial Statements.

COLLE & McVOY, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

For the three months ended March 31, 1999

and the year ended December 31, 1998

(Stated in U.S. dollars)

	<u>Number of Shares</u>	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Employee Stock Notes Receivable</u>	<u>Total</u>
Balance, December 31, 1997	323,958	\$ 363,327	\$3,709,089	\$(177,512)	\$3,894,904
Net Income.....	—	—	92,954	—	92,954
Redemption of Common Stock and Repayment of Employee Stock Notes Receivable	(9,561)	(309,209)	—	188,981	(120,228)
Sale of Nonvoting Common Stock	<u>20,240</u>	<u>654,561</u>	<u>—</u>	<u>(548,456)</u>	<u>106,105</u>
Balance, December 31, 1998	334,637	\$ 708,679	\$3,802,043	\$(536,987)	\$3,973,735
Net Loss	—	—	(387,506)	—	(387,506)
Conversion of Short-Term Employee Stock Notes Receivable to Employee Receivables	—	—		241,495	(241,495)
Repayment of Employee Stock Notes Receivable.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>38,234</u>	<u>38,234</u>
Balance, March 31, 1999	<u><u>334,637</u></u>	<u><u>\$ 708,679</u></u>	<u><u>\$3,414,537</u></u>	<u><u>\$(257,258)</u></u>	<u><u>\$3,865,958</u></u>

See accompanying Notes to Financial Statements.

COLLE & McVOY, INC.

STATEMENTS OF CASH FLOWS

For the three months ended March 31, 1999,
and the year ended December 31, 1998

(Stated in U.S. dollars)

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 19,239,764	\$ 60,334,824
Cash Paid to Suppliers and Employees	(20,204,672)	(60,040,857)
Interest Received	56,321	171,441
Interest Paid	(8,403)	(9,050)
Income Taxes Paid	—	(122,722)
Net Cash Provided (Used) by Operating Activities	<u>\$ (916,990)</u>	<u>\$ 333,436</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	\$ (170,410)	\$ (461,242)
Construction in Progress	—	(566,422)
Net Cash Used by Investing Activities	<u>\$ (170,410)</u>	<u>\$ (1,027,664)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Purchases of Stock	\$ —	\$ (42,688)
Payments on Long-Term Debt	(7,063)	(92,212)
Collections on Employee Stock Notes Receivable	38,234	188,981
Proceeds from Long-Term Debt	—	408,000
Proceeds from Issuance of Stock	—	106,105
Net Cash Provided by Financing Activities	<u>\$ 31,171</u>	<u>\$ 568,186</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>\$ (1,056,229)</u>	<u>\$ (126,042)</u>
Cash and Cash Equivalents — Beginning	1,056,229	1,182,271
CASH AND CASH EQUIVALENTS — ENDING	<u><u>\$ —</u></u>	<u><u>\$ 1,056,229</u></u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Net (Loss) Income	\$ (387,506)	\$ 92,954
Adjustments to Reconcile Net Income to Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	113,256	397,190
Net Decrease (Increase) in Current Assets:		
Accounts Receivable	(1,210,835)	903,392
Inventory	(1,603,716)	(527,491)
Prepays	(31,733)	(20,594)
Income Tax Receivable	(10,288)	(74,968)
Deferred Income Taxes	(25,000)	38,000
Net Increase (Decrease) in Current Liabilities:		
Checks in Excess of Cash	121,116	—
Accounts Payable	3,221,380	1,080,783
Advance Receivable Payments	(37,976)	(1,217,972)
Accrued Expenses	(1,065,688)	(337,858)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (916,990)</u></u>	<u><u>\$ 333,436</u></u>

See accompanying Notes to Financial Statements.

COLLE & McVOY, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 1999 and December 31, 1998

(Stated in U.S. dollars)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Colle & McVoy, Inc. is a Minnesota based advertising agency serving clients throughout the United States.

Revenue Recognition

The Company's policy is to progress bill on production work throughout the work cycle. Revenue is recognized to the extent of billings for time and expenses incurred for each job.

Cash and Cash Equivalents

The Company places its temporary cash investments with one financial institution. At times, such investments may be in excess of the FDIC limit. The Company considers money market funds which do not have withdrawal restrictions and short-term repurchase agreements as cash equivalents.

Accounts Receivable

Accounts Receivable are stated at net realizable value. Accordingly, the Company accounts for uncollectible accounts by the reserve method. At March 31, 1999 and December 31, 1998, the allowance for uncollectible accounts was \$150,000.

Work In Process Inventory

Work in process inventory represents expenses incurred on production jobs not yet invoiced. When these jobs are billed, the work in process costs will be included in cost of production and art sold. At March 31, 1999 and December 31, 1998, the reserve for uncollectable work in process inventory was \$100,000.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and computer using straight-line and accelerated methods of depreciation. For the period and year ended March 31, 1999, and December 31, 1998, accelerated depreciation did not materially exceed straight-line depreciation.

Construction in Progress

During December 1998, the Company entered into a purchase agreement to purchase land and construct a building in Arizona. The building was placed in service in January 1999.

Other Assets

The amounts in other assets include certain purchased intangible assets such as client lists and corporate membership fees. These assets are shown net of accumulated amortization of \$50,000 and \$40,000 at March 31, 1999 and December 31, 1998.

Estimates

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

Earnings Per Share

Earnings per share are based on the weighted average number of shares outstanding. The weighted average number of shares used to compute earnings per share was 334,637 and 332,633 for the three months ended March 31, 1999 and the year ended December 31, 1998, respectively. Shares owned by the ESOP plan are included in the calculation of earnings per share.

NOTE 2 CASH FLOWS

There were no stock transactions for the three months ended March 31, 1999. During 1998, the Company sold 20,240 shares of stock in exchange for cash downpayments and \$548,456 of employee stock notes receivable. During 1998, the Company also purchased 9,561 shares of stock in exchange for cash downpayments and a non-cash note payable for \$265,890.

NOTE 3 DEMAND NOTE PAYABLE — BANK

The Company has an unsecured demand note with a bank. At the discretion of the Bank, the Company may borrow up to \$2,000,000 on this note at the Bank's base rate (7.75%) plus .25% at March 31, 1999. There was no outstanding balance on this note at either March 31, 1999 or December 31, 1998.

NOTE 4 LONG-TERM DEBT

	<u>1999</u>	<u>1998</u>
Note Payable — Former employee; Interest at 8.5%; Five annual principal payments of \$47,974 with accrued interest, beginning June 30, 1998.	\$191,895	\$191,895
Note Payable — Former employee; Interest at 7% Monthly installments of \$1,566 including principal and interest	3,106	7,697
Mortgage Payable — Arizona property; Interest at 7.4% for the first year and 2.75% over the current average yield on the one year U.S. Treasury Securities; Monthly installments of \$3,783 for a five-year period ending January 1, 2004.		
Balance due January 1, 2004.	405,528	408,000
Subtotal.	\$600,529	\$607,592
Less: Current Portion	66,573	69,654
Total Long-Term Debt	<u>\$533,956</u>	<u>\$537,938</u>

Principal payments of the long-term debt are as follows:

<u>Year Ended March 31,</u>	<u>Amount</u>
2000	\$ 66,573
2001	64,671
2002	65,968
2003	67,365
2004	20,897
Thereafter	315,055
	<u>\$600,529</u>

NOTE 5 RETIREMENT PLANS

The Company has a qualified Profit Sharing Plan that is combined with a Retirement Plan under Section 401(k) of the Internal Revenue Code. The Plan covers substantially all employees after specified periods of service and attainment of minimum age requirements. The Plan provides for the Board of Directors to approve a discretionary profit sharing contribution. For the three months ended March 31, 1999 and the year ended December 31, 1998, the Company contributed \$49,015 and \$121,879, respectively, to the Profit Sharing Plan as a 401(k) matching contribution.

The Company has an Employee Stock Ownership Plan (ESOP). The purpose of the ESOP is to provide a qualified retirement plan that owns Company stock as an investment. The Company may contribute stock and/or cash to the plan in amounts to be solely determined by the Board of Directors. The Company is obligated to repurchase any shares of stock distributed by the ESOP to plan participants in satisfaction of any ESOP liabilities. There were no ESOP distributions of stock for the three months ended March 31, 1999 and the year ended December 31, 1998. The Company's contributions for the three months ended March 31, 1999 and the year ended December 31, 1998, were \$0 and \$700,000, respectively. During 1998, all contributions were funded by cash and no additional shares of stock were issued to fund the contribution.

At March 31, 1999 and December 31, 1998, total shares owned by the ESOP plan were 196,614. The fair market value of the stock as determined by the most recent independent valuation was \$54.43 at December 31, 1998.

NOTE 6 CORPORATE STOCK REPURCHASE AGREEMENT

The Company's by-laws limit ownership of corporate stock primarily to current employees and provide for a first right of refusal for the repurchase of shares by the Company. The agreement provides for the establishment of the purchase price and terms. The stock price per share is determined by an annual independent appraisal.

NOTE 7 EMPLOYEE STOCK NOTES RECEIVABLE

The Company has assisted employees in purchasing shares of its common stock. Terms require a down payment with the remaining balance payable over five years plus interest at rates ranging from 5.33% to 8%. Principal receivable under the above arrangements is as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2000	\$ 70,586
2001	63,848
2002	57,194
2003	58,703
2004	6,927
	<u>\$257,258</u>

NOTE 8 INCOME TAXES

A reconciliation of income tax at the statutory rate to the Company's effective rate is as follows:

	<u>For the three months ended March 31, 1999</u>		<u>For the year ended December 31, 1998</u>	
Income Tax Expense (Refund) Computed at Expected Statutory Rate	\$ (144,000)	(34.0)%	\$61,000	34.0 %
Surtax Exemption	—	0.0 %	(7,000)	(3.9)%
Non Deductible Expenses	121,000	28.5 %	15,000	8.4 %
State Income Tax — Net of Federal Tax Benefit	(17,000)	(4.0)%	12,000	6.7 %
State Minimum Filing Fees	5,000	1.2 %	5,000	2.8 %
Income Tax Expense (Refund)	<u>\$ (35,000)</u>	<u>8.3 %</u>	<u>\$86,000</u>	<u>48.0 %</u>

The following temporary differences gave rise to the deferred taxes at:

	<u>March 31, 1999</u>	<u>December 31, 1998</u>
Excess of Tax Over Financial Accounting Depreciation	\$ (104,000)	\$ (118,000)
Excess of Financial Over Accounting Tax Deduction for Deferred Rent	198,000	218,000
Allowance for Doubtful Accounts	59,000	59,000
Reserve for Unbillable WIP	40,000	—
Excess of Tax Deduction Over Financial Accounting Reserve for Mark to Market Receivable Valuation	(44,000)	(65,000)
Benefit of State Net Operating Loss Carryforward	5,000	—
Net Deferred Taxes	\$ 154,000	\$ 94,000
Current Deferred Tax (Liability) Asset	\$ 54,000	\$ (6,000)
Non-Current Deferred Tax Asset	100,000	100,000
	<u>\$ 154,000</u>	<u>\$ 94,000</u>

NOTE 9 LEASES — REAL ESTATE

The Company leases office space under operating leases which require monthly rental payments plus operating expenses and real estate taxes. Accrued rent has been recorded on these leases to reflect the effects of free or reduced rent payments during initial months of the leases. Rental expense includes operating expenses and real estate taxes based on the pro rata space occupied in the building.

The Company also leases certain office equipment under operating leases. The leases expire at various times in 2002.

Rental expense under these leases was \$445,095 and \$1,556,550 for the three months ended March 31, 1999 and the year ended December 31, 1998, respectively.

Future minimum annual lease payments are required under these lease agreements as follows:

<u>Year ending March 31,</u>	<u>Total</u>
2000	\$ 902,068
2001	903,435
2002	971,910
2003	916,494
2004	921,653
Thereafter	2,630,508
Total	<u>\$7,246,068</u>

NOTE 10 COMMITMENTS

The Company entered into a service contract for mailroom and copy center equipment and copy center personnel. The contract calls for a monthly service fee of \$17,500 from September 1998 through September 2003. This agreement supercedes prior equipment lease agreements.

Future minimum service fees required under this contract as follows:

<u>Year ending March 31,</u>	<u>Total</u>
2000	\$210,000
2001	210,000
2002	210,000
2003	210,000
2004	87,500
Total	<u>\$927,500</u>

NOTE 11 MAJOR CUSTOMERS

For the three months ended March 31, 1999 and the year ended December 31, 1998, approximately 63% and 65% , respectively, of the Company's total agency revenue was from 32 and 70 divisions of one and two customers, respectively. At March 31, 1999 and December 31, 1998, 64% and 60%, respectively, of total accounts receivable was from the same major customers.

NOTE 12 EQUITY TRANSACTIONS

On March 24, 1999, the majority of the shareholders and the ESOP participants approved a business combination transaction with MDC Communications Corporation (MDC), an Ontario corporation and its subsidiary CMI Acquisition Co. The Merger was effective after the close of business on March 31, 1999 and at that time the Company became a majority owned subsidiary of MDC.

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders

COLLE & McVOY, INC.

Minneapolis, Minnesota

We have audited the accompanying balance sheets of Colle & McVoy Inc. as of December 31, 1998 and 1997, and the related statements of income, stockholders' equity, and cash flows for the years 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 audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colle & McVoy, Inc. at December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

St. Paul, Minnesota

January 22, 1999

COLLE & McVOY, INC.

BALANCE SHEETS

December 31, 1998 AND 1997

(Stated in U.S. dollars)

	<u>1998</u>	<u>1997</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,056,229	\$ 1,182,271
Accounts receivable — Trade	7,939,272	8,837,012
Work in Process Inventory	1,801,848	1,274,357
Prepaid Expenses	28,913	—
Income Taxes Receivable	104,712	29,744
Current Portion of Deferred Income Taxes	—	37,000
Total Current Assets	<u>\$10,930,974</u>	<u>\$11,360,384</u>
PROPERTY AND EQUIPMENT		
Furniture and Equipment	\$ 814,744	\$ 696,285
Electronic Equipment	2,100,844	1,758,061
Leasehold Improvements	67,044	67,044
Construction in Progress	566,422	—
Total	\$ 3,549,054	\$ 2,521,390
Less: Accumulated Depreciation	<u>(1,771,645)</u>	<u>(1,414,455)</u>
Total Property and Equipment (at Depreciated Cost)	<u>\$ 1,777,409</u>	<u>\$ 1,106,935</u>
OTHER ASSETS		
Deferred Income Taxes (Net of Current Portion Shown Above)	\$ 100,000	\$ 95,000
Lease Deposits	—	1,909
Other Assets	200,000	252,064
Total Other Assets	<u>\$ 300,000</u>	<u>\$ 348,973</u>
Total Assets	<u>\$13,008,383</u>	<u>\$12,816,292</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable — Trade	\$ 4,476,718	\$ 3,395,937
Current Maturities of Long-Term Debt	69,654	17,586
Current Portion of Accrued Rent	32,388	—
Current Portion of Deferred Taxes	6,000	—
Due to Employee Stock Ownership Trust	—	200,000
Customer Deposits	2,116,337	3,334,309
Accrued Taxes and Other Expenses	1,271,468	1,428,850
Total Current Liabilities	\$ 7,972,565	\$ 8,376,682
ACCRUED RENT	524,145	537,009
LONG-TERM DEBT (Net of Current Maturities Shown Above)	537,938	7,697
Total Liabilities	<u>\$ 9,034,648</u>	<u>\$ 8,921,388</u>
STOCKHOLDERS' EQUITY		
Common Stock, No Par Value, Authorized 1,000,000 Shares; 334,637 and 323,958 Shares issued and Outstanding at December 31, 1998 and 1997, Respectively	\$ 708,679	\$ 363,327
Retained Earnings	3,802,043	3,709,089
Total	\$ 4,510,722	\$ 4,072,416
Employee Stock Notes Receivable	<u>(536,987)</u>	<u>(177,512)</u>
Total Stockholders' Equity	<u>\$ 3,973,735</u>	<u>\$ 3,894,904</u>
Total Liabilities and Stockholders' Equity	<u>\$13,008,383</u>	<u>\$12,816,292</u>

See accompanying Notes to Financial Statements.

COLLE & McVOY, INC.

STATEMENTS OF INCOME

For the years ended December 31, 1998 and 1997

(Stated in U.S. dollars)

	1998		1997	
	<u>Amount</u>	<u>Percent of Sales</u>	<u>Amount</u>	<u>Percent of Sales</u>
REVENUE				
Media Sales	\$20,674,480	100.0%	\$25,693,406	100.0%
Cost of Media Sold	<u>19,717,298</u>	95.4	<u>24,391,218</u>	94.9
Media Gross Profit	\$ 957,182	4.6	\$ 1,302,188	5.1
Production and Art Sales	\$38,648,360	100.0	\$35,826,233	100.0
Cost of Production and Art Sold	<u>18,894,646</u>	48.9	<u>18,283,648</u>	51.0
Production and Art Gross Profit	\$19,753,714	61.1	\$17,542,585	49.0
Service Fees and Other Income	\$ 141,746		\$ 140,162	
Net Discount Income	\$ 35,347		\$ 72,735	
Total Agency Profit	<u>\$20,887,989</u>	100.0	<u>\$19,057,670</u>	100.0
OPERATING EXPENSE				
Salaries	\$13,482,661	64.5	\$12,134,305	63.7
Retirement Plan Contributions	821,879	3.9	1,062,602	5.8
Insurance — Group	584,431	2.8	514,653	2.7
Sales Expense	1,311,872	6.3	1,015,389	5.3
General Expense	3,916,415	18.8	3,289,962	17.3
Office Supplies	368,077	1.8	351,803	1.8
Provision for Uncollectable Accounts	<u>214,650</u>	1.0	<u>73,205</u>	0.4
Total Operating Expense	<u>\$20,699,985</u>	99.1	<u>\$18,441,899</u>	96.8
INCOME FROM OPERATIONS	<u>\$ 188,004</u>	0.9	<u>\$ 615,771</u>	3.2
OTHER EXPENSE				
Interest Expense	\$ 9,050	—	\$ 4,639	—
INCOME BEFORE INCOME TAXES	\$ 178,954	0.9	\$ 611,132	3.2
PROVISION FOR INCOME TAXES	<u>86,000</u>	0.4	<u>260,800</u>	1.4
NET INCOME	<u>\$ 92,954</u>	0.4	<u>\$ 350,332</u>	1.8
EARNINGS PER SHARE	<u>\$ 0.29</u>		<u>\$ 1.08</u>	

See accompanying Notes to Financial Statements.

COLLE & McVOY, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

For the years ended December 31, 1998 and 1997

(Stated in U.S. dollars)

	<u>Number of Shares</u>	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Employee Stock Notes Receivable</u>	<u>Total</u>
Balance, December 31, 1996	324,258	\$ 369,721	\$3,358,757	\$(238,281)	\$3,490,197
Net Income.....	—	—	350,332	—	350,332
Redemption of Common Stock	(2,310)	(55,860)	—	78,488	22,628
Sale of Nonvoting Common Stock	<u>2,010</u>	<u>49,466</u>	<u>—</u>	<u>(17,719)</u>	<u>31,747</u>
Balance, December 31, 1997	323,958	\$ 363,327	\$3,709,089	\$(177,512)	\$3,894,904
Net Income.....	—	—	92,954	—	92,954
Redemption of Common Stock	(9,561)	(309,209)	—	188,981	(120,228)
Sale of Common Stock	<u>20,240</u>	<u>654,561</u>	<u>—</u>	<u>(548,456)</u>	<u>106,105</u>
Balance, December 31, 1998	<u>334,637</u>	<u>\$ 708,679</u>	<u>\$3,802,043</u>	<u>\$(536,987)</u>	<u>\$3,973,735</u>

See accompanying Notes to Financial Statements.

COLE & McVOY, INC.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 1998 and 1997

(Stated in U.S. dollars)

	<u>1998</u>	<u>1997</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 60,334,624	\$ 61,678,063
Cash Paid to Suppliers and Employees	(60,040,857)	(59,959,831)
Interest Received	171,441	140,162
Interest Paid	(9,050)	(4,639)
Income Taxes Paid	(122,722)	(493,127)
Net Cash Provided by Operating Activities	<u>\$ 333,436</u>	<u>\$ 1,363,628</u>
CASH FLOWS-FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	\$ (461,242)	\$ (402,008)
Construction In Progress	(566,422)	(51,313)
Net Cash Used by Investing Activities	<u>\$ (1,027,664)</u>	<u>(453,321)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Purchases of Stock	\$ (42,688)	\$ (53,580)
Payments on Long-Term Debt	(92,212)	(16,400)
Collections on Employee Notes Receivable	188,981	78,488
Proceeds form Long-Term Debt	408,000	—
Proceeds from issuance of Stock	106,105	29,467
Net Cash Provided by Financing Activities	<u>\$ 568,186</u>	<u>\$ 37,975</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ (126,042)</u>	<u>\$ 948,282</u>
Cash and Cash Equivalents — Beginning	1,182,271	233,989
CASH AND CASH EQUIVALENTS — ENDING	<u><u>\$ 1,056,229</u></u>	<u><u>\$ 1,182,271</u></u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Net Income	\$ 92,954	\$ 350,332
Adjustments to Reconcile Net Income to Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	397,190	412,274
Net Decrease (Increase) in Current Assets:		
Accounts Receivable	903,392	85,689
Inventory	(527,491)	178,695
Prepays	(20,594)	(1,909)
Income Tax Receivable	(74,968)	(129,744)
Deferred Income Taxes	38,000	93,000
Net Increase (Decrease) in Current Liabilities:		
Accounts Payable	1,080,783	(1,498,582)
Advance Receivable Payments	(1,217,972)	2,382,134
Income Taxes Payable	—	(192,583)
Accrued Expenses	(337,858)	(315,678)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 333,436</u></u>	<u><u>\$ 1,363,628</u></u>

See accompanying Notes to Financial Statements.

COLLE & McVOY, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 1998 and 1997

(Stated in U.S. dollars)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Colle & McVoy, Inc. is a Minnesota based advertising agency serving clients throughout the United States.

Revenue Recognition

The Company's policy is to progress bill on production work throughout the work cycle. Revenue is recognized to the extent of billings for time and expenses incurred for each job.

Cash and Cash Equivalents

The Company places its temporary cash investments with one financial institution. At times, such investments may be in excess of the FDIC limit. The Company considers money market funds which do not have withdrawal restrictions and short-term repurchase agreements as cash equivalents.

Accounts Receivable

Accounts Receivable are stated at net realizable value. Accordingly, the Company accounts for uncollectible accounts by the reserve method. At December 31, 1998 and 1997, the allowance for uncollectible accounts was \$150,000 and \$100,000.

Work in Process Inventory

Work in process inventory represents expenses incurred on production jobs not yet invoiced. When these jobs are billed, the work in process costs will be included in cost of production and art sold. At December 31, 1998 and 1997, the reserve for uncollectable work in process inventory was \$100,000 and \$0.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and computer using straight-line and accelerated methods of depreciation. For the years ended December 31, 1998 and 1997, accelerated depreciation did not materially exceed straight-line depreciation.

Construction In Progress

During December 1998, the Company entered into a purchase agreement to purchase and construct a building in Arizona. At December 31, 1998, the building was substantially complete and will be ready for occupancy in early 1999.

Other Assets

The amounts in other assets include certain purchased Intangible assets such as client lists and corporate membership fees. These assets are shown net of accumulated amortization of \$40,000 and \$0 for the years ended December 31, 1998 and 1997.

Estimates

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

Earnings Per Share

Earnings per share are based on the weighted average number of shares outstanding. The weighted average number of shares used to compute earnings per share was 332,633 and 324,233 for 1998 and 1997, respectively. Shares owned by the ESOP plan are included in the calculation of earnings per share.

NOTE 2 CASH FLOWS

During 1998, the Company sold 20,240 shares of stock in exchange for cash down payments and \$548,456 of notes receivable. During 1997, the Company sold 2,010 shares of stock in exchange for cash downpayments and \$17,719 of notes receivable. During 1998, the Company also purchased 9,561 shares of stock in exchange for cash downpayments and a note payable for \$265,890.

NOTE 3 DEMAND NOTE PAYABLE — BANK

The Company has an unsecured demand note with a bank. At the discretion of the Bank, the Company may borrow up to \$2,000,000 on this note at the Bank's base rate plus .25% (5.00% at December 31, 1998). There was no outstanding balance on this note at either December 3, 1998 or 1997.

NOTE 4 LONG-TERM DEBT

	<u>1998</u>	<u>1997</u>
Note Payable — Former employee; Interest at 6.5%; Five annual principal payments of \$47,974 with accrued interest, beginning June 30, 1998.....	\$191,895	\$ —
Note Payable — Former employee; Interest at 7% Monthly installments of \$1,566 including principal and interest	7,697	25,283
Mortgage Payable — Arizona property; Interest at 7.4% for the first year and 2.75% over the current average yield on the one year U.S. Treasury Securities; Monthly installments of \$3,783 for a five-year period ending January 1, 2004. Balance due January 1, 2004	408,000	—
Subtotal	\$607,592	\$25,283
Less: Current Portion	69,654	17,586
Total Long-Term Debt	<u>\$537,938</u>	<u>\$ 7,697</u>

Principal payments of the long-term debt are as follows:

<u>Year ended December 31,</u>	<u>Amount</u>
1999	\$ 69,654
2000	64,362
2001	65,634
2002	67,006
2003	20,510
Thereafter	320,426
	<u>\$607,592</u>

NOTE 5 RETIREMENT PLANS

The Company has a qualified Profit Sharing Plan that is combined with a Retirement Plan under Section 401(k) of the Internal Revenue Code. The Plan covers substantially all employees after specified periods of service and attainment of minimum age requirements. The Plan provides for the Board of Directors to approve a discretionary profit sharing contribution. For the years ended December 31, 1998 and 1997, the Company contributed \$121,879 and \$112,602, respectively, to the Profit Sharing Plan as a 401(k) matching contribution.

The Company has an Employee Stock Ownership Plan (ESOP). The purpose of the ESOP is to provide a qualified retirement plan that owns Company stock as an investment. The Company may contribute stock and/or cash to the plan in amounts to be solely determined by the Board of Directors. The Company is obligated to repurchase any shares of stock distributed by the ESOP to plan participants in satisfaction of any ESOP liabilities. There were no ESOP distributions of stock in 1996 and 1997. The Company's contributions for the years ended December 31, 1998 and 1997 were \$700,000 and \$950,000, respectively. During 1998 and 1997, all contributions were funded by cash and no additional shares of stock were issued to fund the contribution.

At December 31, 1998 and 1997, total shares owned by the ESOP plan were 196,614 and 149,006. The fair market value of the stock as determined by the most recent independent valuation was \$54.43 at December 31, 1998.

NOTE 6 CORPORATE STOCK REPURCHASE AGREEMENT

The Company's by-laws limit ownership of corporate stock primarily to current employees and provide for a first right of refusal for the repurchase of shares by the Company. The agreement provides for the establishment of the purchase price and terms. The stock price per share is determined by an annual independent appraisal.

NOTE 7 EMPLOYEE STOCK NOTES RECEIVABLE

The Company has assisted employees in purchasing shares of its common stock. Terms require a down payment with the remaining balance payable over five years plus interest at rates ranging from 5.33% to 8%. Principal receivable under the above arrangements is as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
1999	\$140,674
2000	139,679
2001	114,890
2002	104,505
2003	37,239
	<u>\$536,987</u>

NOTE 8 INCOME TAXES

A reconciliation of income tax at the statutory rate to the Company's effective rate is as follows:

	<u>1998</u>		<u>1997</u>	
Computer at the Expected Statutory Rate	\$61,000	34.0 %	\$208,000	34.0%
Surtax Exemption	(7,000)	(3.9)%	—	—
Non Deductible Expenses	15,000	8.4 %	8,800	1.5%
State Income Tax — Net of Federal Tax Benefit	12,000	6.7 %	3,900	8.4%
State Minimum Filing Fees	5,000	2.8 %	5,000	0.8%
Income Tax Expenses	<u>\$86,000</u>	<u>48.0 %</u>	<u>\$260,800</u>	<u>42.7%</u>

The following temporary differences gave rise to the deferred taxes at December 31:

	<u>1998</u>	<u>1997</u>
Excess of Tax Over Financial Accounting Depreciation	\$(118,000)	\$(110,000)
Excess of Tax Deduction Over Financial Accounting Reserve for Mark to Market Receivable Valuation ..	(65,000)	—
Allowance for Doubtful Accounts	59,000	37,000
Excess of Tax Deduction Over Financial Accounting Reserve for Mark to Market Receivable Valuation ..	218,000	205,000
Net Deferred Taxes	<u>\$ 94,000</u>	<u>\$ 132,000</u>
Current Deferred Tax (Liability) Asset	(6,000)	37,000
Non-Current Deferred Tax Asset	100,000	95,000
	<u>\$ 94,000</u>	<u>\$ 132,000</u>

NOTE 9 LEASES — REAL ESTATE

The Company leases office space under operating leases which require monthly rental payments plus operating expenses and real estate taxes. Accrued rent has been recorded on these leases to reflect the effects of the initial months free or reduced rent payments. Rental expense includes operating expenses and real estate taxes based on the prorata space occupied in the building.

The Company previously leased certain office equipment under operating leases. These leases have been terminated and replaced by the service contract discussed in the Commitment footnote.

Rental expense under these leases was \$1,556,550 and \$1,255,353 in 1998 and 1997, respectively.

Future minimum annual lease payments are required under these lease agreements as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
1999	\$ 825,705
2000	847,399
2001	856,915
2002	906,816
2003	911,783
Thereafter	2,689,457
Total	<u>\$7,018,075</u>

NOTE 10 COMMITMENTS

The Company entered into a service contract for mailroom and copy center equipment and copy center personnel. The contract calls for a monthly service fee of \$17,500 from September 1998 through September 2003. This agreement supercedes prior equipment lease agreements.

Future minimum service fees are required under this contract as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
1999	\$210,000
2000	210,000
2001	210,000
2002	210,000
2003	148,750
Total	<u>\$988,750</u>

NOTE 11 MAJOR CUSTOMERS

For the years ended December 31, 1998 and 1997, approximately 65% and 60%, respectively, of the Company's total agency revenue was from 70 and 45 divisions of two customers, respectively. At December 31, 1998 and 1997, 60% and 79%, respectively, of total accounts receivable was from the same major customers.

NOTE 12 SUBSEQUENT EVENT

Subsequent to December 31, 1998, the trustee of the ESOP and certain shareholders of the Company, entered into a letter of intent to sell their shares of stocks to a publicly traded company. The details of this sale are still being finalized and it is unknown at this time if the transaction will occur.

AUDITORS' REPORT

To the Board of Directors of Fletcher Martin Associates LLC

We have audited the balance sheets of Fletcher Martin Associates LLC as at November 30, 1999 and December 31, 1998 and the statements of income, deficit and cash flows for the periods 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 audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 1999 and December 31, 1998 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Toronto, Canada
February 3, 2000

FLETCHER MARTIN ASSOCIATES LLC

BALANCE SHEETS

(Expressed in U.S. dollars)

	November 30, 1999	December 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 395,613	\$ 138,986
Accounts receivable	11,132,978	10,221,427
Current portion of notes receivable from owners (note 5)	389,842	429,117
Unbilled production costs	831,760	706,736
Prepaid expenses and other assets	<u>85,186</u>	<u>122,997</u>
	12,835,379	11,619,263
Deferred charges (note 3)	209,245	—
Capital assets (note 4)	1,177,643	1,436,764
Notes receivable from owners (note 5)	<u>316,263</u>	<u>277,636</u>
	<u><u>\$14,538,530</u></u>	<u><u>\$13,333,663</u></u>
LIABILITIES AND OWNERS' DEFICIENCY		
Current liabilities:		
Accounts payable and accrued liabilities	\$12,286,163	\$11,429,063
Deferred revenue	1,374,147	1,386,058
Current portion of notes payable (note 6)	146,731	198,929
Current portion of obligations under capital leases (note 7)	118,000	105,927
Current portion of deferred compensation (note 8)	141,737	136,065
Leasehold inducement	<u>125,678</u>	<u>183,568</u>
	14,192,456	13,439,609
Notes payable (note 6)	66,302	206,159
Obligations under capital leases (note 7)	214,954	272,833
Deferred compensation (note 8)	362,419	452,809
Owners' deficiency:		
Owners' interest (note 9)	300,437	625
Paid-in capital in excess of par value	—	79,875
Deficit	<u>(598,038)</u>	<u>(1,067,472)</u>
	(297,601)	(986,972)
Less treasury shares	<u>—</u>	<u>(50,775)</u>
	<u>(297,601)</u>	<u>(1,037,747)</u>
	<u><u>\$14,538,530</u></u>	<u><u>\$13,333,663</u></u>

See accompanying notes to financial statements.

FLETCHER MARTIN ASSOCIATES LLC

STATEMENTS OF INCOME

(Expressed in U.S. dollars)

	Eleven months ended November 30, 1999	Year ended December 31, 1998
Gross billings	\$46,421,243	\$46,060,250
Direct costs	<u>37,457,197</u>	<u>37,304,487</u>
Gross income	8,964,046	8,755,763
Operating expenses	<u>7,485,937</u>	<u>7,741,565</u>
Operating income before other charges	1,478,109	1,014,198
Other charges (income):		
Other income	(92,412)	(66,674)
Depreciation and amortization	449,820	457,026
Interest on long-term debt	69,039	117,235
Write-down of goodwill (note 2(d))	<u>—</u>	<u>171,111</u>
	<u>426,447</u>	<u>678,698</u>
Net income (note 2(e))	<u><u>\$ 1,051,662</u></u>	<u><u>\$ 335,500</u></u>

See accompanying notes to financial statements.

FLETCHER MARTIN ASSOCIATES LLC

STATEMENTS OF DEFICIT

(Expressed in U.S. dollars)

	Eleven months ended November 30, 1999	Year ended December 31, 1998
Deficit, beginning of period	\$(1,067,472)	\$ (798,737)
Net income	1,051,662	335,500
Distributions to owners	(361,516)	(604,235)
Premium on redemption of common shares	(220,712)	—
Deficit, end of period	<u>\$ (598,038)</u>	<u>\$ (1,067,472)</u>

See accompanying notes to financial statements.

FLETCHER MARTIN ASSOCIATES LLC

STATEMENTS OF CASH FLOWS

(Expressed in U.S. dollars)

	Eleven months ended November 30, 1999	Year ended December 31, 1998
Cash provided by (used in):		
Operating activities:		
Net income	\$ 1,051,662	\$ 335,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	449,820	457,026
Write-down of goodwill	—	171,111
Amortization of leasehold inducement	(57,890)	(52,609)
Deferred compensation addition	50,129	91,408
Change in non-cash working capital items:		
Accounts receivable	(3,217,551)	(3,094,188)
Unbilled production costs	(125,024)	357,215
Prepaid expenses and other assets	37,811	(3,418)
Accounts payable and accrued liabilities	2,873,101	2,597,230
Deferred revenue	278,089	(738,755)
	1,340,147	120,520
Financing activities:		
Principal repayments on capital lease obligations	(116,120)	(57,407)
Proceeds from capital lease obligations	70,314	57,503
Principal payments on notes payable	(164,200)	(200,600)
Owners distributions	(361,516)	(604,235)
Issuance of owners' interest	300,000	—
Redemption of common shares, net	(250,000)	(50,775)
Deferred compensation payments	(134,847)	(141,718)
Principal payments on note payable to owners	(27,855)	(25,987)
	(684,224)	(1,023,219)
Investing activities:		
Deferred charges	(209,245)	—
Capital assets	(190,699)	(464,418)
Notes receivable from owners, net	648	9,195
	(399,296)	(455,223)
Increase (decrease) in cash and cash equivalents	256,627	(1,357,922)
Cash and cash equivalents, beginning of period	138,986	1,496,908
Cash and cash equivalents, end of period	<u>\$ 395,613</u>	<u>\$ 138,986</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 69,539</u>	<u>\$ 117,827</u>

See accompanying notes to financial statements.

FLETCHER MARTIN ASSOCIATES, LLC

NOTES TO FINANCIAL STATEMENTS

Period from January 1, 1999 to November 30, 1999
and year ended December 31, 1998

(Expressed in U.S. dollars)

The Company's principal activity is that of an advertising/marketing agency.

1. Basis of presentation:

On November 1, 1999, Fletcher Martin Associates, Inc. ("FMAI") transferred substantially all of its assets, liabilities and its business to Fletcher Martin Associates LLC (the "Company"), a newly incorporated limited liability corporation. Through a share reorganization enacted as at November 1, 1999, the FMAI shareholder group continue to hold the same economic interest in the business of FMAI through both FMAI and direct interests in the Company. On the transfer of the business, FMAI took back a 70% interest in the Company with the remaining 30% interest being owned directly by shareholders of FMAI. As the continuity of shareholder interest in the assets, liabilities and business was maintained, the transfer was accounted for at carrying value.

This corporate reorganization has been accounted for as a continuation of the predecessor company whereby the financial statements reflect the combined historical carrying values of the assets, liabilities and owners equity and the historical operating results of FMAI and the Company for each of the periods presented.

On November 30, 1999, FMAI sold its interest in the Company to a wholly owned subsidiary of Maxxcom Inc. for cash consideration of \$2.3 million to be paid on closing and contingent consideration of up to approximately \$2.3 million to be paid over the next three years based on the future earnings of the Company.

These financial statements reflect the financial position of the Company on the basis described above immediately prior to Maxxcom Inc. acquisition of the FMAI interest.

2. Significant accounting policies:

These financial statements are stated in U.S. dollars and have been prepared in accordance with accounting principles generally accepted in Canada.

(a) Cash and cash equivalents:

All highly liquid investments with an original maturity of three months or less at the date of the acquisition are classified as cash equivalents.

(b) Revenue recognition:

(i) Media:

Commissions earned on media placements are recognized at the time the advertisements are run.

(ii) Production:

Production revenues are recognized when a project is completed under the terms of the agreement with the customer. Purchases from third party vendors for services used in production of advertising materials are recorded as unbilled production costs until the associated revenue has been recognized. Amounts billed in accordance with customer contracts, but not yet earned, are recorded as deferred revenue.

(c) Capital assets:

Capital assets are stated at cost, net of accumulated depreciation and amortization, and are amortized over their estimated useful lives. Leasehold improvements are recorded at cost and amortized over the term of the lease. Expenditures for maintenance and repairs have been charged to the statement of operations as incurred. Depreciation and amortization are computed using the following methods over the following periods:

<u>Asset</u>	<u>Basis</u>	<u>Period</u>
Office furniture	Double declining balance	7 years
Equipment	Double declining balance	7 years
Leasehold improvements	Straight line	5-10 years

(d) Goodwill:

Goodwill represents the excess of the purchase price over the fair values of net assets acquired, and is being amortized on a straight-line basis over 10 years. On an ongoing basis, management reviews the valuation and amortization of goodwill, taking into consideration any events and circumstances which might have impaired the fair value. Goodwill is written down to fair value when declines in value are considered to be other than temporary based upon expected cash flows from the acquired business. In December 1998, the Company wrote down the goodwill arising on the 1996 acquisition of an Atlanta based advertising agency.

(e) Income taxes:

The owners of FMAI and the Company have elected flow-through status for income tax purposes; thus no income tax expense has been recorded in the financial statements for the year ended December 31, 1998 or for the period from January 1, 1999 to November 30, 1999. Income for these periods is taxed to the owners on their individual tax returns.

(f) Use of estimates:

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

3. Deferred charges:

Deferred charges represent professional fees incurred by FMAI in connection with the corporate reorganization and sale of FMAI's 70% interest to Maxxcom Inc. These deferred charges will be netted against the gain on sale of FMAI's 70% interest in the Company subsequent to November 30, 1999 (note 1).

4. Capital assets:

<u>November 30, 1999</u>	<u>Cost</u>	<u>Accumulated depreciation and amortization</u>	<u>Net book value</u>
Office furniture.....	\$1,067,515	\$ 669,696	\$ 397,819
Equipment	1,489,711	989,703	500,008
Leasehold improvements.....	932,853	653,037	279,816
	<u>\$3,490,079</u>	<u>\$2,312,436</u>	<u>\$1,177,643</u>
		<u>Accumulated depreciation and amortization</u>	<u>Net book value</u>
<u>December 31, 1998</u>	<u>Cost</u>		
Office furniture.....	\$1,056,194	\$ 612,990	\$ 443,204
Equipment	1,311,621	787,937	523,684
Leasehold improvements.....	931,565	461,689	469,876
	<u>\$3,299,380</u>	<u>\$1,862,616</u>	<u>\$1,436,764</u>

Included in capital assets are assets acquired under capital leases in the amount of \$357,138 (December 31, 1998 — \$574,753). Amortization of assets under capital lease included in amortization expense for the period ended November 30, 1999 amounted to \$56,569 (December 31, 1998 — \$106,871).

5. Notes receivable from owners:

The Company has the following notes receivable from owners at varying interest rates and repayment terms:

	<u>November 30, 1999</u>	<u>December 31, 1998</u>
Note receivable, maturing February 1, 2004, bearing interest at 6.34% with annual blended payments of \$11,980.....	\$ 50,000	\$ —
Note receivable due on demand, bearing interest at 8.29%	50,000	50,000
Note receivable due on demand, bearing interest at 7%	40,000	40,000
Notes receivable due on demand, bearing interest at 8.29%	150,000	150,000
Note receivable, maturing February 1, 2002, bearing interest at 6.35% with annual blended payments of \$38,377.....	101,865	131,830
Note receivable, maturing February 2, 2003, bearing interest at 6.34% with annual blended payments of \$43,818.....	150,661	182,885
Note receivable, maturing February 3, 2003, bearing interest at 6.34% with annual blended payments of \$7,304.....	25,110	30,481
Accrued interest	<u>138,469</u>	<u>121,557</u>
	706,105	706,753
	<u>389,842</u>	<u>429,117</u>
Less current portion	<u>\$316,263</u>	<u>\$277,636</u>

6. Notes payable:

	<u>November 30, 1999</u>	<u>December 31, 1998</u>
Note payable, bearing interest at 8.5%, payable in monthly installments of principal in the amount of \$6,875 plus interest through March 3, 2001, secured by accounts receivable, furniture, equipment and machinery	\$116,875	\$192,500
Note payable, bearing interest at 7%, payable in quarterly installments of principal and interest in the amount of \$8,954 through November 1, 2002	96,158	124,013
Note payable, bearing interest at 8.5%, payable in monthly installments of principal in the amount of \$9,842 plus accrued interest through September 24, 1999, secured by accounts receivable, furniture, equipment and machinery	—	88,575
	213,033	405,088
Less current portion	<u>146,731</u>	<u>198,929</u>
	<u>\$ 66,302</u>	<u>\$206,159</u>

7. Obligations under capital leases:

The Company leases certain furniture and equipment under capital leases. Future minimum payments required under the leases are as follows:

	<u>November 30, 1999</u>	<u>December 31, 1998</u>
	(Unaudited)	
1999	\$ —	\$141,965
2000	149,497	130,449
2001	129,079	108,217
2002	99,743	76,218
2003	<u>9,641</u>	<u>2,443</u>
Total minimum lease payment	387,960	459,292
Less amount representing interest (at rates ranging from 8.8% to 11.7%)	<u>55,006</u>	<u>80,532</u>
Present value of net minimum capital lease payments	332,954	378,760
Current portion of obligations under capital leases	<u>118,000</u>	<u>105,927</u>
	<u>\$214,954</u>	<u>\$272,833</u>

8. Deferred compensation:

The deferred compensation balance represents the present value of continuing benefits for a former officer of the Company and the present value of the vested amounts owing to a owner and a former owner under deferred compensation arrangements. The Company has recorded an expense of \$50,129 in the eleven-month period ended November 30, 1999 and \$63,624 in the year ended December 31, 1998. The Company has made payments under these arrangements in the amounts of \$134,847 in the eleven-month period ended November 30, 1999 and \$141,737 in the year ended December 31, 1998.

9. Owners' interest:

The authorized share capital of FMAI consists of 250,000 common shares with a par value of \$0.10 per share.

At November 30, 1999, FMAI has issued 4,375 common shares at a stated value of \$437 (December 31, 1998 — 6,250 common shares at a stated value of \$625).

During the period ended November 30, 1999, FMAI redeemed 1,875 common shares for a total cost of \$300,000. The excess of the redemption amount over the stated capital was first applied to reduce paid-in capital with the remaining taken as a charge to retained earnings.

During the year ended December 31, 1998, FMAI acquired, and recorded as treasury shares, 312.5 common shares at a price of \$160 per common share for a total cost of \$50,000 plus costs totalling \$775. During the period ended November 30, 1999, FMAI sold the 312.5 treasury shares for proceeds of \$50,000. The difference between the cost of \$50,775 and the proceeds of \$50,000 was recorded as a reduction to paid-in capital in excess of par value.

During the period ended November 30, 1999, the Company issued a 30% owner interest to two owners of FMAI for \$300,000.

10. Commitments:

The Company conducts its operations from facilities that are leased under a seven-year noncancellable operating lease expiring on April 30, 2001. Terms of the lease provide for additional rent to cover operating expenses and increases in real estate taxes.

In addition, the Company has a non-cancellable licensing agreement covering a suite for 16 seats at the Georgia Dome. Terms of the agreement provide for ten annual payments of \$40,000 expiring on June 30, 2002.

The Company is committed to payments under these agreements as follows:

2000	611,609
2001	635,584
2002	614,515

11. Financial instruments and concentration of credit risk:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable from owners, accounts payable and accrued liabilities, notes payable, note payable to owners, capital lease obligations and deferred compensation.

The Company's financial assets that are exposed to credit risk consist primarily of accounts receivable. The Company, in its normal course of operations is exposed to credit risk from its customers. The Company performs periodic credit evaluations of the financial condition of its customers. Allowances are maintained for potential credit losses consistent with the credit risk of specific customers.

For the period ended November 30, 1999, approximately 62% of the Company's gross billings were made to companies under common control (1998 — 80%). The president of the holding company of the companies under common control is also a shareholder and member of the board of directors of FMAI. Amounts receivable from this group of companies under common control amounted to approximately \$8,053,000 as at November 30, 1999 (1998 — \$7,819,000) and have been included in accounts receivable.

The Company has determined the fair values of its financial instruments as follows:

- (a) Cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities:
The carrying values in the balance sheet approximate their values due to the relatively short periods to maturity of the instruments.
- (b) Notes payable to and receivable from owners and deferred compensation:
The fair value is not possible to determine, as there are no similar instruments which are traded between non-related parties.
- (c) The fair value of notes payable and capital lease obligations approximate their carrying values as the implicit rates on these instruments approximate the current market rates of interest available to the Company for the same or similar debt instrument.

AUDITORS' REPORT

To the Stockholders of

MARGEOTES/FERTITTA + PARTNERS, INC.

We have audited the balance sheets of Margeotes/Fertitta + Partners, Inc. as at March 31, 1998, and December 31, 1997 and the statements of operations and retained earnings and cash flows for each of the periods 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 audits.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1998 and December 31, 1997 and the results of its operations and its cash flows for each of the periods then ended in accordance with generally accepted accounting principles in Canada.

Markham, Ontario
September 20, 1999

MARGEOTES/FERTITTA + PARTNERS, INC.

BALANCE SHEETS

(U.S. dollars)

	<u>March 31, 1998</u>	<u>December 31, 1997</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,033,849	\$3,660,347
Accounts receivable	7,545,746	4,178,104
Expenditures billable to clients	—	62,810
Loans receivable (Note 1)	41,922	26,900
Prepaid expenses and deposits	<u>8,862</u>	<u>8,784</u>
	10,630,379	7,936,945
Capital Assets (Note 2)	<u>412,691</u>	<u>364,754</u>
	<u><u>\$11,043,070</u></u>	<u><u>\$8,301,699</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 9,174,196	\$6,448,811
Client advances	<u>1,044,044</u>	<u>1,353,549</u>
	10,218,240	7,802,360
Deferred compensation payable (Note 3)	<u>—</u>	<u>402,720</u>
	<u>10,218,240</u>	<u>8,205,080</u>
Stockholders' Equity		
Common stock:		
Class A — par value \$100 — 100 shares Authorized, 54.85 shares issued ..	5,485	5,485
Class B — par value \$100 — 675 shares Authorized, 27.5 shares issued ...	2,750	2,750
Additional paid in capital	1,765	1,765
Retained earnings	<u>814,830</u>	<u>86,619</u>
	824,830	96,619
	<u><u>\$11,043,070</u></u>	<u><u>\$8,301,699</u></u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MARGEOTES/FERTITTA + PARTNERS, INC.

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(U.S. dollars)

	Three months ended March 31, 1998	Year ended December 31, 1997
Revenue	\$3,698,851	\$13,080,726
Operating expenses	<u>2,923,597</u>	<u>12,612,024</u>
Operating income before amortization	775,254	468,702
Amortization	<u>45,000</u>	<u>163,427</u>
Operating income	730,254	305,275
Interest income	24,186	63,628
Loss on sale of investment security	<u>—</u>	<u>(4,663)</u>
Income before income taxes	754,440	364,240
State and city income taxes	<u>26,229</u>	<u>56,980</u>
Net income for the period	728,211	307,260
Retained earnings, beginning of period	86,619	44,359
Distributions to stockholders	<u>—</u>	<u>(265,000)</u>
Retained earnings, end of period	<u><u>\$ 814,830</u></u>	<u><u>\$ 86,619</u></u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MARGEOTES/FERTITTA + PARTNERS, INC.

STATEMENTS OF CASH FLOWS

(U.S. dollars)

	Three months ended March 31, 1998	Year ended December 31, 1997
Cash flows from operating activities		
Net income for the period	\$ 728,211	\$ 307,260
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization	45,000	163,427
Loss on sale of investment security	—	4,663
Changes in non-cash working capital balances		
Accounts receivable	(3,367,642)	(452,654)
Expenditures billable to clients	62,810	242,372
Loans receivable	(15,022)	(9,800)
Prepaid expenses and deposits	(78)	(807)
Accounts payable and accrued liabilities	2,725,385	(774,351)
Client advances	(309,505)	404,452
Deferred compensation payable	(402,720)	118,720
	<u>(533,561)</u>	<u>3,282</u>
Cash flows from investing activities		
Purchase of capital assets	(92,937)	(101,543)
Sale (purchase) of investment security	—	101,454
	<u>(92,937)</u>	<u>(89)</u>
Cash flows from financing activities		
Distributions to stockholders	—	(265,000)
Net increase (decrease) in cash and cash equivalents	(626,498)	(261,807)
Cash and cash equivalents, beginning of period	<u>3,660,347</u>	<u>3,922,154</u>
Cash and cash equivalents, end of period	<u><u>\$ 3,033,849</u></u>	<u><u>\$3,660,347</u></u>
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Income taxes	<u>\$ 26,229</u>	<u>\$ 56,980</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MARGEOTES/FERTITTA + PARTNERS, INC.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

March 31, 1998 and December 31, 1997

Nature of Business	Margeotes/Fertitta + Partners, Inc. (the “Company”) is engaged in the business of producing and distributing advertising for various media. Operating revenue is principally derived from commissions and fees earned for the production and placement of advertisements.
Expenditures Billable to Clients	Expenditures billable to clients represent costs incurred by the Company for jobs that have not been completed. Such costs are billed to clients when the jobs are completed and the clients are billed for corresponding fees and commissions.
Client Advances	Advances from clients represent amounts billed to clients for jobs which have not been completed or media that has not run. Also included are amounts received from clients in excess of the amount billable for jobs which have been completed.
Capital Assets	Capital assets are stated at cost less accumulated amortization. Amortization based on the estimated useful life of the asset is calculated as follows: Furniture and equipment — 20% diminishing balance basis Leasehold improvements — straightline basis over the term of the lease
Cash and Cash Equivalents	The company considers all cash and highly liquid investments purchased with an initial maturity of three months or less to be cash or cash equivalents. The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents.
Accounting Estimates	The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.
Concentrations of Credit Risk	Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company places its cash investments with high quality financial institutions in accounts which, at times, may exceed Federally insured limits. Concentrations of credit risk with respect to accounts receivable are limited due to the number of customers serviced by the Company and their generally short payment terms.

MARGEOTES/FERTITTA + PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 1998 and December 31, 1997

(U.S. dollars)

1. Loans Receivable

The loans receivable are unsecured non interest bearing with no specific terms of repayment.

2. Capital Assets

	March 31, 1998		December 31, 1997	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and equipment	\$ 710,253	\$ 386,006	\$ 617,316	\$ 368,035
Leasehold improvements	808,302	719,858	808,302	692,829
	<u>1,518,555</u>	<u>1,105,864</u>	<u>1,425,618</u>	<u>1,060,864</u>
		<u>\$ 412,691</u>		<u>\$ 364,754</u>

3. Employment and Deferred Compensation Agreements

The Company entered into an employment agreement with a key employee with a term that commenced on June 1, 1994 and continues through May 31, 1999. Under the terms of the agreement, the employee is committed to perform certain duties and fulfill certain responsibilities to the Company and is subject to certain restrictive covenants during the term of the agreement.

The agreement provides that the employee will receive a salary of not less than \$350,000 per annum, as well as certain other benefits and prerequisites. In addition, the employee will earn certain formula-based deferred compensation based on total revenue received from a stated client during the term of the agreement and revenue received from all other clients in excess of \$10,000,000 during the last 12 months of the term of the agreement. The deferred compensation earned is payable over a period of five years commencing on June 1, 1999. The employee is also entitled to an annual bonus based on a percentage of the Company's net profits.

During the years ended December 31, 1997 and 1996, the employee earned deferred compensation based on the revenue received from the stated client. The present value of the deferred compensation earned is estimated to be \$402,720 and \$284,000 as of December 31, 1997 and 1996, respectively. The accompanying financial statements reflect non-current liabilities in those amounts and expenses of \$118,720 and \$110,000 in 1997 and 1996, respectively.

4. Income Taxes

The Company has elected to be treated as a Subchapter S corporation for Federal and New York State purposes. Accordingly, there is no provision for Federal income taxes in the accompanying financial statements. The accompanying financial statements do include New York City tax expense and New York State tax that is imposed on the Subchapter S corporation.

5. Line of Credit

The company has a line of credit from Chase Bank that provides for loans not to exceed \$500,000 with interest payable at prime plus 1%. As at March 31, 1998 the balance outstanding under the line of credit equals \$NIL (December 31, 1997 — \$Nil).

6. Profit Sharing Plan

The Company has a profit sharing plan, which includes provisions for contributions through salary reductions under Internal Revenue Code Section 401(K). No employer contributions were made to this plan during the period ended March 31, 1998 and the year ended December 31, 1997.

7. Operating Leases

The Company leases office space under a lease, which expires on December 31, 2002. The lease provides for base rent plus escalations for increase in real estate tax and operating expenses.

The Company also leases a telephone system, copiers and certain computer equipment and software under operating leases expiring in various years through August 2001.

Minimum future rental payments under non-cancellable operating leases having remaining terms in excess of one year for each of the next four fiscal years are approximately as follows:

Fiscal Year Ended December 31,

1999.....	\$ 991,000
2000.....	921,000
2001.....	864,000
2002.....	<u>849,000</u>
Total	<u><u>\$3,625,000</u></u>

8. Commitment

The Company maintains a standby letter of credit in the amount of \$83,500 for the benefit of the landlord as security for the payment of rent.

9. Significant Clients

During the period, six clients accounted for approximately 76.5% of the Company's total revenue of which one customer accounts for 34.5%.

10. Subsequent Events

On July 31, 1998 substantially all the assets of the Company were transferred to a Delaware Limited Liability Company, that was formed on July 22, 1998, Margeotes/Fertitta + Partners, LLC. The operations of the business of the company continued without change.

On July 31, 1998, the 100% owner of the Company and its successor company sold 80% of its membership interest to another entity under the terms of a purchase agreement dated as of April 1, 1998.

In conjunction with the change of ownership, the Company entered into an employment agreement with the 100% owner of the Predecessor Entity (the "Executive"), with an initial term that commenced on July 31, 1998 and continues through December 31, 2003. Under the terms of the agreement, the Executive is obligated to perform certain duties and fulfil certain responsibilities to the Company. The Executive is to be compensated at the rate of \$350,000 per annum plus certain fringe benefits.

The Executive also entered into a non-solicitation agreement with the Company under which he is subject to certain restrictive covenants.

In conjunction with the change of ownership, the Company entered into agreements with ten employees of the Company each dated July 31, 1998. Under the terms of the agreements, the employees are obligated to perform the duties and responsibilities of the positions that they held with the Predecessor Entity and are subject to certain restrictive covenants. The compensation to be paid to the employees as well as severance compensation in the event of termination are stated in the agreements. The agreements provide for at-will employment and, therefore, employment can be terminated at any time by the Company or the employees.

SOURCE MARKETING, INC.

BALANCE SHEETS

As at September 30, 1998

(U.S. dollars)

(Unaudited)

ASSETS

Current

Cash and cash equivalents	\$ 565,743
Accounts receivable	870,855
Work in process	144,102
Prepaid expenses and deposits	<u>10,494</u>
	1,591,194

Capital assets (Note 1)	<u>105,724</u>
	<u>\$1,696,918</u>

LIABILITIES AND SHAREHOLDER'S EQUITY

Current

Accounts payable and accrued liabilities	58,905
Client advances	101,148
Due to officer	<u>1,100,000</u>
	1,260,053

Shareholder's equity

Share capital	2,000
Retained earnings	<u>434,865</u>
	436,865
	<u>\$1,696,918</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

SOURCE MARKETING, INC.

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the nine month period ended September 30, 1998

(U.S. dollars)

(Unaudited)

Gross billings	\$3,581,197
Direct costs	<u>1,205,894</u>
Gross income	2,375,303
Operating expenses	<u>2,349,379</u>
Operating income	<u>25,924</u>
Other charges	
Amortization	32,536
Interest	<u>(21,479)</u>
	<u>11,057</u>
Net income for the period	14,867
Retained earnings, beginning of period	<u>419,998</u>
Retained earnings, end of period	<u><u>\$ 434,865</u></u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

SOURCE MARKETING, INC.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

September 30, 1998

(U.S. dollars)

(Unaudited)

Nature of Business	Source Marketing, Inc. (the "Company") is engaged in the business of providing sales promotion and marketing services. Such services also include producing and distributing advertising for various media.
Capital Assets	Capital assets are recorded at cost. Amortization is provided on a straight-line basis over the estimated useful life.
Client Advances	Advances from clients represent amounts billed to clients for jobs, which have not been completed, or media that has not run.
Revenue Recognition	Revenue is recognized using the percentage of completion method with respect to contracts having a specified time period for the performance of the service. Work in progress is estimated as the portion of revenue which has been earned but not billed. Customer billings in advance are recorded as deferred revenue. Potential losses, if any, on work in progress are provided for as soon as the possibility of a loss becomes apparent. All other revenue is recorded when the service is completed and/or the product is delivered.
Financial Instruments	The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and due to officer.
Credit Risk	The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. Concentrations of credit risk with respect to accounts receivable are limited due to the number of customers serviced by the Company and their generally short payment terms.
Fair Value	The carrying value of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities, approximates fair value due to their short-term maturities.
Cash and Cash Equivalents	The Company considers all cash and highly liquid investments purchased with an initial maturity of three months or less to be cash or cash equivalents. The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents.
Accounting Estimates	The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

SOURCE MARKETING, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 1998

(U.S. dollars)

(Unaudited)

1. Capital Assets

	<u>Cost</u>	<u>Accumulated Amortization</u>
Automobile	\$ 76,240	\$ 26,663
Furniture and fixtures	36,546	12,138
Computer equipment	100,219	68,480
	<u>213,005</u>	<u>107,281</u>
Net book value	<u>\$105,724</u>	

2. Profit Sharing Plan

The Company has a profit sharing plan ("the Plan"), which includes provisions for contributions through salary reductions under Internal Revenue Code Section 401(K) and discretionary matching contributions by the Company. In addition, the Plan provides for additional discretionary contributions by the Company. The accompanying balance sheet includes a provision for contributions payable to the Plan of \$44,330 as at September 30, 1998.

3. Income Taxes

The Company has elected to be treated as a Subchapter S corporation for Federal and Connecticut State purposes. Accordingly, there is no provision for Federal and State income taxes in the accompanying financial statements.

4. Commitments

The Company leases office space under a lease, which expires on May 31, 1999. The lease provides for base rent of \$5,037 per month, plus escalations for increases in real estate tax and operating expenses.

5. Subsequent Event

On October 15, 1998 substantially all of the assets and liabilities of Source Marketing, Inc. ("Company") were transferred to a New York Limited Liability Company, that was formed on October 9, 1998, Source Marketing, LLC ("Newco"). The operations of the business formerly conducted by the Company continued without change.

On October 15, 1998, the 100% owner of the Company and Newco sold 81.5% of its membership interest to another entity under a letter of intent dated July 23, 1998.

In conjunction with the change of ownership, the Company entered into an employment agreement with the 100% owner of the Predecessor Entity (the "Executive"), with an initial term that commenced on October 15, 1998 and continues through December 31, 2003. Under the terms of the agreement, the Executive is to be compensated for performing certain duties and fulfill certain responsibilities of the Company. The Executive is to be compensated at the rate of \$300,000 per annum plus certain fringe benefits.

The Executive also entered into a non-solicitation agreement with the Company under which he is subject to certain restrictive covenants.

6. Changes in Financial Position

The Statement of Changes in Financial Position was not prepared as it was not practical to do so.

CERTIFICATE OF THE COMPANY AND THE PROMOTER

Dated: February 22, 2000

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of the *Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), Section 63 of the *Securities Act* (Nova Scotia), Section 13 of the *Security Frauds Prevention Act* (New Brunswick), Part 11 of the *Securities Act* (Prince Edward Island) and by Part XIV of the *Securities Act, 1990* (Newfoundland) and the respective regulations thereunder, and does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

(Signed) BEVERLEY MORDEN
Chief Executive Officer

(Signed) JOHN MADURI
Chief Financial Officer

On behalf of the Board of Directors

(Signed) MILES S. NADAL
Director

(Signed) DAVID R. SHAW
Director

Promoter

MDC CORPORATION INC.

(Signed) MILES S. NADAL
Chairman, President and
Chief Executive Officer

(Signed) STEPHEN O. MARSHALL
Executive Vice President,
Corporate Development

CERTIFICATE OF THE UNDERWRITERS

Dated: February 22, 2000

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of the *Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), Section 64 of the *Securities Act* (Nova Scotia), Section 13 of the *Security Frauds Prevention Act* (New Brunswick), Part 11 of the *Securities Act* (Prince Edward Island) and by Part XIV of the *Securities Act, 1990* (Newfoundland) and the respective regulations thereunder, and does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

CIBC WORLD MARKETS INC.

RBC DOMINION SECURITIES INC.

(Signed) DANIEL J. MCCARTHY

(Signed) ROSEMARIE N. BAKER

BUNTING Warburg DILLON READ INC.

GRIFFITHS McBURNEY & PARTNERS

(Signed) JAMES E. KOFMAN

(Signed) JASON J. ROBERTSON

NATIONAL BANK FINANCIAL INC.

NESBITT BURNS INC.

(Signed) DOUGLAS O. POCOCK

(Signed) HAROLD M. WOLKIN

SCOTIA CAPITAL INC.

TD SECURITIES INC.

(Signed) SANDRA L. ROSCH

(Signed) JEREMY M.C. WALKER

CANACCORD CAPITAL CORPORATION

THOMSON KERNAGHAN & CO. LTD.

(Signed) BRAD GRIFFITHS

(Signed) LIONEL F. CONACHER

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

CIBC WORLD MARKETS INC.: a wholly-owned subsidiary of a Canadian chartered bank.

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

BUNTING Warburg DILLON READ INC.: a wholly-owned subsidiary of Bunting Warburg Dillon Read Limited.

GRIFFITHS McBURNEY & PARTNERS: Eugene C. McBurney, Kevin Sullivan, Michael Wekerle, Thomas A. Budd and J. Robert Fraser.

NATIONAL BANK FINANCIAL INC.: an indirect wholly-owned subsidiary of a Canadian chartered bank.

NESBITT BURNS INC.: a wholly-owned subsidiary of The Nesbitt Burns Corporation Limited, an indirect majority-owned subsidiary of a Canadian chartered bank.

SCOTIA CAPITAL INC.: a wholly-owned subsidiary of a Canadian chartered bank.

TD SECURITIES INC.: a wholly-owned subsidiary of a Canadian chartered bank.

CANACCORD CAPITAL CORPORATION: Peter M. Brown (through The MacLachlan Investments Corporation), Michael G. Greenwood (directly and through 728541 Alberta Ltd.) and Michael W. Murphy (directly and through 517387 B.C. Ltd.). Their interests are held indirectly through Canaccord Investment Ltd. and Canaccord Holdings Ltd.

THOMSON KERNAGHAN & CO. LTD.: a wholly-owned subsidiary of T.K. Holdings Inc.

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BRANDING AND CORPORATE IDENTITY	Strategies International
INTERACTIVE MARKETING	CyberSight, LLC

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