

Preliminary Prospectus Dated February 29, 2000

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

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 offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act"), and, accordingly, will only be offered or sold within the United States of America pursuant to Rule 144A under the 1933 Act. See "Plan of Distribution."

Initial Public Offering



OnX INCORPORATED

\$ ●

● **Common Shares**

This offering (the "Offering") consists of ● Common Shares (the "Offered Shares") in the capital of OnX Incorporated ("OnX" or the "Company") at a price of \$ ● per Common Share. See "Plan of Distribution." The offering price of the Offered Shares was determined by negotiation among the Company and Yorkton Securities Inc., CIBC World Markets Inc., HSBC Securities (Canada) Inc. and National Bank Financial Inc. (collectively, the "Underwriters"). **After giving effect to the Offering and the exercise of previously issued 1,878,500 Treasury Special Warrants and assuming no exercise of the Over-Allotment Option or the Compensation Options, the offering price of each Offered Share exceeds, as at December 31, 1999, the consolidated net tangible book value thereof by \$ ●, representing a dilution factor of ● %.** See "Dilution."

An investment in securities of the Company is speculative and involves significant risks which should be carefully considered by prospective investors before purchasing such securities. See "Risk Factors." There is currently no market through which the Common Shares offered hereby may be sold.

Price: \$ ● per Common Share

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

- (1) The Company has granted to the Underwriters an option (the "Over-Allotment Option"), exercisable for a period of 60 days from the date of closing of the Offering, to purchase up to ● additional Common Shares at the offering price to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total Price to the Public, Underwriters' Fee and Net Proceeds to the Company will be \$ ●, \$ ● and \$ ●, respectively. This prospectus qualifies the distribution of the Common Shares issuable upon the exercise of the Over-Allotment Option. See "Plan of Distribution".
- (2) As additional compensation, the Company will issue compensation options (the "Compensation Options") to the Underwriters to purchase up to ● Common Shares exercisable at the offering price at any time prior to the date which is 24 months from the date of closing of the Offering. This prospectus also qualifies the distribution of the Compensation Options. See "Plan of Distribution".
- (3) Before deducting expenses of the Offering, estimated to be \$ ●, which will be paid by the Company. See "Use of Proceeds".

The Underwriters, as principals, conditionally offer the Offered Shares, subject to prior sale, if, as and when issued and sold by the Company and delivered to and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution", and subject to the approval of certain legal matters on behalf of the Company by Cassels Brock & Blackwell LLP and on behalf of the Underwriters by Blake, Cassels & Graydon LLP.

Subscriptions will be received subject to rejection or allotment in whole or in part, and the right is reserved to close the subscription books at any time without notice. It is expected that definitive certificates evidencing the Offered Shares will be available for delivery at the closing of the Offering, which is expected to take place on or about ●, 2000, or on such other date as may be agreed upon, but not later than ●, 2000.

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DOCU.MAX and GLOBAL-X-CHANGE are registered trade-marks of the Company and OnX and OnX.com are trade-marks of the Company. This prospectus contains other product names, trade names, trade-marks and service marks of other organizations, all of which are the properties of their respective owners. All dollar amounts referenced herein, unless otherwise indicated, are expressed in Canadian dollars.

INFORMATION CONTAINED IN THE COMPANY'S INTERNET SITES SHALL NOT BE DEEMED TO BE PART OF THIS PROSPECTUS.

Unless otherwise indicated, all references to Common Shares of the Company contained in this prospectus give effect to the subdivision of Common Shares on a 1.65 for one basis (the "Subdivision") to be completed prior to the closing of the Offering. Unless otherwise indicated, references to Common Shares of the Company are made without giving effect to the exercise of the Over-Allotment Option, Compensation Options, Purchase Warrants, Bonus Warrants, Special Warrant Underwriter's Warrants, employee stock options and the conversion of convertible debentures. See "Consolidated Capitalization".

PROSPECTUS SUMMARY

The following is a summary only and is qualified in its entirety by, and should be read in conjunction with, the more detailed information contained herein and the Company's consolidated financial statements, including the notes thereto, appearing elsewhere in this prospectus. A prospective investor should carefully review the entire contents of this prospectus and consult his or her legal and other professional advisors having relevant expertise. Certain terms used in this prospectus are defined in the Glossary.

THE COMPANY

OnX is a provider of end-to-end e-Business solutions to medium and large companies and public sector organizations. The Company develops solutions that facilitate and promote e-Business between businesses and between businesses and consumers. OnX is focusing on leveraging the opportunities presented by e-Business to create, generate and sustain new value and competitive advantage for its clients by utilizing the Internet and associated technologies to enhance their operations. OnX's e-Business solutions consist of:

- e-Business services
 - strategy consulting
 - software application design and integration
 - creative design and marketing
 - e-Business infrastructure planning, design and implementation
 - application hosting
 - repeatable solutions
- IT infrastructure and integration
- ASP Internet venture incubation.

OnX carries on business in the e-Business solutions industry which includes e-Business services and IT infrastructure and integration solutions. The e-Business services segment has been, and is expected to be, dynamic and fast growing and the IT infrastructure and integration solutions segment has been, and is expected to be, characterized by steady growth. Forrester Research Inc. ("Forrester Research") predicts that the market for e-Business services in the United States will grow significantly from US\$4.1 billion in 1998 to US\$64.8 billion by 2003, a compound annual growth rate of approximately 74 percent. Forrester Research also estimates that the median e-Commerce spending budgets for United States-based companies will approach US\$1.5 million by 2001 (from US\$750,000 in 1999). OnX intends to exploit the opportunities created by the increased demand for strategic e-Business solutions within the North American marketplace by:

- leveraging existing client relationships and IT infrastructure partner relationships into new e-Business opportunities
- acquiring strategic businesses
- investing in marketing and branding
- incubating ASP Internet ventures.

OnX believes that this strategy will allow it to remain one of Canada's, and become one of North America's, leading providers of e-Business solutions.

In the year ended April 30, 1999, OnX generated \$149.1 million in revenue from over 750 clients, of which e-Business services contributed \$15.8 million and IT infrastructure and integration solutions contributed \$122 million. The remaining revenues were generated from the wholesale of disk storage products, a non-strategic, opportunistic business segment in which OnX ceased sales in May 1999. OnX has grown to 290 full time employees and has seven offices located in five major Canadian cities. From 1983 to 1996, OnX's focus was primarily as a systems integrator and value-added reseller of client server infrastructure and software. In 1996, OnX established a services division to provide end-to-end e-Business solutions for its clients.

Today, OnX's focus is to provide end-to-end e-Business solutions. Forrester Research indicates that prospective e-Business solution clients will, on average, use three different service providers to implement their

e-Business solutions. OnX's end-to-end e-Business solutions capability provides its clients with a single point of contact and accountability for their entire e-Business strategy and deployment, enabling OnX to more effectively execute a client's e-Business solution. OnX believes it has a competitive advantage over interactive design companies, Web boutiques and marketing services firms as it has integrated each of these core competencies with its system integration experience and IT infrastructure relationships to provide end-to-end e-Business solutions. In addition to these e-Business services, OnX also provides application hosting services to its clients and identifies, creates and operates ASP Internet ventures.

OnX has acquired in-depth knowledge of multiple generations of IT products as a result of its extensive experience in the traditional IT infrastructure and integration business. This extensive knowledge and experience enables OnX to seamlessly integrate these legacy IT products with new Internet applications, providing OnX with a distinct advantage over non-integrated or partial solutions firms such as Web boutiques.

OnX's traditional enterprise-class IT infrastructure and integration business provides an ongoing revenue stream and a source of e-Business service opportunities. This line of business has assisted OnX in establishing long-term and beneficial relationships with its IT infrastructure partners such as Sun Microsystems Inc., Hewlett-Packard Company, Netscape Communications Corporation, Microsoft Corporation, Compaq Computer Corporation, International Business Machines Corporation, EMC Corporation, Veritas Software Corporation, Oracle Corporation and FileNet Corporation. These IT infrastructure partners provide OnX with referral opportunities to sell e-Business solutions to their existing client base, thereby extending OnX's reach into the marketplace.

OnX's clients are primarily in the telecommunications, government and financial services sectors. Since 1983, OnX has completed hundreds of projects for a diverse client base. OnX's most significant e-Business services clients include two Canadian chartered banks, Xerox Corporation, Health Canada (Canadian Health Network) and a major courier company and its most significant IT infrastructure and integration clients include Bell Canada, Ontario Power Generation Inc., Canada Customs & Revenue Agency, Toyota Canada Inc., and Rogers Cantel Inc. (Rogers AT&T).

OFFERING

| | |
|-------------------------------|--|
| Offering: | ● Common Shares |
| Price: | \$ ● per Common Share |
| Amount: | \$ ● |
| Use of Proceeds: | The net proceeds to the Company from the Offering (without giving effect to the Over-Allotment Option) will be \$ ● million, after deduction of the Underwriters' Fee of \$ ● and the estimated expenses of the Offering of \$ ●. The Company intends to use the net proceeds of the Offering as follows: (i) approximately \$ ● million to finance strategic acquisitions; (ii) approximately \$ ● million to finance sales and marketing; (iii) approximately \$ ● million to invest in the incubation of ASP Internet ventures; and (iv) the balance of approximately \$ ● million for working capital and for general corporate purposes. See "Use of Proceeds". |
| Over-Allotment Option: | The Company has granted to the Underwriters the Over-Allotment Option exercisable for a period of 60 days from the closing of the Offering to purchase up to ● additional Common Shares at the offering price to cover over-allotments, if any, and for market stabilization purposes. See "Plan of Distribution". |
| Dividend Policy: | The board of directors of the Company intends to retain future earnings for reinvestment in the Company's business and, therefore, has no current intention to pay dividends on Common Shares in the foreseeable future. See "Dividend and Record Policy". |
| Risk Factors: | An investment in securities of the Company is speculative and involves significant risks which should be carefully considered by prospective investors before purchasing such securities. See "Risk Factors". |

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth selected unaudited consolidated financial information of OnX for the eight month periods ended December 31, 1999 and 1998 and selected audited consolidated financial information of OnX for the three fiscal years of OnX ended April 30, 1999, 1998 and 1997. The following summary of selected consolidated financial information is derived from, should be read in conjunction with and is qualified in its entirety by reference to OnX's consolidated financial statements, including the notes thereto and Management's Discussion and Analysis of Results of Operations and Financial Condition included elsewhere in this prospectus.

Income Statement Data

| | Eight Months Ended December 31, | | Year Ended April 30, | | |
|--|--|---------------------|----------------------|-----------------|-----------------|
| | 1999 (unaudited) | 1998 (unaudited) | 1999 | 1998 | 1997 |
| | (in thousands of dollars, except per share data) | | | | |
| Sales: | | | | | |
| IT infrastructure | \$54,041 | \$73,467 | \$122,001 | \$ 92,202 | \$ 60,896 |
| e-Business services | 16,798 | 5,772 | 15,788 | 5,159 | 676 |
| Wholesale | — | 10,095 | 11,288 | 11,102 | 39,667 |
| | <u>70,839</u> | <u>89,334</u> | <u>149,077</u> | <u>108,463</u> | <u>101,239</u> |
| Cost of sales | 55,276 | 72,554 | 120,021 | 85,767 | 87,144 |
| Gross margin: | | | | | |
| IT infrastructure | 9,292 | 14,811 | 23,523 | 19,960 | 11,203 |
| e-Business services | 6,271 | 1,517 | 5,112 | 2,172 | 676 |
| Wholesale | — | 452 | 421 | 564 | 2,216 |
| | <u>15,563</u> | <u>16,780</u> | <u>29,056</u> | <u>22,696</u> | <u>14,095</u> |
| Expenses: | | | | | |
| Selling | 7,024 | 5,527 | 11,668 | 7,118 | 4,513 |
| Administrative | 5,049 | 4,566 | 6,714 | 6,161 | 4,188 |
| Amortization | 948 | 643 | 1,004 | 582 | 278 |
| Interest and bank charges | 608 | 758 | 1,148 | 1,006 | 567 |
| Total expenses | <u>13,629</u> | <u>11,494</u> | <u>20,534</u> | <u>14,867</u> | <u>9,546</u> |
| Loss on disposal of investment | 102 | — | — | — | — |
| Income before income taxes | 1,832 | 5,286 | 8,522 | 7,829 | 4,549 |
| Income taxes | 998 | 2,496 | 4,362 | 3,601 | 2,162 |
| Net income | <u>\$ 834</u> | <u>\$ 2,790</u> | <u>\$ 4,160</u> | <u>\$ 4,228</u> | <u>\$ 2,387</u> |
| Earnings per share ⁽¹⁾ : | | | | | |
| Pre-Subdivision | \$ 0.07 | \$ 0.23 | \$ 0.34 | \$ 0.35 | \$ 0.20 |
| Post-Subdivision | \$ 0.04 | \$ 0.14 | \$ 0.21 | \$ 0.21 | \$ 0.12 |

(1) Assumes the Common Shares outstanding after completion of the share reorganization in December 1999, both before and after giving effect to the Subdivision, had been outstanding at the beginning of each of the periods referred to. Fully diluted earnings per share information, computed on a similar basis, has not been provided as it is anti-dilutive. See "Prior Sales".

Balance Sheet Data

| | <u>As at</u> <u>December 31, 1999</u> | <u>As at April 30,</u> | |
|--|--|------------------------|-----------------|
| | (unaudited) | <u>1999</u> | <u>1998</u> |
| | (in thousand of dollars) | | |
| Assets: | | | |
| Current assets | \$33,786 | \$44,513 | \$39,913 |
| Capital assets | 5,765 | 3,843 | 2,454 |
| Deferred development costs | 1,401 | — | — |
| Goodwill | 2,841 | 1,502 | 1,748 |
| Investment and other | 499 | 144 | — |
| Deferred income taxes | 649 | — | — |
| Total assets | <u>\$44,941</u> | <u>\$50,002</u> | <u>\$44,115</u> |
| Liabilities and shareholders' equity: | | | |
| Current liabilities | \$20,790 | \$36,160 | \$32,299 |
| Term loans | — | 519 | 1,443 |
| Convertible debentures | 754 | — | — |
| Deferred income taxes | — | 265 | 189 |
| Shareholders' equity | <u>23,397</u> | <u>13,058</u> | <u>10,184</u> |
| Total liabilities and shareholders' equity | <u>\$44,941</u> | <u>\$50,002</u> | <u>\$44,115</u> |

GLOSSARY

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

| | |
|--|---|
| application hosting: | An outsourcing service that provides the necessary IT systems and services to operate and manage a client application. |
| architecture: | Computer system architecture is a particular methodology for bringing together and utilizing selected computer hardware, systems software and applications software to achieve an overall objective. |
| ASP: | Application service provider. |
| B2B: | e-Business between businesses. |
| B2C: | e-Business between a business and consumers. |
| customer relationship management (CRM): | The ability to manage sales and marketing processes over the Internet. |
| e-Business: | e-Business is the conduct of business over the Internet through the application of IT to business processes to facilitate communication, collaboration among business partners and commerce (the purchase and sale of products and services). |
| e-Business security: | Providing secure networks, procedures and technologies to ensure the integrity of information. |
| e-Business solutions: | e-Business services and IT infrastructure and integration solutions. |
| e-Commerce: | Commerce (the purchase and sale of products and services) transacted over the Internet via secure transaction processing. |
| end-to-end: | e-Business solutions that encompass a full suite of services including: strategy consulting; software application design and integration; creative design and marketing; e-Business infrastructure planning, design and implementation; application hosting; and the sale of IT infrastructure and integration solutions. |
| enterprise-class: | An IT or e-Business solution that is designed to support highly available and reliable applications, sometimes referred to as mission-critical applications. |
| enterprise storage management: | The underlying data storage architecture for enterprise-class IT solutions which provide backup and recovery business continuity planning; hierarchical storage management; recovery policies and procedure planning; storage area networks; performance improvement software. |
| Extranet: | An organization's private network of its local area networks accessible by an affiliated set of clients which utilizes Internet data formats and communications protocols, and which may use the Internet's facilities as the backbone for network communications. |
| HTML: | HyperText Markup Language, the coding language used to create Hypertext documents for use on the World Wide Web. HTML permits a block of text, or a word, to be linked to another file on the Internet. |
| Hypertext: | A document formatting that allows documents to be linked by making certain words or phrases 'clickable'. When the link is 'clicked', the information on the second document is related to the word in the first document. Hypertext is the formatting used on the World Wide Web. |
| internal and external communication: | Facilitating secure communication through the Internet, Intranets and Extranets. |
| Internet: | An open global network of interconnected commercial, educational and governmental computer networks that utilize a common communications protocol, TCP/IP. |

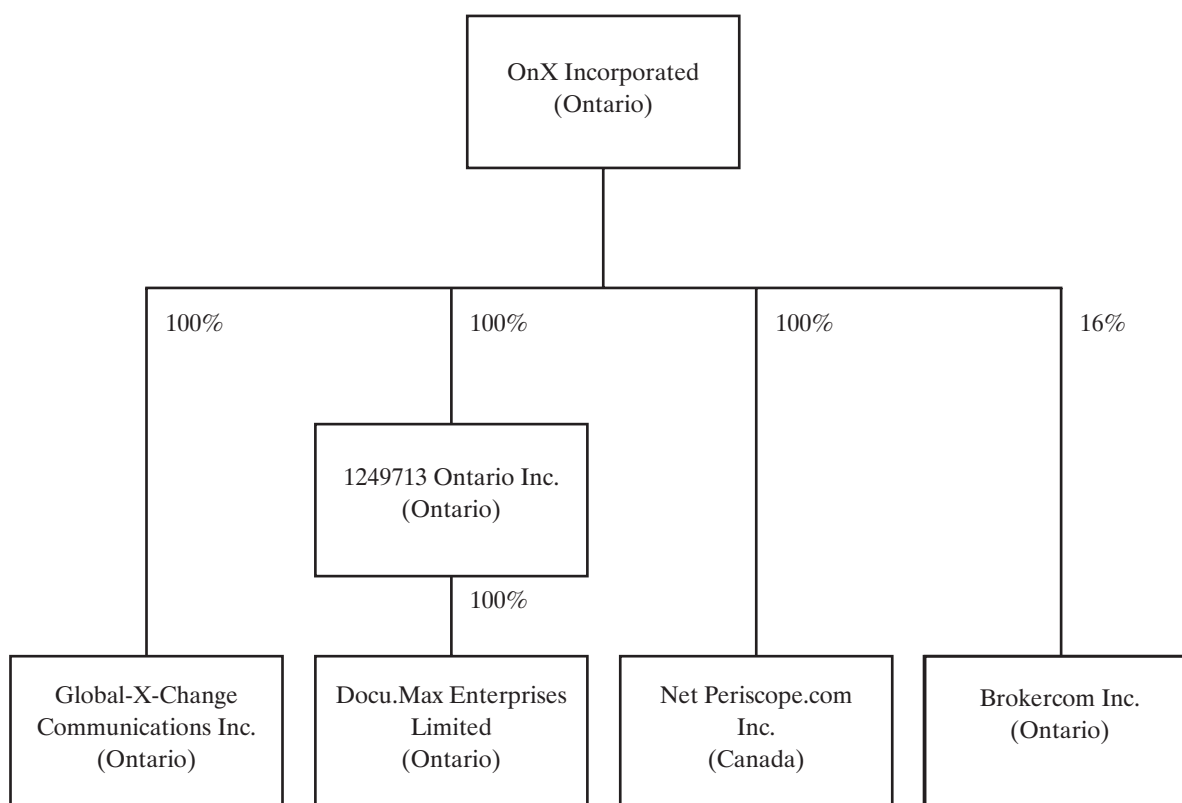
| | |
|--|--|
| Intranet: | An organization's private network of its local area networks which utilizes Internet data formats and communications protocols, and which may use the Internet's facilities as the backbone for network communications. |
| IT: | Information technology. |
| IT infrastructure: | Hardware and software required to support both traditional IT applications and Internet-based applications. |
| knowledge management: | Storing, retrieving and managing documents, records and intellectual property. |
| legacy IT products: | IT products that were previously installed at a client location. |
| network: | A collection of distributed computers which share data and information through inter-connected lines of communication. |
| portal: | A Web site where Internet users typically start browsing. |
| repeatable solutions: | Proprietary e-Business or IT applications that are designed, using reusable software code, to be used more than once, typically with more than one client. |
| scalable: | In the context of IT systems, the ability to add the capacity to handle more data on an incremental basis as required. |
| server: | A computer, or a software package, that provides a specific kind of service to client software running on other computers. The term can refer to a particular piece of software, such as a World Wide Web server, or to the hardware on which the software is running. A single server machine could have several different server software packages running on it, thus providing many different servers to clients on the network. |
| supply chain management: | Streamlining processes between a company, its suppliers and its supplier's providers to realize efficiencies and improve profitability. |
| systems integrator: | An organization that specializes in delivering IT solutions to end-user organizations by combining a variety of software components and integrating them into a complete end-user solution. |
| Transmission Control Protocol/Internet Protocol (TCP/IP): | A compilation of network-level and transport level protocols that allows communication between computers with different architectures and operating system software on the Internet. |
| value-added reseller: | A business that purchases IT hardware or software from a vendor, usually at a discount from an original equipment manufacturer (OEM), and then adds value to resell the altered product to an end-user. |
| Web boutiques: | Internet application developers that typically do not offer a full offering of e-Business services, tending to focus on Web site design and development. |
| Web site: | An Internet location or address that is World Wide Web enabled. A Web site can consist of a single document, or Web Page, or may consist of many hyper-linked HTML documents. |
| World Wide Web (the "Web"): | A network of computer servers that uses a TCP/IP protocol to link different servers throughout the Internet and permits communication of text, graphics, video and sound. |
| 24 × 7: | 24 hours a day, seven days a week. |

THE COMPANY

The Company was formed on January 8, 1988 upon the amalgamation of Onyx Computers Incorporated (“Predecessor Onyx”) and Cosalco Limited (“Cosalco”) under the laws of the Province of Ontario. Predecessor Onyx and Cosalco were incorporated under the *Business Corporations Act* (Ontario) on May 3, 1985 and April 8, 1983, respectively. On December 9, 1999, the Company filed articles of amendment to delete certain classes of preferred shares and special shares, and to reclassify the remaining classes of special shares into Common Shares. The Company filed articles of amendment to change its name to OnX Incorporated on February 7, 2000. Prior to the completion of the Offering, the Company will file articles of amendment to subdivide its outstanding Common Shares on the basis of 1.65 post-Subdivision Common Shares for each pre-Subdivision Common Share and to create a class of preferred shares, issuable in series. Unless otherwise indicated, the term “Common Shares” refers to post-Subdivision Common Shares. See “Description of Share Capital”.

The registered and principal office of the Company is located at 155 Commerce Valley Drive East, Thornhill, Ontario, L3T 7T2.

The following chart depicts the corporate structure of the Company together with the jurisdiction of incorporation of each of the Company’s wholly-owned subsidiaries and another company in which the Company holds a material interest.



Unless the context otherwise provides, the term “OnX” or the “Company” where used herein shall include OnX Incorporated and its wholly-owned subsidiaries.

BUSINESS OF THE COMPANY

Overview

OnX is a provider of end-to-end e-Business solutions to medium and large companies and public sector organizations. The Company develops solutions that facilitate and promote B2B and B2C e-Business. OnX is focusing on leveraging the opportunities presented by e-Business to create, generate and sustain new value and

competitive advantage for its clients by utilizing the Internet and associated technologies to enhance their operations. OnX's e-Business solutions consist of:

- e-Business services
 - strategy consulting
 - software application design and integration
 - creative design and marketing
 - e-Business infrastructure planning, design and implementation
 - application hosting
 - repeatable solutions
- IT infrastructure and integration
- ASP Internet venture incubation.

History

OnX was founded in 1983 by Sheldon M. Pollack and Phillip A. DeLeon to provide hardware, applications and professional integration services. Between 1983 and 1993, OnX focused on brokering new and refurbished mid-range systems to clients. Commencing in 1993, OnX expanded its technology product offerings as a result of entering into value-added reseller partnership agreements with major suppliers of enterprise-class IT infrastructure products and software including Digital Equipment Corporation ("Digital"), Hewlett-Packard Company ("Hewlett-Packard"), Sun Microsystems, Inc. ("Sun Microsystems"), Compaq Computer Corporation ("Compaq"), International Business Machines Corporation ("IBM"), Oracle Corporation ("Oracle"), Microsoft Corporation ("Microsoft"), Netscape Communications Corporation ("Netscape"), Cisco Systems Inc. ("Cisco"), EMC Corporation ("EMC"), Veritas Software Corporation ("Veritas"), and Nortel Networks Corporation ("Nortel Networks").

Rapid acceptance of the Internet as a tool for business communication and commerce between 1993 and 1996 led OnX to invest in the development of a services division to provide e-Business solutions for its clients. This focus allowed OnX to leverage its traditional IT infrastructure and integration business to enable it to seamlessly integrate legacy IT products with new e-Business applications.

From January 1996 until May 1999, the Company's business included the wholesale of disk storage products. The wholesale line of business was a non-strategic, opportunistic venture with high sales volume and low gross margin. In May 1999, OnX decided not to pursue sales in this line of business in order to focus on its end-to-end e-Business solutions offering comprised by its two remaining business segments.

In November 1997, OnX acquired Docu.Max Enterprises Limited ("Docu.Max"), a company which was focused on delivering knowledge management solutions, document management and work flow management capabilities. At the time of the acquisition, Docu.Max had its primary offices in Calgary and Toronto and employed approximately 70 professionals. The acquisition of Docu.Max provided OnX with additional skilled and experienced employees for its growing e-Business services division and established OnX's presence in western Canada.

Commencing in 1997, OnX broadened its e-Business services capabilities with the recruitment of employees skilled in the areas of e-Business strategy consulting, project management, design services and application development. During this period, OnX also built a secure application hosting facility at its Thornhill premises in order to offer its growing number of clients complete e-Business solutions with a single point of accountability. This facility is secure and managed 24 × 7.

In September 1999, OnX acquired Global-X-Change Communications Inc. ("Global-X-Change"), a provider of Web-based solutions primarily to the Federal Government of Canada and technology organizations. The acquisition of Global-X-Change provided OnX with specialized skills in the development of e-Business solutions built with Microsoft development tools and further established OnX's presence and e-Business solutions capabilities in eastern Canada.

e-Business Solutions Industry

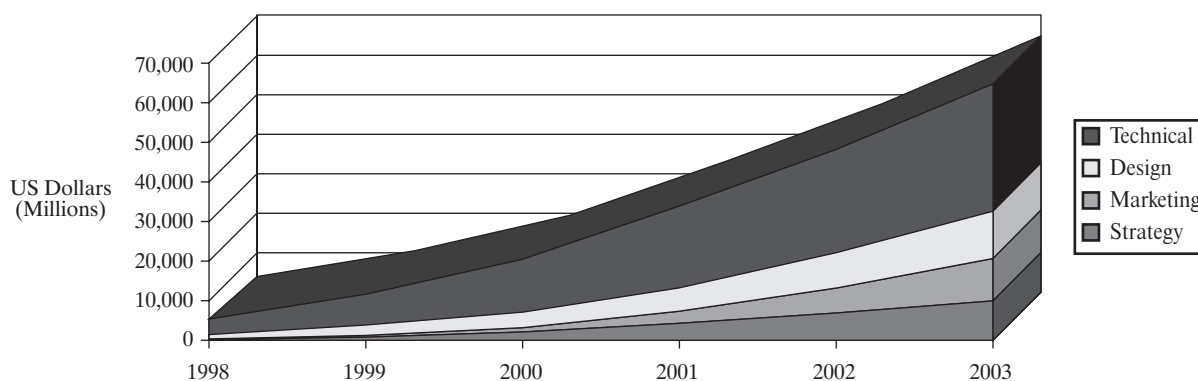
General

The rapid adoption, growth and use of the Internet as a means of communicating and entering into commerce transactions has transformed the way that businesses operate and interact with their customers, suppliers, and business partners. Forrester Research estimates that B2B transactions will increase to US\$2.7 trillion by 2004, approximately 15 times estimated B2C transactions (US\$184.5 billion). In 1999, Forrester Research estimates that B2B transactions totaled US\$109 billion as compared to B2C transactions totaling US\$20 billion. Businesses wishing to take advantage of Internet-based technologies and compete in this new economy are increasingly outsourcing their e-Business solutions to e-Business solutions providers.

e-Business Services Industry

The e-Business services industry encompasses strategy services, marketing services, creative design services and technology services. Forrester Research predicts that the market for e-Business services in the United States will grow significantly from US\$4.1 billion in 1998 to US\$64.8 billion by 2003, a compound annual growth rate of approximately 74 percent. Forrester Research estimates that expenditures in this market will be segmented as follows in 2003: US\$10 billion for strategy services; US\$10.6 billion for marketing services; US\$12 billion for creative design services; and US\$32 billion for technical services. Forrester Research also estimates that the median e-Commerce spending budgets for United States-based companies will approach US\$1.5 million by 2001 (from US\$750,000 in 1999), generally ranging from US\$250,000 to US\$25 million on a customer-by-customer basis.

United States e-Business Services Market



| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | CAGR ⁽¹⁾ |
|-----------|-----------------------------|-------|--------|--------|--------|--------|---------------------|
| | (in millions of US dollars) | | | | | | |
| Strategy | 264 | 887 | 2,089 | 4,278 | 6,969 | 10,031 | 107% |
| Marketing | 170 | 422 | 1,205 | 3,033 | 6,241 | 10,658 | 129% |
| Design | 1,154 | 2,658 | 4,010 | 6,040 | 9,030 | 12,047 | 60% |
| Technical | 2,498 | 6,609 | 12,249 | 19,973 | 25,448 | 32,074 | 67% |

(1) Compound Annual Growth Rate.

According to Forrester Research, the technical services market is predicted to comprise almost 50 percent of the total e-Business services market by 2003. The Company expects that this will result in significant demand for outsourced IT expertise by businesses implementing e-Business solutions. Providers of e-Business solutions that possess the skills to offer technology services as well as strategy, marketing and creative design services will therefore be well positioned to exploit the growth opportunities in the e-Business services market.

In 1999, Andersen Consulting's survey of Canadian CEO's demonstrated that while Canadian companies are not as advanced as companies in other countries in the implementation and use of e-Commerce, over 90 percent of Canadian CEO's expect their organizations to spend more money on developing e-Commerce in the next two years. Of the more than 250 major Canadian companies surveyed by Andersen Consulting, only

20 percent were classified as 'e-Commerce leaders', while 41 percent were classified as 'dabblers' and the remaining 39 percent were classified as 'sideline observers'.

According to Andersen Consulting, changes resulting from the development of e-Commerce threaten existing Canadian businesses which must understand that e-Commerce is not a separate initiative, but central to reaching their other business priorities. This transition requires accelerated information gathering and decision-making processes in order to stay ahead of competition. As a result, many businesses are outsourcing their e-Business initiatives to e-Business solutions providers who can leverage accumulated strategic, business, industry, technical and creative talent and stay current with developments in an industry characterized by short lifecycles for IT products and services, e-Business processes and Web content.

An important issue for many companies proposing to adopt e-Business solutions is integration, both between disparate IT systems within a company and between organizations in the company's supply chain. The creation of seamless, simple and integrated e-Business solutions requires an in-depth knowledge and understanding of key IT business processes from the front desk to the back office and the loading dock.

The Company believes that the application hosting segment of the e-Business services industry will grow steadily as application hosting companies offer more value-added services which, in turn, may generate more recurring revenue for such companies. This segment will continue to expand as the deployment of enterprise applications in a hosted environment creates a larger potential market as compared to the hosted Web site market alone.

IT Infrastructure Industry

e-Business solutions must be built upon a highly reliable and scaleable IT infrastructure because Internet customers, suppliers, and business partners may operate from various time zones and may not be able to accurately predict demand levels. This IT infrastructure includes products from vendors such as Sun Microsystems, IBM, Hewlett-Packard, Compaq, EMC, Veritas and Cisco.

According to International Data Corporation ("IDC"), North American companies expended over \$372 billion on IT products and services in 1998 and this market is expected to continue to grow to over \$538 billion by 2002. IDC predicts that in 2002, the manufacturing (23 percent), services (10.4 percent), banking (10.2 percent), communications and media (8.1 percent) and government (7.1 percent) sectors will account for approximately 58.8 percent of the North American market for IT products and services.

Business Strategy

OnX's objective is to remain one of Canada's, and become one of North America's, leading providers of e-Business solutions by:

- leveraging existing client relationships and IT infrastructure partner relationships into new e-Business opportunities
- acquiring strategic businesses
- investing in marketing and branding
- incubating ASP Internet ventures.

Leveraging Existing Client Base

OnX has provided enterprise-class IT infrastructure and integration solutions to medium and large companies and public sector organizations for over 15 years. OnX's clients are primarily in the telecommunications, government and financial services sectors. OnX believes that these companies and organizations will continue to require complex IT infrastructure and integration solutions as well as enterprise-class e-Business services. In addition, OnX intends to leverage its relationships with its existing IT infrastructure and integration solutions clients to generate new e-Business revenue.

OnX has in-depth knowledge of, and experience with, multiple generations of IT products that have come to market over the years. This extensive knowledge and experience enables OnX to seamlessly integrate legacy IT products with new Internet applications, providing OnX with a distinct advantage over non-integrated or partial solutions firms such as Web boutiques.

Leveraging Technology Partners

OnX's traditional IT infrastructure and integration solutions business provides an ongoing source of e-Business opportunities from IT infrastructure vendors such as Hewlett-Packard, Sun Microsystems, Netscape, Microsoft, Compaq, IBM, Oracle and FileNet Corporation ("FileNet"). OnX has well established relationships with these vendors, many of which are long-term in nature. As a result of their relationship with the Company, these vendors provide OnX with referral opportunities to sell e-Business solutions to their existing client base. OnX considers these relationships to be strategically important, and therefore refers to these vendors as its IT infrastructure "partners" for descriptive but not legal purposes.

Clients referred to OnX by its IT infrastructure partners include Health Canada (Canadian Health Network), which resulted from OnX's relationship with Compaq, and GTR Group Inc., which resulted from OnX's relationship with IBM. See "Business of the Company — Clients".

Acquiring Strategic Businesses

In order to remain one of Canada's, and become one of North America's, leading providers of e-Business solutions, OnX intends to selectively acquire businesses which complement and enhance its geographic presence, technological expertise, industry specialization as well as the breadth and depth of its e-Business services. As part of its strategy, OnX acquired Docu.Max in 1997 and Global-X-Change in 1999. See "Business of the Company — General".

Investing in Marketing and Branding

To date, OnX's brand awareness in Canada has been developed almost entirely through referrals from satisfied clients and IT infrastructure partners. To accelerate its growth in the e-Business solutions market, OnX has created and recruited an internal marketing team to develop programs that will build awareness for its brand and e-Business solutions capability. OnX intends to implement this strategy through: on-line advertising programs; print and radio advertising; direct mail campaigns; and other traditional advertising and marketing programs.

Incubating ASP Internet Ventures

OnX intends to leverage on its breadth and depth of e-Business experience by identifying, developing and providing hosting and incubation services to ASP Internet ventures. OnX has established an integrated incubation methodology for identifying potential ASP Internet ventures from external sources, creating in-house incubation opportunities and then developing and operating ASP Internet ventures. In addition to capital (cash or in-kind), OnX may provide ASP Internet ventures with office space, network and system infrastructure, consulting and services relating to development and technology, graphic design, marketing, competitive research, accounting and business development support and services.

OnX may benefit from its incubation activities through early stage equity participation in ASP Internet ventures and recurring revenue generated by providing such ventures with associated e-Business solutions. These ventures may execute their business plans more quickly and efficiently by utilizing OnX's incubation experience and expertise.

To date, OnX has incubated Book4golf.com Corporation ("Book4golf.com"), Brokercom Inc. ("Brokercom") and Net Periscope.com Inc. ("Net Periscope"). OnX holds a 100 percent interest in Net Periscope, an approximately 16 percent interest in Brokercom and less than one percent of Book4golf.com.

Book4golf.com is an ASP Internet venture that provides an e-Commerce Web portal that will allow golfers to book tee times at public, semi-private, municipal, daily fee and resort golf courses over the Internet. OnX designed Book4golf.com's proprietary system and software and provides ongoing services to Book4golf.com in connection with its management, administration and operations. Book4golf.com is a Canadian public company and is listed on the Canadian Venture Exchange Inc. See "Interest of Management and Others in Material Transactions". Brokercom is an externally identified ASP Internet venture that has developed a service to provide a new Internet access portal solution primarily for the full service brokerage industry. This service combines Brokercom's proprietary technology, with a private branded business portal to create a unique triangular communication system with a goal of facilitating the flow of advice, research and investment information among the investment advisor, a full service brokerage firm and their clients. Net Periscope is an

internally created Internet venture that owns an on-line business intelligence tool developed internally at OnX. See “Business of the Company — e-Business Solutions — Repeatable Solutions”.

OnX intends to form a new entity to hold its existing and future ASP Internet venture interests. OnX’s ownership interests in this entity will be diluted if OnX seeks external sources of capital to fund the incubation of these ventures. OnX anticipates generating recurring revenue by providing hosting and/or incubation services to these ventures.

e-Business Solutions

OnX provides end-to-end e-Business solutions to medium and large companies and public sector organizations and ASP Internet ventures. These solutions are broadly comprised of e-Business services and IT infrastructure and integration solutions.

e-Business Services

OnX’s e-Business services generated revenues of \$15.8 million for the year ended April 30, 1999 as compared to \$5.2 million for the year ended April 30, 1998, an increase of approximately 200 percent. OnX’s e-Business services include:

- e-Business strategy consulting
- software application design and integration
- creative design and marketing
- e-Business infrastructure planning, design and implementation
- application hosting
- repeatable solutions.

e-Business Strategy Consulting

OnX’s recently created e-Business Strategy Consulting Group provides clients with consulting services to assist them in defining their market entry strategy, including services to identify, research, analyze and assess e-Business opportunities. These services may include assessing market opportunities, analyzing customer needs and relationships, identifying e-Business opportunities and evaluating the consolidation of existing e-Business initiatives.

Software Application Design and Integration

OnX develops and integrates Internet software applications for its clients. These applications focus on supporting and managing the day-to-day business needs of clients including:

- customer relationship management
- e-Commerce
- knowledge management
- e-Business security
- supply chain management
- internal and external communication.

OnX is able to seamlessly integrate e-Business solutions with legacy IT products to enhance the operations of its clients.

Creative Design and Marketing

OnX offers creative design and marketing services to form an integral component of its offering of e-Business services. These services may include: identification and evaluation of target audiences; market analysis; end user usability testing and analysis to extend a client’s on-line brand and development; and creation and building of a Web site. In addition, an e-Business solution may include the creation of on-line marketing programs, including banner advertising and listing on search engines, which can be applied to more traditional marketing programs such as brochure creation, sales material and print advertising. OnX may engage third party experts to assist in these engagements.

e-Business Infrastructure Planning, Design and Implementation

OnX provides complex planning, design and implementation services to support the IT infrastructure and integration required for e-Business solutions. e-Business solutions require reliable and scalable IT infrastructure that is available 24 × 7 to support customer or supplier interaction across multiple time zones and varying demand levels.

OnX assists customers in the planning phase of an e-Business project by performing high-level analysis of a particular IT solution prior to its implementation. In this phase of a project, OnX will often assist with the preparation and review of business imperatives, disaster recovery, security analysis and technical architecture plans. In each case, OnX advises the client so that each plan is designed to satisfy the client's foreseeable IT infrastructure needs before moving to the design phase.

During the design and implementation phases of a project, OnX works with a client's IT professionals to design appropriate IT infrastructure and integration solutions utilizing products and services from leading IT infrastructure firms. Using a methodical design approach, OnX is able to implement e-Business solutions by providing all of the necessary professional services to seamlessly integrate the e-Business solutions and IT infrastructure into the client's legacy IT systems architecture. This integration is often the most complex, important and expensive aspect of the implementation of an e-Business solution.

Application Hosting

OnX offers a secure application hosting facility for clients demanding reliable IT infrastructure and operational requirements for their e-Business solutions. This facility has been designed to ensure clients' applications and systems are operational 24 × 7. OnX offers clients access to: enterprise-class servers; storage and management platforms; co-location services; Web site application hosting solutions; e-Business and IT infrastructure support and management; and complete e-Business and IT solutions development and support, all supported by a dedicated team of highly skilled professional systems engineers.

Hosting services are an integral component of an end-to-end e-Business solution that clients often choose to outsource. Application hosting allows OnX to remove the ongoing management and support of e-Business solutions from its clients. This allows clients to focus on their core business strengths and capabilities and, in turn, generates recurring revenue for OnX and future e-Business solutions opportunities with that client.

Repeatable Solutions

The Company has recently embarked on a strategy of reselling and integrating proprietary repeatable e-Business solutions that have been developed internally. These solutions incorporate re-usable software code developed by OnX as well as sophisticated applications, technology and systems integration expertise. OnX's strategy is to target clients within relevant markets when repeatable solutions reach an advanced stage of development. The benefits of these solutions include faster deployment time and reliability. OnX may realize higher gross margins from these solutions due to the re-usable software code and intellectual property. To date, OnX has developed the following repeatable solutions:

- Commerce eXpress — a proprietary e-Commerce transaction platform for the rapid deployment of e-Commerce.
- Net Periscope — an on-line business intelligence tool primarily targeted to the on-line retailing market. Net Periscope's crawling and parsing search engine allows on-line retailers to gather and extract non-proprietary research data from its competitors across the Internet for analysis and business planning purposes.
- Reservation X — a real-time event scheduling and reservation registration solution using Internet technologies which tie into the clients existing back-end applications or those of its business partners.
- SWAT — a system monitoring and reporting solution designed to collect, monitor and analyze a server's performance metrics. SWAT provides a framework for quantitative analysis to make better business decisions as it reduces the time required to gather and analyze information for activities such as: planning and managing strategic upgrades; identifying and reducing or eliminating system bottlenecks; monitoring

the effects of application or database changes; monitoring service level agreements between IT and business units and maximizing system throughput.

IT Infrastructure and Integration Solutions

Prior to 1996, OnX was primarily a systems integrator and value-added reseller of client server infrastructure and software. Currently, OnX resells enterprise-class IT infrastructure, including hardware and software applications, to support both traditional IT applications and Internet-based applications. This business generated revenues of \$122 million at a gross margin of approximately 19 percent in the year ended April 30, 1999 as compared with \$92.2 million at a gross margin of approximately 22 percent in the year ended April 30, 1998.

IT infrastructure products and software resold and integrated by OnX include: servers; enterprise storage management products; network products; and software applications. These IT products and applications are the foundation for most e-Business solutions and traditional back office applications. The combination of IT infrastructure products and OnX's full suite of e-Business services provides OnX with the ability to offer clients end-to-end e-Business solutions. OnX has value-added reseller partnership agreements in place with major suppliers of IT infrastructure products and software applications including the suppliers listed in the following chart:

| <u>Servers</u> | <u>Enterprise Storage Management</u> | <u>Network Products</u> | <u>Software</u> |
|------------------|---|----------------------------|-----------------|
| Compaq/Digital | StorageWorks (Compaq) | Cisco | Microsoft |
| Hewlett-Packard | Hitachi Data Systems Inc. | Cabletron Systems, Inc. | Oracle |
| IBM | EMC | Nortel Networks | Netscape |
| Sun Microsystems | StorageTek (Storage Technology Corporation) | Intel Corporation | FileNet |
| | | OpenView (Hewlett-Packard) | |
| | | Tivoli Systems, Inc. | |
| | | BMC Software, Inc. | |

Competitive Advantages

OnX believes that it is well positioned to capitalize on the projected growth in e-Business solutions within the North American marketplace because of its:

- end-to-end e-Business solutions capability
- IT infrastructure integration experience
- organizational depth
- IT infrastructure partner relationships
- application hosting capability.

End-to-end e-Business Solutions Capability

OnX offers its clients a single source of end-to-end e-Business solutions. Forrester Research indicates that prospective customers of e-Business solutions clients will, on average, use three different service providers to implement their e-Business solutions. OnX's end-to-end e-Business solutions capability provides its clients with a single point point of contact and accountability for their entire e-Business strategy and deployment, enabling OnX to more effectively execute a client's e-Business solution. OnX believes it has a competitive advantage over interactive design companies, Web boutiques and marketing services firms as it has integrated each of these core competencies with its system integration experience and IT infrastructure relationships to provide end-to-end e-Business solutions.

IT Infrastructure Integration Experience

OnX's IT infrastructure integration expertise sets OnX apart from non-integrated or partial e-Business solutions firms such as Web boutiques. OnX's IT integration expertise is directly applicable to planning, designing, implementing and operating e-Business solutions that must be manageable and scaleable. In addition,

OnX has in-depth knowledge of, and experience with, the multiple generations of IT products that have come to market over the years. This extensive knowledge and experience enables OnX to seamlessly integrate legacy IT products with new Internet applications, providing OnX with a key advantage over competitors that do not offer IT infrastructure integration services.

Organizational Depth

With seven offices across Canada, approximately 290 employees and a sales force of 35 professionals, OnX has the organizational depth to sell and execute medium and large scale e-Business solutions. OnX's national sales team provide it with geographic coverage as well as multiple sales opportunities which may not be available to Web boutiques and other regional competitors.

IT Infrastructure Partners

OnX has developed relationships with major IT infrastructure vendors over the past seven years. These IT infrastructure partner relationships permit OnX to work together with its partners to develop e-Business opportunities referred or sourced by its partners and, as a result, OnX benefits from the sales and marketing efforts of its partners. In addition, these partners are often the key to entry into new client accounts. OnX believes that these benefits are not available to many of its competitors.

Application Hosting Capability

Recently, OnX developed a secure application hosting facility for clients at its Thornhill premises to extend its ability to meet its clients' e-Business solutions needs. Outsourcing application hosting to a reliable and experienced service provider is a growing trend in the e-Business solutions market. In addition, application hosting is a core requirement of ASP Internet ventures and other e-Businesses. OnX believes that its hosting facility has a competitive advantage because most other application hosting providers do not currently provide additional e-Business services such as: e-Business strategy consulting; software application design and implementation; creative design and marketing; and e-Business infrastructure planning, design and implementation.

Clients

OnX has built e-Business solutions for a number of medium and large companies and public sector organizations in Canada. OnX's major concentrations are in the telecommunications, government and financial

services sectors. Certain of OnX's significant clients, by industry sector and line of business, are shown in the table below.

| | <u>Telecommunications</u> | <u>Government</u> | <u>Financial Services</u> | <u>Other</u> |
|--|---|---|---|--|
| e-Business Services | Nortel Networks AT&T Canada Inc. Telus | Health Canada Elections Canada Canada Customs and Revenue Agency City of Brampton Prime Ministers Office Industry Canada | 3 Canadian chartered banks Aetna Life Insurance Company of Canada CUE Datawest Ltd. | GTR Group Inc. Xerox Corporation Look TV Hewlett-Packard RICOH Corporation Dye & Durham Inc. Progressive Conservative Party of Ontario |
| IT Infrastructure and Integration | Bell Canada AT&T Canada Inc. Clearnet Communications Inc. Rogers Cantel Inc. (Rogers AT&T) | Department of National Defence Industry Canada Corrections Canada Statistics Canada Ontario Power Generation | Gore Mutual Insurance Clarica Life Insurance Company Manulife Financial Corporation | Dofasco Inc. Toyota Canada Inc. |

Case Studies

The following case studies provide illustrations of how selected clients have used OnX's services to implement their e-Business solutions.

Canadian Health Network: Health Canada engaged OnX to create the Canadian Health Network ("CHN"), a Web site that provides accurate, up-to-date and accessible health information for Canadians. One challenge in implementing the CHN was to provide the content for the Web site by establishing relationships and partnerships across Canada with health groups, organizations and companies. OnX created a solution that allowed a three-site virtual private network to integrate and function smoothly with multiple servers. OnX achieved this goal by designing a custom built, database driven Web site that is powered by a high-end, highly redundant server farm. Before the site's official launch on November 25, 1999, it was averaging 25,000 hits per day. During its two-week launch period, the number of hits increased to an average of 180,000. Today the site is still averaging 100,000 hits per day with an average visit of 10 minutes on the site.

GTR Group Inc.: GTR Group Inc. ("GTR Group"), a company that specializes in the buying, selling and trading of used and refurbished video and computer games, engaged OnX to create an e-Commerce Web site that would open another sales channel for GTR Group and fuel its growth. The site had to allow customers of GTR Group's affiliated retailers to buy, sell and trade video and computer games on-line. GTR Group also required that the site incorporate an auction component. OnX's team of approximately 30 professionals designed, developed and implemented the Web site within GTR Group's three month time line.

Canadian Chartered Bank: A Canadian chartered bank recently initiated an aggressive multi-year project to upgrade its asset mortgage business. Working on-site as part of the bank's mortgages group, OnX designed a solution that integrated FileNET's workflow and imaging software technologies into the bank's host-based systems. This solution provided state-of-the-art mortgage renewal and advancing features thereby significantly improving the mortgage document management process for the bank. OnX's solution incorporated databases, document generation systems, automated fax transmittal, workflow, imaging, customer development and line-of-business applications into one seamless desktop where all information can be accessed from a single user interface. The reported results indicate a significant reduction in error-prone manual processes associated with mortgage administration resulting in reduced costs; retention of competitive position within the growing mortgage banking industry; the replacement of 11 fragmented, unstable systems into one system that was Year 2000 compliant; and enhanced service to customers and solicitors.

Xerox Canada: Xerox Canada engaged OnX to redesign its Web site to incorporate a cohesive look with innovative techniques to generate traffic and sales through the Web site. OnX redesigned the entire site with enterprise-class IT infrastructure and added content to showcase newly released products and services. Corporate Extranets were created to simplify the purchasing experience for Xerox Canada customers. A special feature of the project was the development of worldwide ‘Virtual Tours’, a tool for Xerox salespeople to highlight services and product features to customers. The Virtual Tour continues to evolve as a tool used to communicate ideas and applications to target markets and industries. The new Xerox Canada Web site now benefits from improved navigation with more content to increase user interaction and retention and highlight new products and services.

Competition

The recent growth of the e-Business solutions industry has attracted many different service providers including: (i) Web boutiques; (ii) newly created interactive divisions of advertising agencies; (iii) large traditional system integration firms; (iv) e-Business integrators; and (v) application hosting companies. Most providers focus on delivering one element of an end-to-end e-Business solution such as Web site creative design, IT infrastructure integration, strategy consulting, on-line marketing or application hosting.

The following chart lists companies that OnX considers to be its current competitors in the Canadian e-Business services market in one or more of its lines of business:

| <u>Advertising Agencies</u> | <u>System Integrators</u> | <u>e-Business Integrators</u> | <u>Application Hosting</u> |
|---|---|-------------------------------|-----------------------------|
| Grey Interactive (Grey Communications Canada) | Electronic Data Systems Corporation (“EDS”) | CYBERplex Inc. | Exodus Communications, Inc. |
| Modem Media Poppe Tyson Inc. | CGI Group Inc. | Burntsand Inc. | FutureLink, Inc. |
| BBDO Canada | IBM Global Services | Aliant Inc. | INTRIA Inc. |
| The Communiqué Group Inc. | Ernst & Young | Infomission | Bell Nexxia |
| Cosette Communication Group Inc. | Sierra Systems Group Inc. | Group Inc. | |

OnX’s main IT infrastructure and integration solutions competitors include GE Capital Information Technology Solutions, Arqana Technologies Inc., MicroAge Computer Centers Inc., Avnet, Inc., KTI Kanatech Technologies Inc., Rebel.com Inc., Digidyne, Inc. and Optus Corporation.

Intellectual Property

The Company protects its technology through a combination of copyrights, trade secrets and contractual arrangements. The Company regards its intellectual property as critical to its success, and relies on trademark and copyright law, trade secret protection and confidentiality and/or license agreements with its employees, suppliers, partners and others to protect its proprietary rights. The Company will pursue the registration of its trademarks and servicemarks in Canada and the United States as required. Effective trademark, servicemark, copyright and trade secret protection may not be available in every country in which the Company offers its services. The Company expects that it may license certain of its proprietary rights, such as trademarks or copyrighted material, to third parties in the future. See “Risk Factors — Intellectual Property Rights”.

Facilities

OnX’s head office is located in Thornhill, Ontario at a leased facility. The Company also has leased offices in: Toronto, Ontario; Ottawa, Ontario; Nepean, Ontario; Calgary, Alberta; and Vancouver, British Columbia. Future minimum rental payments under operating leases for the year ended April 30, 2000, 2001 and 2002 are approximately \$630,000, \$1,400,00 and \$1,470,000, respectively.

Employees

The Company currently has a total of approximately 290 employees, including 92 employees in administration and sales, 160 professional services employees and 38 employees in supervisory or management positions. None of the employees are covered by a collective bargaining agreement or are represented by a union. The Company believes that its relations with its employees are good.

DIRECTORS AND OFFICERS

The following table sets forth the name, municipality of residence, office with OnX and principal occupation of each person who is or, prior to the completion of the Offering will be, a director or officer of the Company.

| <u>Name and Municipality of Residence</u> | <u>Office Held</u> | <u>Principal Occupation</u> |
|--|--|--|
| Sheldon M. Pollack ⁽¹⁾⁽²⁾ Toronto, Ontario | Co-Chairman, Chief Executive Officer and Director | Same |
| Phillip A. DeLeon ⁽¹⁾⁽²⁾⁽³⁾ Toronto, Ontario | Co-Chairman and Director | President of Book4golf.com |
| Todd Finch ⁽⁴⁾ Mississauga, Ontario | Director | President of Sun-Netscape Alliance Canada |
| Burton G. Napier ⁽⁴⁾ Oakville, Ontario | Director | President and Chief Executive Officer of Napier & Assoc. Consulting Inc. |
| Gary Steinhart ⁽⁴⁾ Toronto, Ontario | Secretary and Director | Partner, Cassels Brock & Blackwell LLP |
| David Andrews ⁽⁵⁾ Newmarket, Ontario | Chief Financial Officer | Same |
| Richard Makos Toronto, Ontario | Chief Operating Officer | Same |
| Peter Sweers Newmarket, Ontario | Senior Vice President, e-Business Services and Chief Technology Officer | Same |
| Angelo Unelli Mississauga, Ontario | Senior Vice President, Sales and Marketing | Same |
| Kathy Gardos ⁽⁵⁾ Richmond Hill, Ontario | Vice President, Finance and Interim Chief Financial Officer | Same |
| Ronald Guest Oakville, Ontario | Vice President, Human Resources | Same |

- (1) Member of the Audit Committee. The Audit Committee will be re-constituted prior to the completion of the Offering upon the appointment of Messrs. Finch and Napier to the board of directors.
- (2) Member of the Compensation Committee. The Compensation Committee will be re-constituted prior to the completion of the Offering upon the appointment of Messrs. Finch and Napier to the board of directors.
- (3) Mr. DeLeon is currently on a leave of absence from his position as President of OnX and has been President and Co-Chairman of Book4golf.com since January 1999. OnX expects Mr. DeLeon to resume his responsibilities as President of OnX within approximately one year. During this interim period, Mr. DeLeon continues to act as non-executive Co-Chairman of OnX. See "Interest of Management and Others in Material Transactions".
- (4) Messrs. Finch and Napier will be appointed to the board of directors of the Company prior to the completion of the Offering. The Company also intends to appoint an additional director to the board of directors prior to the completion of the Offering. Upon the appointment of such additional director, Mr. Steinhart will resign as a director of the Company.

- (5) Mr. Andrews' appointment as Chief Financial Officer will be effective as of March 6, 2000. Ms. Gardos will resign as Interim Chief Financial Officer on March 6, 2000.

The following is a brief biography of the current and proposed officers and directors of the Company.

Officers

Sheldon M. Pollack, Chief Executive Officer and Co-Chairman. Mr. Pollack has been Chief Executive Officer and Co-Chairman of OnX since 1985 and co-founded the business of the Company with Phillip A. DeLeon in 1983. Mr. Pollack serves on the boards of directors of Book4golf.com and Brokercom and is Co-Chairman and Chief Executive Officer of Book4golf.com.

Phillip A. DeLeon, Co-Chairman. Mr. DeLeon has been Co-Chairman of OnX since 1985 and co-founded the business of the Company with Sheldon M. Pollack in 1983. From 1985 to February 2000, Mr. DeLeon was also President of OnX. Mr. DeLeon is currently on a leave of absence from his position as President of OnX and has been Co-Chairman and President of Book4golf.com since January 1999. Mr. DeLeon also serves on the board of directors of Book4golf.com.

Gary Steinhart, Secretary and Director. Mr. Steinhart is a partner of Cassels Brock & Blackwell LLP. Prior to 1998, Mr. Steinhart was a partner at another Toronto law firm.

David Andrews C.A., Chief Financial Officer. Mr. Andrews' appointment as Chief Financial Officer will be effective on March 6, 2000. Mr. Andrews is a Chartered Accountant with over 15 years experience with technology companies. Prior to joining OnX, Mr. Andrews was Chief Financial Officer of Insystems Technologies Inc. from February 1998 to February 2000 and Tandem Computers Canada Limited (now Compaq Canada Ltd.) from 1992 to 1998.

Richard Makos, Chief Operating Officer. Mr. Makos has extensive IT experience including building Internet-based businesses, relationship technologies, and B2B solutions. Prior to joining OnX he was the Vice President of the Financial Solutions Group of NCR Corporation ("NCR") since 1996 and held various management positions with NCR from 1990 to 1996. Mr. Makos has also held senior positions at Unisys Corporation.

Peter Sweers, Senior Vice President, e-Business Services and Chief Technology Officer. Prior to joining OnX in 1999, Mr. Sweers held the position of Vice President of Information Technology and Product Development for CUE Datawest Ltd., a Vancouver-based banking service bureau provider, from 1995 to 1999. Prior to 1995, Mr. Sweers consulted internationally and held various management positions in the banking technology sector, including such companies as Prologic Computer Corp and Fraser Valley Credit Union.

Angelo Unelli, Senior Vice President, Sales and Marketing. Mr. Unelli joined OnX in 1993 as Canadian Sales Manager and was appointed Senior Vice President, Sales and Marketing in 1998. Mr. Unelli manages the Company's sales professionals and oversees the Company's partner/alliance program. Prior to joining OnX, Mr. Unelli held a variety of senior management positions in sales and marketing for Digital Equipment Corporation. Mr. Unelli has over 20 years of experience in the IT industry.

Kathy Gardos, Vice President, Finance and Interim Chief Financial Officer. Ms. Gardos joined OnX in 1988 as Controller and was appointed Vice President, Finance in 1998 and Interim Chief Financial Officer in February 2000. Ms. Gardos will resign as Interim Chief Financial Officer on March 6, 2000. Ms. Gardos manages the financial and accounting departments of the Company. Ms. Gardos also serves as Chief Financial Officer of Book4golf.com. Prior to joining OnX, Ms. Gardos was self-employed for four years providing complete accounting services for private companies. From 1971 to 1984, Ms. Gardos worked for Confederation Life Insurance in a variety of roles including Actuarial, Marketing and Systems Development.

Ronald Guest, Vice President, Human Resources. Mr. Guest joined OnX as Vice President, Human Resources in 1999. Prior thereto he had held the same position with Bell Nexxia (1999), Bell Sygma and Bell Canada (1997 to 1998). From 1993 to 1997 Mr. Guest was Vice President, Human Resources of Merisel Canada.

Board of Directors

In addition to Messrs. Pollack, DeLeon and Steinhart, the following persons will be appointed to the board of directors of OnX immediately prior to the completion of the Offering.

Burton G. Napier, Director. Mr. Napier is President and Chief Executive Officer of Napier & Assoc. Consulting Inc. (“Napier & Assoc.”). From 1994 to 1999, Mr. Napier was Executive Vice President, Operations and Technology with a Canadian chartered bank. From 1991 to 1994, Mr. Napier held his current position with Napier and Assoc. Prior to 1991, Mr. Napier spent over 20 years with another Canadian chartered bank in a variety of senior management positions including: Senior Vice President, Systems Research & Development; Vice President, Computing Facilities; General Manager, Information Systems; Systems Manager, Online Banking Systems; and Chairman, VCAN Committee, for the development and implementation of “Interac/Shared Cash system”. Mr. Napier serves on the boards of directors of the Centre for Management of Technology and Entrepreneurship, University of Toronto, and Telecommunications Learning Institute — Humber College.

Todd Finch, Director. Mr. Finch is the President of the Sun-Netscape Alliance Canada, a joint venture between America Online, Inc. and Sun Microsystems. Mr. Finch is also currently Vice President of Global Business Development for America Online, Inc. Mr. Finch founded Netscape Communications Canada, Inc. (“Netscape Canada”) and has served as President of Netscape Canada from 1995 to date. Prior to 1995, Mr. Finch co-founded Visible Decisions Inc., a Toronto-based visualization software company where he was Vice President of Worldwide Sales and Operations from 1993 to 1995. Prior to 1983, Mr. Finch has held various management roles with technology companies including Silicon Graphics Inc. Mr. Finch also holds strategic advisory positions with, and serves on the board of directors of, several technology companies.

The Company also intends to appoint an additional director to the board of directors prior to the completion of the Offering. Upon the appointment of such additional director, Mr. Steinhart will resign as a director of the Company.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth, for the years ended April 30, 1999, 1998 and 1997, the aggregate remuneration paid or payable by OnX to the person who acted as Chief Executive Officer of OnX during such financial years and to the other two executive officers who earned a salary and bonus in excess of \$100,000 in the financial year ended April 30, 1999 (collectively, the “Named Executive Officers”).

| Name and Principal Position | Fiscal Year | Annual Compensation | | | Long-Term Compensation Awards | All Other Compensation |
|---|-------------|---------------------|------------|---|---|------------------------|
| | | Salary (\$) | Bonus (\$) | Other Annual Compensation ⁽¹⁾ (\$) | Securities Under Options and SARs Granted | |
| Sheldon M. Pollack ⁽²⁾ Co-Chairman and Chief Executive Officer | 1999 | 450,000 | — | — | — | — |
| | 1998 | 447,461 | 20,000 | — | — | — |
| | 1997 | 332,800 | 80,000 | — | — | — |
| Phillip A. DeLeon ⁽³⁾ Co-Chairman | 1999 | 450,000 | — | — | — | — |
| | 1998 | 445,961 | 20,000 | — | — | — |
| | 1997 | 325,000 | 80,000 | — | — | — |
| Angelo Unelli Senior Vice President, Sales and Marketing | 1999 | 144,400 | 81,875 | — | — | — |
| | 1998 | 131,146 | 73,232 | — | — | — |
| | 1997 | 119,750 | 68,625 | — | — | — |

(1) The value of perquisites and benefits for each Named Executive Officer is less than the lesser of \$50,000 and 10% of the total annual salary and bonus.

(2) Mr. Pollack will be paid an annual salary of \$275,000 following the completion of the Offering.

(3) Mr. DeLeon is currently on a leave of absence from his position as President of OnX and is expected to return to such position within approximately one year. During this interim period, Mr. DeLeon will be paid an annual salary of \$50,000 by OnX. Upon resuming his responsibilities as President of OnX, Mr. DeLeon will be remunerated on the same basis as Mr. Pollack. See “Directors and Officers”.

Compensation of Directors

Following the completion of the Offering, each director who is not an officer of the Company shall be paid an annual fee of \$10,000 and a fee of \$1,000 for each meeting of a committee of the board of directors attended. The directors are also eligible to participate in the share compensation plans established by the Company. Directors' fees may be paid by the issuance of Common Shares pursuant to the Company's alternate compensation plan. See "Share Compensation Plans — Alternate Compensation Plan".

Directors' and Officers' Liability Insurance

Prior to completion of the Offering, the Company will obtain directors' and officers' liability insurance with a \$5 million annual aggregate limit. Under this insurance coverage, the Company is reimbursed for payments made under corporate indemnity provisions on behalf of its directors and officers and individual directors and officers are reimbursed for losses arising during the performance of their duties for which they are not indemnified by the Company. Insurance is provided to directors and officers for acts, errors, or omissions committed during the course of their duties. Excluded from coverage under the policy are illegal acts and those acts which result in personal profit. The annual premium for this policy will be paid by the Company. All directors and officers of the Company will be insured under the policy at the time the Offering is completed.

Indebtedness of Directors and Officers

The following table sets forth details of certain indebtedness of the directors and senior officers to the Company. As at February 29, 2000 the aggregate indebtedness of all officers, directors, employees and former officers, directors and employees of the Company was \$203,840. All of the outstanding indebtedness was entered into in connection with the purchase of securities of Book4golf.com. The advances are non-interest bearing, unsecured and have no fixed repayment terms. See "Interest of Management and Others in Material Transactions".

Table of Indebtedness of Directors, Executive Officers and Senior Officers

| <u>Name and Principal Position</u> | <u>Involvement of Corporation</u> | <u>Largest Amount Outstanding During Last Completed Fiscal Year</u> | <u>Amount Outstanding as at February 29, 2000</u> | <u>Security for Indebtedness</u> |
|---|-----------------------------------|---|---|----------------------------------|
| Sheldon M. Pollack ⁽¹⁾ Chief Executive Officer and Co-Chairman | Lender | \$523,146 | \$101,970 | None |
| Phillip A. DeLeon ⁽²⁾ Co-Chairman | Lender | \$502,526 | \$101,870 | None |

(1) The indebtedness is owed by 1328133 Ontario Inc., a corporation controlled by Mr. Pollack.

(2) The indebtedness is owed by 1328132 Ontario Inc., a corporation controlled by Mr. DeLeon.

Employment Agreements

Prior to the completion of the Offering, the Company will have entered into employment agreements (collectively, the "Employment Agreements") with each of the senior officers of the Company. Sheldon M. Pollack will be paid an annual base salary of \$275,000 and will agree to devote substantially all of his time and attention to the business of the Company. During his current leave of absence as President of OnX, Mr. DeLeon will be paid an annual base salary of \$50,000 and, upon resuming his duties as President, Mr. DeLeon will be remunerated on the same basis as Mr. Pollack. Each of the senior officers shall be eligible to receive a discretionary management bonus as determined by the Compensation Committee of the board of directors of the Company. The Employment Agreement of each of Mr. Pollack and Mr. DeLeon may be terminated by the Company upon 36 months' prior written notice. Upon a change of control of OnX, each of Messrs. Pollack and DeLeon is entitled to resign from the Company and receive a lump sum severance payment in an amount equal to three times their maximum salary under their employment agreement. Under the terms of their Employment Agreements, Messrs. Pollack and DeLeon will undertake not to compete with the Company and not to disclose any confidential or proprietary information during the term of their employment and for a period of 36 months thereafter. The Employment Agreements of the senior officers other than Messrs. Pollack and DeLeon will

provide for termination by the Company on not more than 12 months' prior written notice. Under the terms of the Employment Agreements, the senior officers will each agree not to compete with the Company and not to disclose any confidential or proprietary information during their term of employment and for a period of 24 months thereafter.

In addition to the Employment Agreements, all other executive officers and key employees of the Company have signed specific confidentiality agreements with the Company respecting the non-disclosure of information relating to the business of the Company.

SHARE COMPENSATION PLANS

Effective December 10, 1999, shareholders of the Company adopted (i) a share compensation plan consisting of a share option plan (the "Share Option Plan"), and a share purchase plan (the "Share Purchase Plan"), and (ii) a directors' and officers' alternate compensation plan (the "Alternate Compensation Plan") for its directors, officers, employees and consultants. A maximum of ● Common Shares (15% of the number of Common Shares outstanding upon completion of the Offering and upon exercise of the Treasury Special Warrants) are issuable by the Company under the Share Option Plan, Share Purchase Plan and Alternate Compensation Plan.

Share Option Plan

The Share Option Plan is designed to provide incentives to directors, officers and key employees of the Company and its affiliates and to permit these persons to participate in the growth and success of the Company. Options to purchase Common Shares may be granted from time to time by the board of directors of the Company at an exercise price determined by them, which in no case would be less than that required by any applicable regulatory authority. The maximum number of Common Shares available for issuance to any one person under the Share Option Plan is 5% of the Common Shares outstanding at the time of the grant. Options granted under the Share Option Plan are non-transferable other than in accordance with the Share Option Plan and must be exercised no later than ten years after the date of the grant or a lesser period as determined by the board of directors of the Company and approved by any applicable regulatory authority. Options to purchase 825,000 Common Shares have been granted under the Share Option Plan. The Company will also grant options to purchase up to 1,750,000 Common Shares pursuant to the Share Option Plan at an exercise price equal to the offering price of the Offered Shares following the completion of the Offering. The details of the options outstanding upon completion of the Offering are set forth in the following table:

| Class of Optionee | Number of Common Shares Under Option | Date of Grant | Exercise Price | Expiry Date |
|---|--|------------------------|----------------|------------------------|
| ● Executive Officers as a group . | 540,375 ● | December 10, 1999 ● | \$6.06 \$ ● | December 10, 2004 ● |
| ● Directors who are not also Executive Officers as a group | ● | ● | \$ ● | ● |
| ● Employees as a group | 284,625 ● | December 10, 1999 ● | \$6.06 \$ ● | December 10, 2004 ● |

Share Purchase Plan

The Share Purchase Plan is designed to provide directors, officers and key employees of the Company and its affiliates with a financial incentive to achieve the long-term objectives of the Company. The Share Purchase Plan provides that no more than an aggregate of 5% of the Common Shares outstanding at the time of the purchase may be purchased by any one person. Under the Share Purchase Plan, each eligible person may purchase that number of Common Shares that has a purchase price equal to or less than 10% of the person's annual base salary for the year in which the purchase is made at an exercise price determined by the board of directors of the Company, which in all cases will not be less than that required by any applicable regulatory authority. Common Shares may be purchased under the Share Purchase Plan for cash or on a payroll deduction basis with payments spread over a maximum one year period. The Company may, at its option, cause Common

Shares to be purchased in the market to satisfy the purchase rights granted under the Share Purchase Plan rather than issuing Common Shares from treasury.

Alternate Compensation Plan

The Alternate Compensation Plan is designed to allow the Company to meet its payment obligations to its directors for directors' fees and to pay certain performance bonus obligations to its employees, in both cases, including its executive officers, through the issuance of Common Shares.

SHAREHOLDER RIGHTS PLAN

OnX proposes to establish a shareholders' rights plan (the "Rights Plan") prior to the closing of the Offering. The Rights Plan is designed to encourage the fair treatment of shareholders in connection with any take-over bid for OnX. Specifically, given the concentration of ownership of Common Shares of the Company following completion of the Offering, the Rights Plan will encourage take-over bids to be extended to all shareholders, and not only the principal shareholders of the Company. See "Principal Shareholders". In addition, the Rights Plan will provide the board of directors and shareholders of OnX with more time to fully consider any unsolicited take-over bid for OnX without undue pressure, will allow the board of directors to pursue, if appropriate, other alternatives to maximize shareholder value, and will allow additional time for competing bids to emerge.

Securities legislation in Canada requires a take-over bid to remain open for only 21 days. The board of directors of OnX does not believe that this period is sufficient to permit it to determine whether there may be alternatives available to maximize shareholder value or whether other bidders may be prepared to pay more for the Common Shares than the offeror. There is also a concern that shareholders may feel compelled to tender into such a bid even though the bid may be inadequate and not representative of full and fair value, because, in failing to do so, such shareholders may be left with illiquid or minority discounted shares. Under the Rights Plan, a bidder making a Permitted Bid (as defined below) for the Common Shares may not take up any shares before the close of business on the 60th day after the date of the bid unless at least 50 percent of the Common Shares not beneficially owned by the offeror and certain related persons are deposited, in which case, the bid must be extended for at least 10 business days on the same terms to allow other shareholders to tender into the bid should they wish to do so and the offeror must make a public announcement to such effect. The Rights Plan will encourage an offeror to proceed by way of a Permitted Bid and negotiate with the board of directors of OnX because of the potential for substantial dilution of the offeror's position. The Permitted Bid provisions of the Rights Plan are designed to ensure that in any take-over bid, the bid is made to all shareholders, and that all shareholders are treated equally, receive the maximum available value for their investments and are given adequate time to properly assess the bid on a fully informed basis.

The Ontario Securities Commission has concluded in recent decisions relating to shareholder rights plans that a target company's board will not be permitted to maintain a shareholder rights plan solely to prevent a successful bid, but such a plan may be maintained if the board is actively seeking alternatives to a take-over bid, and if there is a real and substantial possibility that such board can increase shareholder choice and maximize shareholder value.

The Rights Plan does not affect in any way the financial condition of OnX. The initial issuance of the Rights (as defined below) will not be dilutive and will not affect reported earnings or cash flow per share until the Rights separate from the underlying Common Shares and become exercisable. The Rights Plan will not lessen or affect the duty of the board of directors of OnX to act honestly and in good faith with a view to the best interests of OnX and its shareholders.

Terms of the Rights Plan

The following is a summary of the terms of the Rights Plan. This summary is qualified in its entirety by the agreement (the "Rights Plan Agreement") dated as of ● , 2000 between the Company and Montreal Trust Company of Canada.

The term of the Rights Plan will be three years, subject to reconfirmation by shareholders at the first annual meeting of the shareholders of OnX following the third anniversary date of the effective date of the Rights Plan,

being the date of the completion of the Offering. If the Rights Plan is not reconfirmed by the shareholders at that time, the Rights Plan will terminate immediately thereafter.

One right (a “Right”) will be issued by OnX pursuant to the Rights Plan Agreement in respect of each Common Share outstanding on the date of completion of the Offering. One Right will also be issued for each additional Common Share issued after such date and prior to the earlier of the Separation Time (as defined below) and the expiration of the Rights Plan.

Until the Separation Time, the Rights will not be transferable separately from the Common Shares and will be represented by Common Share certificates, and will not be exercisable. After the Separation Time, the Rights will become exercisable, will be evidenced by Rights certificates, and will be transferable separately from the Common Shares. After the Separation Time but prior to a Flip-in Event (as defined below), each Right will entitle the holder to purchase one Common Share at an exercise price equal to five times the market price of the Common Shares at the time the Right is exercised, subject to anti-dilution provisions in the Rights Plan Agreement.

Under the Rights Plan Agreement, a Flip-in Event is any transaction in which any person becomes an Acquiring Person (as defined below). Except as set out below, from and after the date of occurrence of a Flip-in Event:

- (a) any Rights beneficially owned by the Acquiring Person and affiliates, associates and transferees of the Acquiring Person or any person acting jointly or in concert with the Acquiring Person will become void; and
- (b) each Right (other than Rights which are void) will entitle the holder thereof to purchase one Common Share at a price equal to one half of the market price for the Common Shares at the time the Right is exercised, subject to anti-dilution provisions in the Rights Agreement.

An Acquiring Person is a person who beneficially owns 20 percent or more of the outstanding Common Shares. A person shall not be deemed to be the beneficial owner of Common Shares which have been deposited or tendered pursuant to a lock-up agreement between such person and a holder of Common Shares where: (i) the lock-up agreement may be terminated in certain circumstances by the holder; and (ii) the break-up or other fees payable by the holder under the lock-up agreement do not exceed 2.5 percent of the value of the Common Shares subject to the agreement.

An Acquiring Person does not include OnX, Sheldon M. Pollack, Phillip A. DeLeon or any person who becomes the beneficial owner of 20 percent or more of the outstanding Common Shares as a result of certain exempt transactions (each a “Grandfathered Shareholder”). Exempt transactions include (i) specified corporate acquisitions, (ii) acquisitions pursuant to a Permitted Bid or Competing Permitted Bid (as defined below), (iii) specified corporate distributions, (iv) convertible security acquisitions, and (v) certain other specified exempt acquisitions. However, a Grandfathered Shareholder will become an Acquiring Person upon acquiring an additional one percent of the currently outstanding Common Shares (other than pursuant to an exempt transaction).

The Separation Time is defined in the Rights Plan Agreement as the close of business on the eighth trading day after the earlier of:

- (a) the date of the first public announcement that a person has become an Acquiring Person;
- (b) the date of commencement of, or first public announcement of, the intent of any person other than the Company or a subsidiary of the Company to commence a take-over bid (other than a Permitted Bid or a Competing Permitted Bid); and
- (c) the date on which a Permitted Bid ceases to be a Permitted Bid,

or such later time as may be determined by the board of directors of the Company.

A Permitted Bid is defined in the Rights Plan Agreement as a take-over bid made by a take-over bid circular and which also complies with the following requirements:

- (a) the bid is made to all holders of voting shares wherever resident; and
- (b) the take-over bid must be open for at least 60 days and more than 50 percent of the voting shares (other than shares beneficially owned by the offeror and certain related parties) must be deposited

under the bid and not withdrawn before any shares may be taken up and paid for and, if 50 percent of the voting shares are so deposited and not withdrawn, an announcement of such fact must be made and the bid must remain open for a further 10 business days to allow other shareholders to tender into the bid should they wish to do so.

The Rights Plan allows a competing Permitted Bid (a “Competing Permitted Bid”) to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid including that it be outstanding for at least 60 days except that, provided it is outstanding for a minimum period of 21 days, it may expire on the same date as the Permitted Bid even though such date may be sooner than the 60th day after the date the Competing Permitted Bid is made. If an offeror successfully completes a Permitted Bid or a Competing Permitted Bid, the Rights Plan provides that the Rights will be redeemed at \$0.001 per Right. Acquisitions of Common Shares made pursuant to a Permitted Bid or a Competing Permitted Bid do not give rise to a Flip-in Event.

A Permitted Bid, even if not approved by the board of directors, may be taken directly to the shareholders of OnX. Shareholder approval will not be required for a Permitted Bid. Instead shareholders of OnX will initially have 60 days to deposit their Common Shares. If more than 50 percent of the voting shares (other than shares beneficially owned by the offeror) have been deposited and not withdrawn by the end of such 60 day period, the Permitted Bid must be extended for a further period of 10 business days to allow remaining shareholders to deposit their shares if they so choose and the offeror must make a public announcement to such effect.

If a potential offeror does not wish to make a Permitted Bid, it can negotiate with, and obtain the prior approval of, the board of directors of OnX to make a bid pursuant to a take-over bid circular on terms which the board considers fair to all shareholders. In such circumstances, the board of directors may waive the application of the Rights Plan to the transaction, thereby allowing such bid to proceed without dilution to the offeror, and will be deemed to have waived the application of the Rights Plan to all other contemporaneous bids made by take-over bid circular. All other waivers require shareholder approval except in the case of inadvertent triggering of the application of the Rights Plan.

Accordingly, a Flip-in Event that is not approved by the board of directors will result in significant dilution to an Acquiring Person. The board of directors may, with shareholder approval, at any time prior to the occurrence of a Flip-in Event, elect to redeem all of the outstanding Rights at a redemption price of \$0.001 per Right.

PRINCIPAL SHAREHOLDERS

To the best of the Company’s knowledge, the following table shows the number of Common Shares owned by each shareholder of the Company who beneficially owns, directly or indirectly, more than 10% of the outstanding Common Shares, before and after giving effect to the Offering.

| Name and Address | Prior to the Offering ⁽¹⁾ | | After the Offering ⁽¹⁾ | |
|---|--------------------------------------|---------------------|-----------------------------------|---------------------|
| | Number of Common Shares | Percentage of Class | Number of Common Shares | Percentage of Class |
| Sheldon M. Pollack ⁽²⁾ Toronto, Ontario | 8,965,688 | 38.8% | 8,965,688 | ● % |
| Phillip A. DeLeon ⁽³⁾ Toronto, Ontario | 8,965,688 | 38.8% | 8,965,688 | ● % |

(1) Assumes the issuance of 3,099,525 Common Shares upon the exercise of 1,878,500 Treasury Special Warrants and the delivery of 779,625 Common Shares upon the exercise of the Secondary Special Warrants. See “Private Placement”.

(2) 100% of Mr. Pollack’s holdings are held beneficially through 1328133 Ontario Inc. and 1388617 Ontario Inc., each of which is controlled by him.

(3) 100% of Mr. DeLeon’s holdings are held beneficially through 1328132 Ontario Inc. and 1388616 Ontario Inc., each of which is controlled by him.

As at February 29, 2000, the directors and executive officers of the Company, as a group, beneficially owned, directly or indirectly, 17,931,376 Common Shares, representing 77.6% of the total number of Common

Shares outstanding after giving effect to the exercise of the Secondary Special Warrants (● % after giving effect to the Offering).

USE OF PROCEEDS

The net proceeds to the Company from the Offering (without giving effect to the Over-Allotment Option, See “Plan of Distribution”) will be \$ ● million, after deduction of the Underwriters’ fee of \$ ● and the estimated expenses of the Offering of \$ ● . The Company intends to use the net proceeds of this Offering as follows: (i) approximately \$ ● million to finance strategic acquisitions; (ii) approximately \$ ● million to finance sales and marketing; (iii) approximately \$ ● million to invest in the incubation of ASP Internet ventures; and (iv) the balance of approximately \$ ● million for working capital and for general corporate purposes. Pending such use, the Company intends to invest such net proceeds in short-term, investment-grade, interest-bearing securities. The actual use of the net proceeds of the Offering will vary depending on the Company’s operating and capital needs from time to time and will be subject to the discretion of management of the Company. While the Company has not entered into any binding agreements with respect to any new acquisitions, it is currently in various stages of discussions concerning acquisition opportunities.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company as at the dates indicated and after giving effect to the Offering, the Subdivision and the exercise of the Special Warrants. This table should be read in conjunction with the Company’s consolidated financial statements and the notes thereto included elsewhere in this prospectus.

| | Authorized | As at December 31, 1999 | As at January 31, 2000 | As at January 31, 2000 after giving effect to this Offering ⁽¹⁾ |
|---|--------------|--|--|--|
| | | (unaudited) | (unaudited) | (unaudited) |
| Bank indebtedness ⁽²⁾ | \$17,000,000 | \$ 1,475,927 | \$ 5,741,615 | \$ ● |
| Term loans ⁽²⁾ | — | \$ 776,921 | \$ 712,456 | \$ 712,456 |
| Convertible debentures ⁽³⁾ | — | \$ 754,000 | \$ 754,000 | \$ 754,000 |
| Shareholders’ equity | | | | |
| Common Shares ⁽⁴⁾ | Unlimited | \$ 3,941,033 (20,000,475 shares) | \$ 3,941,033 (20,000,475 shares) | \$ ● (● shares) |
| Treasury Special Warrants | 1,878,500 | \$17,752,136 (1,878,500 Special Warrants) | \$17,752,136 (1,878,500 Special Warrants) | Nil (Nil Special Warrants) |
| Purchase Warrants | 1,492,550 | \$ 23,625 (310,750 Purchase Warrants) | \$ 23,625 (310,750 Purchase Warrants) | \$ 23,625 (1,250,000 Purchase Warrants) |
| Retained earnings ⁽⁵⁾ | — | \$ 1,679,885 | \$ 1,679,885 | \$1,679,885 |

- (1) Assumes the issuance of 3,099,525 Common Shares upon the exercise of 1,878,500 Treasury Special Warrants. See “Private Placement”.
- (2) Secured current portion. See Note 7 to the Company’s consolidated financial statements for details concerning the security and terms of the Company’s bank indebtedness and term loans.
- (3) See “Prior Sales” and Note 3(b) to the Company’s consolidated financial statements for details concerning the terms of the convertible debentures.
- (4) Without giving effect to the issuance of:
 - (a) ● Common Shares upon exercise of the Over-Allotment Option. See “Plan of Distribution”;
 - (b) ● Common Shares upon the exercise of the Compensation Options. See “Plan of Distribution”;
 - (c) 2,062,500 Common Shares upon the exercise of 1,250,000 Purchase Warrants issued by the Company or issuable upon the exercise of Treasury Special Warrants. See “Private Placement”;
 - (d) 412,500 Common Shares upon exercise of 250,000 Special Warrant Underwriter’s Warrants. See “Private Placement”;
 - (e) 206,250 Common Shares upon the exercise of Purchase Warrants issuable upon the exercise of 250,000 Special Warrant Underwriter’s Warrants. See “Private Placement”;
 - (f) Common Shares upon the exercise of 2,500,000 Bonus Warrants. See “Private Placement”;
 - (g) ● Common Shares upon the exercise of outstanding convertible debentures; and
 - (h) ● Common Shares upon the exercise of outstanding stock options.
- (5) As at December 31, 1999.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth selected unaudited consolidated financial information of OnX for the eight month periods ended December 31, 1999 and 1998 and selected audited consolidated financial information of OnX for the three fiscal years ended April 30, 1999, 1998 and 1997. The following summary of selected consolidated financial information is derived from, should be read in conjunction with and is qualified in its entirety by reference to OnX's consolidated financial statements, including the notes thereto and Management's Discussion and Analysis of Results of Operations and Financial Condition included elsewhere in this prospectus.

Income Statement Data

| | Eight Months Ended December 31, | | Year Ended April 30, | | |
|--|--|-----------------|----------------------|-----------------|-----------------|
| | 1999 | 1998 | 1999 | 1998 | 1997 |
| | (unaudited) | (unaudited) | | | |
| | (in thousands of dollars, except per share data) | | | | |
| Sales: | | | | | |
| IT infrastructure | \$54,041 | \$73,467 | \$122,001 | \$ 92,202 | \$ 60,896 |
| e-Business services | 16,798 | 5,772 | 15,788 | 5,159 | 676 |
| Wholesale | — | 10,095 | 11,288 | 11,102 | 39,667 |
| | <u>70,839</u> | <u>89,334</u> | <u>149,077</u> | <u>108,463</u> | <u>101,239</u> |
| Cost of sales | 55,276 | 72,554 | 120,021 | 85,767 | 87,144 |
| Gross Margin: | | | | | |
| IT infrastructure | 9,292 | 14,811 | 23,523 | 19,960 | 11,203 |
| e-Business services | 6,271 | 1,517 | 5,112 | 2,172 | 676 |
| Wholesale | — | 452 | 421 | 564 | 2,216 |
| | <u>15,563</u> | <u>16,780</u> | <u>29,056</u> | <u>22,696</u> | <u>14,095</u> |
| Expenses: | | | | | |
| Selling | 7,024 | 5,527 | 11,668 | 7,118 | 4,513 |
| Administrative | 5,049 | 4,566 | 6,714 | 6,161 | 4,188 |
| Amortization | 948 | 643 | 1,004 | 582 | 278 |
| Interest and bank charges | 608 | 758 | 1,148 | 1,006 | 567 |
| Total expenses | <u>13,629</u> | <u>11,494</u> | <u>20,534</u> | <u>14,867</u> | <u>9,546</u> |
| Loss on disposal of investment | 102 | — | — | — | — |
| Income before income taxes | 1,832 | 5,286 | 8,522 | 7,829 | 4,549 |
| Income taxes | 998 | 2,496 | 4,362 | 3,601 | 2,162 |
| Net income | <u>\$ 834</u> | <u>\$ 2,790</u> | <u>\$ 4,160</u> | <u>\$ 4,228</u> | <u>\$ 2,387</u> |
| Earnings per share ⁽¹⁾ : | | | | | |
| Pre-Subdivision | \$ 0.07 | \$ 0.23 | \$ 0.34 | \$ 0.35 | \$ 0.20 |
| Post-Subdivision | \$ 0.04 | \$ 0.14 | \$ 0.21 | \$ 0.21 | \$ 0.12 |

(1) Assumes the Common Shares outstanding after completion of the share reorganization in December 1999, both before and after giving effect to the Subdivision, had been outstanding at the beginning of each of the periods referred to. Fully diluted earnings per share information, computed on a similar basis, has not been provided as it is anti-dilutive. See "Prior Sales".

Balance Sheet Data

| | As at December 31, 1999 | As at April 30, | |
|--|----------------------------|-----------------|---------------|
| | (unaudited) | 1999 | 1998 |
| | (in thousands of dollars) | | |
| Assets: | | | |
| Current assets | \$33,786 | \$44,513 | \$39,913 |
| Capital assets | 5,765 | 3,843 | 2,454 |
| Deferred development costs | 1,401 | — | — |
| Goodwill | 2,841 | 1,502 | 1,748 |
| Investment and other | 499 | 144 | — |
| Deferred income taxes | 649 | — | — |
| Total assets | <u>44,941</u> | <u>50,002</u> | <u>44,115</u> |
| Liabilities and shareholders equity: | | | |
| Current liabilities | 20,790 | 36,160 | 32,299 |
| Term loans | — | 519 | 1,443 |
| Convertible debentures | 754 | — | — |
| Deferred income taxes | — | 265 | 189 |
| Shareholders' equity | <u>23,397</u> | <u>13,058</u> | <u>10,184</u> |
| Total liabilities and shareholders' equity | <u>44,941</u> | <u>50,002</u> | <u>44,115</u> |

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

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of the Company's consolidated results of operations and financial condition. This discussion should be read in conjunction with the Company's consolidated financial statements, including the notes thereto included elsewhere in this prospectus. See "Selected Consolidated Financial Information". This discussion contains forward-looking statements that involve risks and uncertainties. The Company's actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors".

Overview

OnX is a provider of end-to-end e-Business services and IT infrastructure and integration solutions to medium and large companies and public sector organizations in both the B2B and B2C markets.

As at December 31, 1999, OnX had 290 full time employees and seven offices located in five major Canadian cities. Prior to 1996, OnX's focus was primarily as a systems integrator and value-added reseller of client server infrastructure and software. In 1996, OnX established a services division to provide end-to-end e-Business solutions for its clients. Today, OnX's focus is to provide end-to-end e-Business solutions for companies and public sector organizations.

In the years ended April 30, 1997, 1998 and 1999 (the "1997 fiscal year", the "1998 fiscal year" and the "1999 fiscal year", respectively), OnX operated in three business segments, namely, IT infrastructure and integration, e-Business services, and wholesale of disk storage products ("Wholesale"). The IT infrastructure and integration segment includes reselling of computer hardware and software and integration of business applications. Sales from the IT infrastructure and integration segment are recognized on shipment of products. The e-Business services segment provides: e-Business strategy consulting; software application design and integration; creative design and marketing; e-Business infrastructure planning, design and implementation; and application hosting. Sales from e-Business services are recognized on a percentage of completion basis. Together, these two business segments provide OnX's end-to-end e-Business solutions capability. The Wholesale segment provides reselling of disc storage products. Wholesale sales are recognized on shipment of products.

The Wholesale line of business was considered a non-strategic opportunistic venture with high sales dollar volume and characteristically low gross margin and, accordingly, in May 1999 OnX decided to no longer pursue sales in this area.

Growth in sales and gross margin in the period May 1, 1996 to April 30, 1999 has been primarily derived from the following:

- Management's ability to recognize and respond to changing trends within the industry, such as the development of the e-Business services business;
- Focus on server market and server integration which has led to strong sales in IT infrastructure;
- Focus on large customers and building strong relationships with many of the large financial institutions, utilities and government agencies. For the eight month period ended December 31, 1999, approximately 40 percent of sales were derived from the Company's five largest clients; and
- Strong vendor relationships with the large manufacturers of IT infrastructure products, such as Sun Microsystems, Compaq, Hewlett-Packard, IBM, Cisco, EMC and Veritas.

Gross margin consists of cost of product and salary costs related to services provided. OnX includes costs associated with revenue producing employees (e-Business professional services staff) such as salaries, benefits, training and project expenses in the cost of sales.

Selling expenses is comprised of a number of different components, the largest being compensation, including commissions and salaries, and marketing.

Administrative expenses consist of administrative salaries, related premises costs and other administrative costs.

Results of Operations

Eight months ended December 31, 1999 and 1998

Sales

For the eight month period ended December 31, 1999, e-Business services sales increased by approximately 190 percent to \$16.8 million from \$5.8 million for the same period in 1998. Sales generated from e-Business services for the eight month period ended December 31, 1999 represented approximately 24 percent of total sales as compared to approximately 6.5 percent of total sales for the same period in 1998. The increase in e-Business services sales was derived from several new contracts, one of which is with Book4golf.com. See "Interest of Management and Other in Material Transactions". The Company provides services and support to Book4golf.com in connection with design of the Book4golf.com system and software and assistance with management and administration of its business. Fees and reimbursable expenses charged to Book4golf.com for the eight month period ended December 31, 1999 were \$6.5 million (for the period ended December 31, 1998 — \$nil) and are included in e-Business services sales.

During the eight month period ended December 31, 1999, the IT infrastructure and integration industry experienced decreased spending by medium and large companies and public sector organizations on IT infrastructure and integration solutions as a result of concerns regarding the impact of the Year 2000 issue. OnX generated \$54 million in sales related to IT infrastructure and integration solutions for the eight month period ended December 31, 1999, representing approximately 76 percent of total sales, as compared to \$73.5 million in sales generated for the same period ended December 31, 1998, representing approximately 82 percent of total sales. As a result of this decline in IT infrastructure and integration solutions sales and as a result of ceasing Wholesale sales, total sales of the Company decreased by approximately 21 percent to \$70.8 million for the eight month period ended December 31, 1999 from total sales of \$89.3 million for the eight month period ended December 31, 1998.

Gross Margin

Total gross margin as a percentage of total sales increased from approximately 19 percent in the eight month period ended December 31, 1998 to approximately 22 percent in the eight month period ended December 31, 1999. This increase was a result of the change in the proportion of sales related to higher gross margin e-Business services and the elimination of low gross margin Wholesale sales. OnX realized a gross margin of approximately 37 percent from the provision of e-Business services and approximately 17 percent from the sale of IT infrastructure and integration solutions for the eight month period ended December 31, 1999. For the same period in 1998, OnX realized a gross margin of approximately 26 percent and approximately 20 percent from its e-Business services and IT infrastructure and integration segments, respectively. The increase in the gross margin from e-Business services in the eight month period ended December 31, 1999 over the corresponding period for 1998 resulted from the formalization of the business unit as compared to prior periods and the use of improved processes to ensure that utilization of professional services employees were optimized. The decrease in the gross margin from IT infrastructure and integration solutions in the eight month period ended December 31, 1999 resulted from pricing decisions made by the Company to respond to reduced IT infrastructure and integration solutions spending as a result of the Year 2000 issue.

Net Income

Net income in the eight month period ended December 31, 1999 decreased by approximately 70 percent to \$833,666 from \$2,789,770 in the same period in 1998 as a result of reduced IT infrastructure and integration solutions sales, as noted above, and an increase in selling expenses. Selling expenses as a percentage of sales increased from approximately 6.2 percent in the eight month period ended December 31, 1998 to approximately 9.9 percent for the same period in 1999. During the eight month period ended December 31, 1999, OnX determined that further investment needed to be made in the marketing and sales departments. Product managers for each business segment as well as regional managers were hired with the objective of capturing further market share in each of OnX's main business segments, resulting in increased management salary costs. In this period, OnX also added account managers specializing in the sale of e-Business services. These account managers, unlike IT infrastructure and integration solutions account managers, are paid a combination of salary and commissions. Although total commissions are lower as a result of lower sales volumes, total selling salaries have increased as a result of the mix of staff that was hired during the eight month period ended December 31, 1999. In order to increase recognition of OnX's brand in the e-Business solutions market, OnX determined to allocate additional resources to its marketing effort. Additional marketing staff were hired and the Company developed a number of new programs and advertising initiatives. In total, the Company hired four product and regional managers, seven e-Business services account managers and four marketing staff. OnX anticipates that these increases in staff will contribute to growth in sales. This increase is expected to be recognized in the year ending April 30, 2001 during which time the selling expenses as a percentage of gross margin is expected to decrease as compared to the year ending April 30, 2000.

Administrative expenses as a percentage of sales increased from approximately 5 percent in the eight month period ended December 31, 1998 to approximately 7 percent in the same period in 1999. This administrative cost increase is a result of the new e-Business services premises along with associated infrastructure expenses.

Years ended April 30, 1999 and 1998

Sales

Sales grew approximately 37 percent from \$108.5 million in the 1998 fiscal year to \$149.1 million in the 1999 fiscal year. This growth was attributable to (i) an increase of approximately 32 percent in IT infrastructure and integration solutions sales as a result of the growth in the server market and sales of IT infrastructure from Hewlett-Packard, Sun Microsystems and IBM and (ii) an increase of approximately 204 percent in e-Business services sales from \$5.2 million to \$15.8 million resulting from OnX continuing to position itself to better capture opportunities in the provision of e-Business services. The 1998 fiscal year was the first full year of e-Business services, which commenced in the 1997 fiscal year. In addition, the 1999 fiscal year was the first full year of sales from Docu.Max as it was acquired in November 1997.

Wholesale sales in the 1999 fiscal year remained relatively stable from the 1998 fiscal year at approximately \$11 million as the Company was not actively pursuing new business in this area. In May 1999, OnX ceased sales in the Wholesale business.

Gross Margin

For e-Business services, gross margin as a percentage of sales decreased to approximately 32 percent in the 1999 fiscal year from approximately 42 percent in the 1998 fiscal year. This decrease was primarily attributable to a decrease in the number of employees working on billable projects which resulted from the integration of Docu.Max and the increase in training time for billable staff, the number of which increased from 67 in April 1998 to 95 in April 1999.

In the 1999 fiscal year, OnX signed a major supply agreement with respect to the IT infrastructure and integration business with its largest client pursuant to which OnX agreed to reduce its margins to incent the client to aggregate its purchasing through OnX. This agreement was a significant factor in the decrease in gross margins from approximately 22 percent in the 1998 fiscal year to approximately 19 percent in the 1999 fiscal year. Sales to this client as a percentage of total sales were approximately 24 percent and 5 percent for the 1999 and 1998 fiscal years, respectively.

The gross margin derived from the Wholesale business in the 1999 fiscal year and the 1998 fiscal year was approximately 4 percent and 5 percent, respectively.

Net Income

Notwithstanding an increase in gross margin in the 1999 fiscal year, net income in the 1999 fiscal year declined by approximately 1.6 percent over the 1998 fiscal year as a result of increased selling expenses. Selling expenses as a percentage of sales in the 1999 fiscal year was approximately 7.8 percent and in the 1998 fiscal year was approximately 6.6 percent. This increase in selling expenses as a percentage of sales was attributable to the increase in gross margins which resulted in higher commission paid in the 1999 fiscal year as compared to the 1998 fiscal year and the addition of management staff. In the 1999 fiscal year, OnX increased its sales management team and its advertising and marketing activities to support its increased sales volume. In addition, increases in the number of employees in the 1999 fiscal year resulted in additional investment in corporate infrastructure to support the growing e-Business services business, which resulted in an increase in the administrative and amortization expenses over the prior period.

Years ended April 30, 1998 and 1997

Sales

Sales in the 1998 fiscal year increased by approximately 7 percent to \$108.5 million from \$101.2 million in the 1997 fiscal year. There was a decrease in sales from the lower gross margin Wholesale business. Sales generated from the Wholesale business declined from \$39.7 million in the 1997 fiscal year to \$11.1 million in the 1998 fiscal year due to OnX's decision to concentrate on the more profitable e-Business services and IT infrastructure and integration solutions markets.

Sales from IT infrastructure and integration solutions grew approximately 51 percent from \$60.1 million in the 1997 fiscal year to \$92.2 million in the 1998 fiscal year. This sales growth was attributable to the conversion of legacy IT products by many of OnX's larger clients to Year 2000 compliant systems. In the 1997 fiscal year, OnX added additional product lines to its IT infrastructure and integration solutions portfolio. The introduction of new products from Hewlett-Packard, Sun Microsystems and IBM also contributed to the increase in sales in the 1998 fiscal year.

e-Business services sales increased by approximately 600 percent from approximately \$676,000 in the 1997 fiscal year to \$5.2 million in the 1998 fiscal year. OnX formally developed its e-Business services capability in the latter half of the 1997 fiscal year and the growth from the 1997 fiscal year to the 1998 fiscal year demonstrated OnX's increased focus on the e-Business services market.

Gross Margin

OnX realized a gross margin as a percentage of sales of approximately 22 percent on IT infrastructure and integration solutions in the 1998 fiscal year as compared to approximately 18 percent in the 1997 fiscal year. The increase in the gross margin percentage was attributable to a higher proportion of sales of higher gross margin products such as servers in the 1998 fiscal year as compared to the 1997 fiscal year.

The gross margin from e-Business services for the 1997 fiscal year, being the first year in which the Company offered e-Business services, has not been provided as it was not readily available. The Wholesale business gross margin was approximately 5 percent for the 1998 fiscal year and approximately 6 percent for the 1997 fiscal year.

Net Income

Net income increased approximately 75 percent to \$4.2 million in the 1998 fiscal year from \$2.4 million in the 1997 fiscal year. The increase in net income was a result of OnX's strategy of focusing on the higher margin IT infrastructure and integration solutions and e-Business services. Selling expenses as a percentage of sales in the 1998 fiscal year was approximately 6.6 percent and in the 1997 fiscal year was approximately 4.5 percent. This increase was attributable to the increase in gross margin, which resulted in higher commissions paid in the 1998 fiscal year as compared to the 1997 fiscal year and the addition of staff to service the growing e-Business services segment. In addition, administrative expenses increased from the 1997 fiscal year to the 1998 fiscal year as OnX invested in its corporate infrastructure in response to the growth of its business. In addition, the opening of a new facility in Calgary in the 1998 fiscal year resulted in additional staff and rental expenses.

Liquidity and Capital Resources

OnX currently funds its operations through cash generated from operations and a bank line of credit.

The Company's current line of credit with a Canadian chartered bank is \$17 million of which \$5.7 million was utilized at January 31, 2000. The line of credit bears interest at the rate of prime plus $\frac{3}{4}$ percent to prime plus $1\frac{1}{2}$ percent per annum. The remainder of the line of credit is available to finance ongoing operations, as well as working capital for acquisitions. The Company currently has two term loans with this Canadian chartered bank under which an aggregate of \$0.71 million was outstanding at January 31, 2000. These term loans are repayable on demand and bear interest at the rate of prime plus 2 percent per annum. The Company's indebtedness to the bank is secured by a general security agreement and a general assignment of the Company's accounts receivable, inventories and certain other assets.

In December 1999, OnX completed a private placement of Treasury Special Warrants and Placement Units which resulted in net proceeds of \$18.8 million. See "Private Placement". Of these proceeds, \$7.9 million was used to pay dividends to the shareholders and \$8.2 million was applied against the Company's line of credit.

In the eight month period ended December 31, 1999, OnX generated \$4.5 million in cash from its operating activities. This was a result of OnX's collections efforts to decrease the days outstanding on the accounts receivable and reduction in inventory levels. Working capital balances decreased by \$2.8 million as a result of these efforts. This improvement in cash flow from operations compared to the eight month period ended December 31, 1998 was a result of lower IT infrastructure and integration solutions sales in the period, which allowed the Company to reduce its investment in working capital balances. During the eight month period ended December 31, 1999, \$2.7 million was expended to purchase capital assets. In addition, \$1.4 million was expended on deferred development costs with respect to Net Periscope. Cash costs associated with the acquisition of the Global-X-Change were approximately \$1 million.

During the 1999 fiscal year, OnX used \$724,411 of cash in operating activities. This was a result of increases in working capital balances of \$6.0 million. The change in working capital balances was financed through bank indebtedness which increased by \$5.5 million. The Company paid dividends of \$1.7 million of which \$1.6 million was reinvested for the purchase of shares. In addition, the Company purchased \$2.3 million of capital assets, loaned \$1.0 million to related parties and applied \$0.9 million against term loans.

During the 1998 fiscal year, OnX generated \$2.7 million of cash from operating activities. Working capital balances increased by \$2.2 million, most of which was accounts receivable which increased as a result of the growth in sales. Bank indebtedness decreased by \$0.8 million. The Company purchased \$1.6 million of capital assets and \$0.4 million of cash was used in the purchase of Docu.Max.

Year 2000

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, and to date no problems have surfaced, it is not possible to conclude that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, have been fully resolved. The Company spent approximately \$337,000 in the eight month period ended December 31, 1999 for an enterprise backup solution and upgrade to some non-compliant servers and software.

Outlook

OnX believes that the Company's anticipated cash generated from operations, its credit facilities and the net proceeds of this Offering will be sufficient to fund operations and capital expenditures for at least the next 12 months. There can be no assurance that these funds will be sufficient to satisfy the Company's ongoing requirements. In addition, the availability of the Company's credit lines is subject to the terms and conditions of the Company's credit agreements. To the extent that opportunities arise to acquire or invest in complementary businesses, the Company may fund such acquisitions or investments through additional equity or debt financing if available on acceptable terms. The sale of additional equity or debt securities could result in dilution to the Company's shareholders. See "Risk Factors".

DESCRIPTION OF SHARE CAPITAL

Authorized Capital

Upon the completion of the Offering, the authorized share capital of the Company shall consist of an unlimited number of Common Shares and an unlimited number of preferred shares (“Preferred Shares”), issuable in series, of which, immediately prior to the Offering, 20,000,475 Common Shares and no Preferred Shares will be issued and outstanding, before giving effect to the issuance of 3,099,525 Common Shares upon the exercise of 1,878,500 Treasury Special Warrants, and 23,100,000 Common Shares and no Preferred Shares will be issued and outstanding after giving effect to the exercise of the Treasury Special Warrants. See “Private Placement”.

Common Shares

Each Common Share entitles the holder thereof to one vote at meetings of shareholders of the Company, to receive dividends if, as and when declared by the board of directors and to participate in the distribution of the assets of the Company, subject to the rights of holders of any class ranking prior to the Common Shares.

Preferred Shares

The Preferred Shares may be issued in one or more series. The directors are required by resolution to fix, from time to time, before the issue of any series of Preferred Shares, the designation, preferences, rights, restrictions, conditions, limitations, priorities as to payment of dividends and/or distribution on liquidation, dissolution, or winding-up, or prohibitions attaching thereto. Each series of Preferred Shares will rank on parity with the Preferred Shares of every other series and are entitled to a priority over the Common Shares, and any other class of shares ranking junior to the Preferred Shares with respect to the payment of dividends and the distribution of assets upon liquidation of the Company.

DIVIDEND RECORD AND POLICY

The Company currently intends to retain future earnings, if any, for use in its business and does not anticipate paying dividends on the Common Shares in the foreseeable future. Any determination to pay any future dividends will remain at the discretion of the board of directors of the Company and will be made taking into account any requirements under any then outstanding credit facilities, its financial condition and other factors deemed relevant by the board of directors. Other than as described below, the Company has not declared or paid any dividends on its shares during its last three completed fiscal years.

In the years ended April 30, 1999 and 1998, the Company paid dividends in the aggregate amount of \$1,701,200 and \$138,000, respectively, on the then outstanding classes of preferred shares and special shares.

In December 1999, in connection with a share reorganization, the Company paid dividends in the aggregate amount of \$8,835,750 on the then outstanding shares and a stock dividend of shares with a value of \$892,876 on the then outstanding shares. Subsequent to the payment of the dividend, all of the outstanding preference shares were exchanged for special shares and the special shares were reclassified into Common Shares. See “Prior Sales”.

DILUTION

After giving effect to the Offering, the Subdivision and the exercise of 1,878,500 Treasury Special Warrants, the offering price of each Common Share exceeds, as at December 31, 1999, the consolidated net tangible book value thereof by \$ ● , representing a dilution factor of ● percent. The following table presents the dilution per Common Share:

| | | | |
|--|------|------|-----|
| Offering price per Common Share | | \$ ● | |
| Consolidated net tangible book value as at December 31, 1999 | \$ ● | | |
| Increase in net tangible book value attributable to this Offering ⁽¹⁾ | \$ ● | | |
| Consolidated net tangible book value after this Offering | | \$ ● | |
| Dilution to purchasers | | \$ ● | |
| Percentage of dilution in relation to the Offering price | | | ● % |

(1) After deducting the expenses of this Offering estimated at \$ ● and fees of \$ ● payable to the Underwriters by the Company.

PLAN OF DISTRIBUTION

Under an agreement dated ● , 2000 (the “Underwriting Agreement”) between the Company and Yorkton Securities Inc., CIBC World Markets Inc., HSBC Securities (Canada) Inc. and National Bank Financial Inc. (collectively, the “Underwriters”), the Company has agreed to issue and sell the Offered Shares and the Underwriters have severally agreed to purchase, subject to the conditions set out in the Underwriting Agreement, on ● , 2000, or such other date not later than ● , 2000 as may be agreed upon, all but not less than all of the Offered Shares at the price of \$ ● per Offered Share payable in cash against delivery of the certificates representing the Offered Shares. The offering price of the Offered Shares was determined by negotiation between the Company and the Underwriters. The Underwriting Agreement provides for the payment to the Underwriters, for their services in connection with the Offering, of a fee in the amount of \$ ● per Offered Share sold.

In addition, the Company has granted to the Underwriters an option (the “Over-Allotment Option”) to purchase up to ● additional Common Shares at the price of \$ ● per Common Share payable in cash against delivery of such additional Common Shares. The Over-Allotment Option is exercisable from time to time in whole or in part for a period of 60 days from the Closing Date for the purpose of covering over-allotments, if any, and for market stabilization purposes. The Underwriting Agreement provides for the payment by the Company to the Underwriters of a fee in the amount of \$ ● per Common Share sold pursuant to the Over-Allotment Option for their services in that regard. This prospectus also qualifies the distribution of the Common Shares issuable upon exercise of the Over-Allotment Option.

Pursuant to the terms of the Underwriting Agreement, the Company will issue to the Underwriters compensation options (the “Compensation Options”) to purchase ● Common Shares at the offering price at any time prior to the date which is two years from the closing date (the “Closing Date”). This prospectus also qualifies the distribution of the Compensation Options.

The Underwriters may terminate the Underwriting Agreement at their discretion on the basis of their assessment of the financial markets and upon the occurrence of certain stated events. The Underwriters are obligated, however, to take up and pay for all of the Offered Shares if any are purchased under the Underwriting Agreement.

Pursuant to policy statements of the Commission des valeurs mobilières du Québec and the Ontario Securities Commission, the Underwriters may not, throughout the period of distribution, bid for or purchase Common Shares. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price, of the Common Shares. These 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 or on behalf of a client where the client’s order was not solicited during the period of the distribution. Subject to the foregoing and to applicable laws, in connection with the Offering, the Underwriters may over-allot Common Shares or effect transactions intended to stabilize or maintain the market price of the

Common Shares at a higher level than that which might otherwise prevail in the open market. Such transactions may be commenced or discontinued at any time during the Offering.

The Company has agreed in favour of the Underwriters that, during the period ending 120 days after the Closing Date, it will not, except in certain circumstances, directly or indirectly, issue or sell or offer for sale any Common Shares or other securities convertible into or exchangeable for Common Shares, or agree to do so, or announce publicly their intention to do so, without having obtained the prior written consent of the Underwriters, except for: (i) the granting of options pursuant to the Share Option Plan and the issue of Common Shares upon the exercise of such options or pursuant to the Share Purchase Plan or the Alternate Compensation Plan; (ii) the issue of Common Shares upon the exercise of currently outstanding convertible securities, warrants or options; and (iii) acquisitions, strategic alliances or investments in the ordinary course of business with arm's length parties pursuant to which the aggregate number of Common Shares, or securities exercisable or convertible to acquire Common Shares, shall not exceed 50 percent of the Common Shares issued and outstanding immediately after the completion of the Offering.

In addition, Sheldon M. Pollack, Phillip A. DeLeon, 1328132 Ontario Inc., 1328133 Ontario Inc., 1388616 Ontario Inc. and 1388617 Ontario Inc. have agreed in favour of the Underwriters that, during the period ending 120 days after the Closing Date, they will not, directly or indirectly, sell or offer for sale any Common Shares or other securities convertible into or exchangeable for Common Shares, or agree to do so, or announce publicly their intention to do so, without having obtained the prior written consent of the Underwriters.

The Offered Shares have not been and will not be registered under the *United States Securities Act of 1933*, as amended (the "1933 Act"), or any United States securities laws and, subject to certain exceptions, may not be offered or sold, directly or indirectly, in the United States. The Underwriting Agreement, however, permits the Underwriters to re-offer and resell the Offered Shares, in accordance with applicable law, to a limited number of qualified institutional investors in the United States, in transactions that are exempt from registration under the United States federal securities laws pursuant to Rule 144A under the 1933 Act. The Offered Shares will be restricted securities within the meaning of Rule 144(a) (3) of the 1933 Act. In addition, until 40 days after the commencement of the Offering, any offer or sale of Common Shares offered hereby within the United States by any 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 under such Act.

PRIVATE PLACEMENT

Pursuant to an underwriting agreement dated December 10, 1999 (the "Special Warrant Underwriting Agreement") made between the Company, Sheldon M. Pollack, Phillip A. DeLeon, 1388616 Ontario Inc., 1388617 Ontario Inc., The Pollack Family Trust and The DeLeon Family Trust (collectively, the "Special Warrant Selling Shareholders") and Yorkton Securities Inc. (the "Special Warrant Underwriter"), (i) the Company issued and sold 1,878,500 special warrants (the "Treasury Special Warrants") at a price of \$10.00 per Treasury Special Warrant, (ii) the Company issued and sold 149,000 units (the "Placement Units") at a price of \$10.00 per Placement Unit and (iii) the Special Warrant Selling Shareholders issued and sold 472,500 special warrants (the "Secondary Special Warrants") at a price of \$10.00 per Secondary Special Warrant. The Treasury Special Warrants, Secondary Special Warrants (collectively, the "Special Warrants") and the Placement Units were sold to purchasers on a private placement basis pursuant to prospectus exemptions under applicable securities legislation.

Each Special Warrant entitles the holder thereof to receive, without payment of additional consideration, one unit (a "Unit"), subject to adjustment, as provided for in the Special Warrant Indenture (as defined below). Each Unit consists of 1.65 Common Shares (one pre-Subdivision Common Share), one-half of one common share purchase warrant of the Company (a "Purchase Warrant") and one bonus warrant (a "Bonus Warrant") of the Company. Each Placement Unit consists of 1.65 Common Shares (one pre-Subdivision Common Share), one-half of one Purchase Warrant and one Bonus Warrant. Each whole Purchase Warrant entitles the holder to purchase 1.65 Common Shares from the Company (one pre-Subdivision Common Share) at an exercise price equal to the offering price of the Offered Shares, at any time on or before December 10, 2000, subject to adjustment as provided in the Purchase Warrant Indenture (as defined below). In the event that the Company completes the Offering, the Bonus Warrants will terminate and be of no further force or effect.

The Common Shares, Purchase Warrants and Bonus Warrants issuable upon the exercise of the Treasury Special Warrants shall be issued by the Company. The Common Shares, if any, issuable upon the exercise of Bonus Warrants issued by the Company (the "Treasury Bonus Warrants") shall be issued by the Company. The Common Shares and Purchase Warrants deliverable upon exercise of the Secondary Special Warrants have been deposited by the Selling Shareholders with Montreal Trust Company of Canada ("Montreal Trust") and will be transferred to holders of the Secondary Special Warrants upon exercise thereof. The Bonus Warrants issuable upon exercise of the Secondary Special Warrants (the "Secondary Bonus Warrants") shall be delivered by the Special Warrant Selling Shareholders. The Common Shares, if any, issuable upon the exercise of Secondary Bonus Warrants issued by the Special Warrant Selling Shareholders shall be delivered by the Special Warrant Selling Shareholders. If the Special Warrant Selling Shareholders fail to deliver any Common Shares deliverable upon the exercise of the Secondary Bonus Warrants, the Company has agreed to issue Common Shares upon such exercise.

The gross proceeds of the issue and sale of the Special Warrants and the Placement Units were \$25,000,000, of which \$20,275,000 was paid to the Company and \$4,725,000 was paid to the Special Warrant Selling Shareholders. An aggregate commission of \$1,625,000 was paid to the Special Warrant Underwriter in connection with such private placement, of which \$1,317,875 was paid by the Company and \$307,125 was paid by the Special Warrant Selling Shareholders. No additional fee has been or will be paid to the Special Warrant Underwriter in connection with the issuance of the Units upon exercise of the Special Warrants.

As additional consideration for the Special Warrant Underwriter's services under the Special Warrant Underwriting Agreement, the Company issued to the Special Warrant Underwriter non-assignable special compensation warrants exercisable, without payment of additional consideration, into warrants (the "Special Warrant Underwriter's Warrants") entitling the Special Warrant Underwriter to purchase up to 250,000 Compensation Units (as hereinafter defined), subject to anti-dilution adjustments, at an exercise price of \$10.00 per Compensation Unit at any time on or before December 10, 2001. Each Compensation Unit consists of 1.65 Common Shares (one pre-Subdivision Common Share) and one-half of one Purchase Warrant.

The Special Warrants were issued pursuant to the terms of a special warrant indenture dated December 10, 1999 (the "Special Warrant Indenture") between the Company, the Special Warrant Selling Shareholders and Montreal Trust. The Units issuable or deliverable upon exercise of the Special Warrants will be qualified for distribution under a prospectus of the Company (the "Special Warrant Prospectus") to be filed shortly after the date hereof. The Special Warrant Indenture provides that, should a receipt for the (final) Special Warrant Prospectus not be obtained from the securities regulatory authority in the province of Canada within which a purchaser of Special Warrants resides prior to June 7, 2000, Special Warrants exercised thereafter by the holder thereof (or all Special Warrants if a receipt for such prospectus has not been obtained from the Ontario Securities Commission by that time) shall entitle the holder thereof to receive 1.1 Units for each Special Warrant held, without further payment.

The Purchase Warrants were issued (in respect of the Placement Units), and will be issued (in respect of the Special Warrants), pursuant to the terms of a purchase warrant indenture (the "Purchase Warrant Indenture") dated December 10, 1999 between the Company and Montreal Trust. The Bonus Warrants were issued (in respect of the Placement Units), and will be issued (in respect of the Special Warrants), pursuant to the terms of a bonus warrant indenture (the "Bonus Warrant Indenture") dated December 10, 1999 between the Company, the Special Warrant Selling Shareholders and Montreal Trust.

PRIOR SALES

The only issuances by the Company of Common Shares or securities convertible into or carrying rights to acquire Common Shares during the preceding twelve months were as follows:

| <u>Date of Issuance</u> | <u>Type of Security</u> | <u>Number of Securities</u> | <u>Price Per Security</u> |
|------------------------------|--|-----------------------------|---------------------------|
| September 10, 1999 | Convertible Debentures | — (1) | — (1) |
| December 9, 1999 | Class D Special Shares | 714,058 | — (2) |
| December 9, 1999 | Class E Preferred Shares | 892,876 | — (3) |
| December 9, 1999 | Common Shares | 19,457,625 | — (3) |
| December 10, 1999 | Purchase Warrants ⁽⁴⁾ | 236,250 | \$ 0.10 |
| December 10, 1999 | Special Warrants ⁽⁵⁾ | 1,878,500 | \$10.00 |
| December 10, 1999 | Placement Units ⁽⁵⁾ | 149,000 | \$10.00 |
| December 10, 1999 | Special Warrant Underwriter's Warrants | — (5) | — (5) |

- (1) The convertible debentures in the principal amount of \$950,000 are convertible into Common Shares at a price equal to 90% of the offering price of the Offered Shares. See Note 3(b) to the Company's consolidated financial statements for details concerning the terms of the convertible debentures. The convertible debentures are recorded at \$754,000 in the Company's consolidated balance sheet as at December 31, 1999 after discounting the convertible debentures at the Company's incremental borrowing rate of 8%.
- (2) During the period ended April 30, 1999, the Company granted long-term employee options to acquire 807,196 Class D special shares for an aggregate exercise price of \$2. One of these options relating to 93,138 Class D special shares was cancelled in favour of a cash payment to the employee of \$771,375. The employee exercised the other option by purchasing 714,058 Class D special shares for \$1.
- (3) On December 8 and 9, 1999, the Company completed a share reorganization involving a series of transactions to reorganize the share capital so that, among other things, the issued classes of preferred shares were exchanged for Class D special shares and the Class D special shares were reclassified into 11,972,500 pre-Subdivision Common Shares (19,754,625 Common Shares). In connection with the share reorganization, the Company paid dividends in the aggregate amount of \$8,835,750 and stock dividends of \$892,876 on the then outstanding shares. See "Dividend Record and Policy".
- (4) Issued to Special Warrant Selling Shareholders. See "Private Placement".
- (5) See "Private Placement".

ESCROW ARRANGEMENTS

Pursuant to an Escrow Agreement dated ● , 2000 (the "Escrow Agreement") among the Company, Montreal Trust (the "Escrow Agent"), 1328132 Ontario Inc., 1328133 Ontario Inc., 1388616 Ontario Inc. and 1388617 Ontario Inc. (collectively, the "Escrowed Shareholders"), the Escrowed Shareholders have agreed to deposit in escrow with the Escrow Agent the respective number of Common Shares (the "Escrowed Shares") set out in the following table at the closing of the Offering in accordance with the rules of the applicable regulatory authorities:

| <u>Name of Holder</u> | <u>Designation</u> | <u>Number of Escrowed Shares</u> | <u>Percentage of Class⁽¹⁾</u> |
|---|--------------------|----------------------------------|--|
| 1328133 Ontario Inc. ⁽²⁾ | Common Shares | ● | ● |
| 1388617 Ontario Inc. ⁽²⁾ | Common Shares | ● | ● |
| 1328132 Ontario Inc. ⁽³⁾ | Common Shares | ● | ● |
| 1388616 Ontario Inc. ⁽³⁾ | Common Shares | ● | ● |
| Total | | ● | ● |

- (1) After giving effect to the Offering and the exercise of the Special Warrants.
- (2) Sheldon A. Pollack controls 1328133 Ontario Inc. and 1388617 Ontario Inc.
- (3) Phillip A. DeLeon controls 1328132 Ontario Inc. and 1388616 Ontario Inc.

The Escrow Agreement provides that one-third of the Escrowed Shares shall be released from escrow on each of the first, second and third anniversaries of the date of the Escrow Agreement.

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 regulatory authorities except in accordance with the provisions of the Escrow Agreement.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as described below, none of the directors, senior officers or principal shareholders of the Company and no associate or affiliate of any of them has any material interest in any transaction of the Company or in any proposed transaction within the past three years which has materially affected or will materially affect the Company.

During the year ended April 30, 1999, the Company entered into a product support and management services agreement (the "Book4golf.com Agreement") with Book4golf.com. Sheldon M. Pollack and Phillip A. DeLeon own, directly and indirectly, approximately 28 percent of Book4golf.com and are officers and directors of Book4golf.com. The purchase of capital stock of Book4golf.com by Messrs. Pollack and DeLeon was partially funded by advances of \$900,000 from the Company. During the eight month period ended December 31, 1999, these advances were satisfied through set-off against dividends. See "Executive Compensation — Indebtedness of Directors and Officers". Under the terms of the Book4golf.com Agreement, the Company agreed to design Book4golf.com's system and software. In addition, the Company provides support and assistance to Book4golf.com in connection with the management, administration and operation of its business. Book4golf.com pays fees for services provided to it by the Company pursuant to the Book4golf.com Agreement which expires on June 30, 2000. The total charges for services and reimbursable expenses under the Book4golf.com Agreement for the eight months ended December 31, 1999 were \$6,522,827 (year ended April 30, 1999 — \$1,451,922). The Company also sold computer equipment to Book4golf.com of \$625,878 during the eight months ended December 31, 1999 (year ended April 30, 1999 — nil). Accounts receivable at December 31, 1999 includes \$2,840,719 (April 30, 1999 — \$553,557) of amounts due from Book4golf.com in connection with these services and which is subject to normal trade terms.

RISK FACTORS

An investment in securities of the Company is speculative and involves significant risks which should be carefully considered by prospective investors before purchasing such securities. In addition to the other information set forth elsewhere in this prospectus, the following risk factors should be carefully reviewed by prospective investors:

Concentration of Share Ownership

Upon completion of the Offering, Sheldon M. Pollack, the Co-Chairman and Chief Executive Officer of the Company and Phillip A. DeLeon, the Co-Chairman of the Company, will collectively own, directly or indirectly, approximately • percent of the outstanding Common Shares. As a result of their share ownership, Messrs. Pollack and DeLeon, together will have the ability to elect all of the Company's directors and to determine the outcome of corporate actions requiring shareholder approval, including changes to share capital, irrespective of how other shareholders of the Company may vote. Such concentration of ownership may also have the effect of delaying or preventing a change in control of the Company.

No Prior Market; Possible Volatility of Share Price

Prior to the Offering, there has been no public market for the Common Shares and there can be no assurance that an active public market for the Common Shares will develop or be sustained after the Offering or that the market price of the Common Shares will not decline below the offering price. The initial public offering price will be determined by negotiations between the Underwriters and the Company and may not be indicative of future market prices. The market price of the Common Shares is likely to be subject to wide fluctuations in response to, and may be adversely affected by, quarterly variations in operating results, announcements of technological innovations or new products by the Company or its competitors, changes in financial estimates by securities analysts, or other events or factors. In addition, the stock market has experienced extreme price and

volume fluctuations that have particularly affected the market prices of equity securities of many technology companies. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance.

Lack of Dividends

No dividends have been paid to date on the Common Shares. The Company anticipates that for the foreseeable future the Company's earnings, if any, will be retained for use in its business and that no cash dividends will be paid on the Common Shares.

Management of Growth

The Company's growth has placed significant demands on its management and other resources. The Company's revenues increased approximately 38 percent in fiscal year ended April 30, 1999, from \$108 million in fiscal year ended April 30, 1998 to \$149.1 million in 1999. The Company's ability to manage its growth effectively will require it to continue to develop and improve its operational, financial and other internal systems, as well as its business development capabilities, and to train, motivate and manage its employees. The Company's management has limited experience managing a business of the Company's size or managing a public company. If the Company is unable to manage its growth and projects effectively, such inability could have a material adverse effect on the quality of the Company's services, its ability to retain key personnel and its business, financial condition and results of operations.

Client Concentration; Dependence on Large Projects

The Company has derived, and believes that it will continue to derive, a significant portion of its revenues from a limited number of large client projects. In fiscal year ended April 30, 1999, the Company's five largest clients accounted for approximately 46 percent of its revenues. A large telecommunications company accounted for 24 percent of such revenues and four other clients each accounted for more than 5 percent of such revenues. In the eight month period ended December 31, 1999, the Company's five largest clients accounted for approximately 40 percent of its revenues. A large telecommunications company accounted for approximately 14 percent of such revenues and four other clients each accounted for more than 5 percent of such revenues. The volume of work performed for specific clients is likely to vary from year to year, and a major client in one year may not use the Company's services in a subsequent year. The loss of any large client could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, revenues from a large client may constitute a significant portion of the Company's total revenues in a particular quarter.

Most of the Company's contracts are terminable by the client following limited notice and without significant penalty. The cancellation or a significant reduction in the scope of a large project could have a material adverse effect on the Company's business, financial condition and results of operations.

Variability of Quarterly Operating Results

The Company's revenues and earnings may fluctuate from quarter to quarter based on such factors as the number, size and scope of projects in which the Company is engaged, the contractual terms and degree of completion of such projects, any delays incurred in connection with a project, employee utilization rates, the adequacy of provisions for losses, the accuracy of estimates of resources required to complete ongoing projects, and general economic conditions. A high percentage of the Company's operating expenses, particularly personnel and rent, are relatively fixed in advance of any particular quarter. As a result, unanticipated variations in the number, or progress toward completion, of the Company's projects or in employee utilization rates may cause significant variations in operating results in any particular quarter and could result in losses for such quarter. An unanticipated termination of a major project or the non-completion during a quarter of several major client projects, could require the Company to maintain underutilized employees and could therefore have a material adverse effect on the Company's business, financial condition and results of operations.

Need to Attract and Retain Professional Staff

The Company's business is labour intensive. The Company's success will depend in large part upon its ability to attract, retain, train and motivate highly-skilled employees, particularly project managers and other senior technical personnel. There is significant competition for employees with the skills required to perform the services the Company offers. Qualified technical staff are in great demand and are likely to remain a limited resource for the foreseeable future. There can be no assurance that the Company will be successful in attracting a sufficient number of highly-skilled employees in the future, or that it will be successful in retaining, training and motivating the employees it is able to attract, and any inability to do so could impair the Company's ability to adequately manage and complete its existing projects and to bid for or obtain new projects. If the Company's employees are unable to achieve expected performance levels, the Company's business, financial condition and results of operations could be adversely affected.

Competition

The markets for the Company's services are highly competitive, fragmented and subject to rapid technological change and frequent new product introductions and enhancements. The Company believes that it currently competes principally with advertising agencies, system integrators, e-Business integrators and application hosting companies. See "Business of the Company — Competition". Many of these companies have significantly greater financial, technical and marketing resources than the Company and generate greater revenues and have greater name recognition than the Company. In addition, there are relatively low barriers to entry into the Company's markets and the Company has faced, and increasingly expects to face, additional competition from new entrants into its markets.

The Company believes that the principal competitive factors in its markets include quality of service and deliverables, speed of development and implementation, price, project management capability and technical and business expertise. The Company believes that its ability to compete also depends in part on a number of competitive factors outside of its control, including the ability of its competitors to hire, retain and motivate technical staff, the development by others of e-Business solutions that are competitive with the Company's services and the extent of its competitors' ability to respond more quickly to new or emerging technologies and to changes in client requirements or to devote greater resources to the development, promotion and sale of their products and services than can the Company. There can be no assurance that the Company will be able to compete successfully with its competitors.

Dependence on Key Personnel

The Company's success will depend in large part upon the continued services of a number of key employees. The Company's employment contracts with key personnel provide that employment is terminable at will by such personnel. The loss of the services of one or more of the Company's other key personnel could have a material adverse effect on the Company. In addition, if one or more of the Company's key employees resigns from the Company to join a competitor or to form a competing company, the loss of such personnel and any resulting loss of existing or potential clients to any such competitor could have a material adverse effect on the Company's business, financial condition and results of operations. In the event of the loss of any such personnel, there can be no assurance that the Company would be able to prevent the unauthorized disclosure or use of its technical knowledge, practices or procedures by such personnel.

Rapid Technological Change; Delays in Introduction of New Services and Products

The e-Business solutions industry is characterized by rapid technological change, changes in client requirements, frequent new service and product introductions and enhancements, and emerging industry standards. The introduction of services and products embodying new technologies and the emergence of new industry standards and practices can render existing services and products obsolete and unmarketable. The Company's future success shall depend, in part, on its ability to develop leading technologies, enhance its existing services and products, develop new services and products that address the increasingly sophisticated and varied needs of its prospective customers, and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of new services and products or

enhanced versions of existing services and products entails significant technical risks. There can be no assurance that the Company will be successful in effectively using new technologies, adapting its services to emerging industry standards, developing, introducing and marketing service and product enhancements, or new services and products, or that it will not experience difficulties that could delay or prevent the successful development, introduction or marketing of these services and products, or that its new service and product enhancements will adequately meet the requirements of the marketplace and achieve market acceptance. If the Company is unable to develop and introduce new services and products or enhancements of existing services and products in a timely manner in response to changing market conditions or customer requirements, or if new services and products do not achieve market acceptance, the Company's business, financial condition and operating results will be materially adversely affected.

Intellectual Property Rights

The Company's success is dependent, in part, upon its proprietary technology and other intellectual property rights. The Company relies upon a combination of trade secret, nondisclosure and other contractual arrangements, and copyright and trademark laws to protect its proprietary rights. The Company enters into confidentiality agreements with its employees, generally requires that its consultants and clients enter into such agreements, and limits access to and distribution of its proprietary information. There can be no assurance that the steps taken by the Company in this regard will be adequate to deter misappropriation of its proprietary information or that the Company will be able to detect unauthorized use and take appropriate steps to enforce its intellectual property rights. In addition, there can be no assurance that the Company's competitors will not independently develop similar or superior technology.

The Company's business involves the development of software applications for specific client engagements. Ownership of such software is the subject of negotiation and is frequently assigned to the client, with the Company frequently retaining a license for certain uses. The Company also develops repeatable solutions and it is the Company's strategy to retain significant ownership or marketing rights to these solutions and to build solutions which it can market and adapt through further customization for future client projects. Issues relating to the ownership of and rights to use software applications and repeatable solutions can be complicated and there can be no assurance that disputes will not arise that affect the Company's ability to resell or reuse such applications and solutions.

Risk of Infringement

The Company may in the future receive notices of claims of infringement of other parties' proprietary rights. There can be no assurance that claims for infringement or invalidity (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against the Company. Any such claims, with or without merit, could be time consuming to defend, result in costly litigation, divert management's attention and resources or require the Company to enter into royalty or licensing agreements. There can be no assurance that such licenses would be available on reasonable terms, if at all, and the assertion or prosecution of any such claims could have a material adverse effect on the Company's business, financial condition and operating results.

Susceptibility to General Economic Conditions

The Company's revenues and results of operations will be influenced by general economic conditions prevailing in the geographic markets in which it operates. In the event of a general economic downturn or a recession in the geographic markets in which it operates, the Company's clients and potential clients may substantially reduce their information technology and related budgets. In the event of such an economic downturn, there can be no assurance that the Company's business, financial condition and results of operations would not be materially and adversely affected.

Future Capital Needs; Uncertainty of Additional Financing

The Company believes that its anticipated cash generated from operations, its credit facilities and the net proceeds of the Offering, will be sufficient to meet its presently anticipated working capital and capital

expenditure requirements for at least the next 12 months. However, the Company may need to raise additional funds in order to support more rapid expansion, develop new or enhanced services, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. The Company's future liquidity and capital requirements will depend upon numerous factors, including the costs and timing of expansion of research and development efforts and the success of such efforts, the success of the Company's existing and new service offerings and competing technological and market developments. The factors described earlier in this paragraph will impact the Company's future capital requirements and the adequacy of its available funds. The Company may be required to raise additional funds through public or private financing, strategic relationships or other arrangements. There can be no assurance that such additional funding, if needed, will be available on terms attractive to the Company, or at all. Furthermore, any additional equity financing may be dilutive to shareholders, and debt financing, if available, may involve restrictive covenants. If additional funds are raised through the issuance of equity securities, the percentage ownership of the shareholders of the Company will be reduced, shareholders may experience additional dilution in net book value per share, or such equity securities may have rights, preferences or privileges senior to those of the holders of the Common Shares. If adequate funds are not available on acceptable terms, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities or respond to competitive pressures, any of which could have a material adverse effect on the Company's business, financial condition and operating results.

Risks Associated with Acquisitions

The Company intends to acquire other businesses in the future that complement and enhance its geographic presence, technological expertise, industry specialization as well as the breadth and depth of its e-Business services, and the Company regularly evaluates such opportunities. The Company's continued growth will depend on its ability to identify and acquire such businesses on acceptable terms. The Company may not be able to effectively select businesses that meet such criteria or negotiate or finance the acquisition of such businesses. In addition, the Company may not be able to complete the acquisition of any such businesses on acceptable terms and, if acquired, the acquisition of any such business may not benefit the Company's business.

Acquisitions entail numerous risks, including difficulties in the assimilation of acquired operations and services, diversion of management's attention from other business concerns, amortization of acquired intangible assets and potential loss of key employees of acquired companies. No assurance can be given as to the ability of the Company to integrate successfully any operations, personnel or services that might be acquired in the future and the failure of the Company to do so could have a material adverse effect on the Company's business, financial condition and operating results.

Risks Associated with IT Partners

The Company has established a number of relationships with major suppliers of IT infrastructure and software. The Company will continue to seek out similar arrangements in the future. There can be no assurance that any such partnerships or arrangements will be maintained, and that if such relationships are maintained, they will be successful or profitable, or that the Company will develop any new such relationships. Further, the Company's success reselling IT infrastructure to support e-Business solutions and more traditional IT applications is dependent upon its reseller arrangements with its IT infrastructure partners and on the reputation of these partners. Should any of the Company's IT infrastructure partners experience damage to their reputation, the Company may be materially adversely affected.

Lengthy Sales and Implementation Cycles

The Company's business includes large, complex e-Business services and IT infrastructure integration projects. These services generally involve a significant commitment of resources by its prospective clients and will often require the Company to provide a significant level of education to prospective customers regarding the use and benefits of Onx's e-Business solutions capability. As a result, the Company can invest significant resources without ultimately obtaining a contract. The period between initial contact and project completion will often be lengthy (typically ranging from between three and nine months) and is sometimes subject to a number of significant delays over which the Company has little or no control. These lengthy implementation cycles can be caused by poor responsiveness from the Company's clients and can result in deferral of revenues.

Emerging Market for e-Business; Market Acceptance

The market for the Company's e-Business services is relatively new and is characterized by ongoing technological developments, new services being introduced to the market, evolving industry standards and changing client requirements. The Company's future financial performance will depend in large part on continued growth in the number of companies and organizations requiring these services.

The Company's future success is also somewhat dependent upon continued growth in the use of the Internet because the Company's e-Business solutions are becoming increasingly focused on Internet-based technology. To the extent that businesses do not consider the Internet a viable commercial medium, the Company's client base may not grow. The adoption of the Internet for e-Commerce and communications, particularly by those individuals and companies that have historically relied upon alternative means of commerce and communication, generally requires the understanding and acceptance of a new way of conducting business and exchanging information. In particular, companies and organizations that have already invested substantial resources in other means of conducting commerce and exchanging information may be particularly reluctant or slow to adopt a new, e-Business strategy that may make their existing personnel and infrastructure obsolete.

In addition, the Company's business may be indirectly impacted if the number of users on the Internet does not increase or if e-Commerce does not become more accepted and widespread. The use and acceptance of the Internet may not increase for a number of reasons, including: actual or perceived lack of security of information, such as credit card numbers; high cost or lack of availability of access; congestion of traffic or other usage delays on the Internet; inconsistent quality of service or the lack of availability of cost-effective high-speed service; possible outages due to damage to the Internet; governmental regulation; uncertainty regarding intellectual property ownership; and lack of high-speed modems and other communications equipment.

Published reports have also indicated that capacity constraints caused by growth in the use of the Internet may impede further development of the Internet to the extent that users experience delays, transmission errors and other difficulties. If the necessary infrastructure, products, services or facilities are not developed, or if the Internet does not become a viable and widespread commercial medium, the Company's business, financial condition and results of operations could be materially and adversely affected.

Limited Operating History as an e-Business Solutions Provider

The Company's operating history as an e-Business solutions provider is limited. From 1983 through 1996, the Company's focus was primarily as a systems integrator and value-added reseller of client server infrastructure and software. In 1996, the Company established a services division to provide end-to-end e-Business solutions for its clients. Today, the Company focuses on providing end-to-end e-Business solutions for companies and public sector organizations. The Company's operating history in the e-Business solutions market is limited and is therefore difficult to evaluate.

The Company faces challenges, risks and difficulties in the implementation of its e-Business solutions business that are frequently encountered by companies using new and unproven business models in new and rapidly evolving markets. The Company cannot be certain that its e-Business solutions business will be successful or that it will successfully address these challenges, risks and uncertainties. Failure to overcome such challenges, risks and uncertainties may render the Company unable to generate sufficient revenue to cover expenses and therefore achieve profitability from its e-Business solutions business. Failure of the Company to sustain profitability in its e-Business solutions business in the future may require the Company to cease operations in the e-Business solutions market.

Name and Brand Recognition

The Company's success in attracting and expanding its client base depends on maintaining name recognition and creating brand awareness. The Company also believes that the importance of brand awareness and name recognition will increase due to the growing number of e-Business solutions providers. Damage to the Company's brand and name, or if potential clients do not know what services it provides, may result in the Company becoming less competitive or to lose its market share. Promotion and enhancement of the Company's name and brand will depend largely on its success in providing high quality e-Business solutions, which cannot be

assured. If clients do not perceive the Company's e-Business solutions to be effective or of high quality, its brand name and reputation could be materially and adversely affected.

Changes in the Value of the Canadian Dollar

To the extent that the Company increases revenues as a result of expansion of its activities in the United States, the Company will be exposed to fluctuations in the exchange rate between the US dollar and the Canadian dollar through its operations in the United States. For the purposes of financial reporting, any change in the value of the Canadian dollar against the US dollar during the given financial reporting period would result in a foreign exchange loss or gain in the translation of any US cash and cash equivalents. Therefore, the reported earnings of the Company may fluctuate materially as a result of foreign exchange translation losses or gains. Changes in the currency exchange rate could have a material adverse effect on the Company's business, financial condition and results of operations.

Immediate Dilution

The offering price will be substantially higher than the net tangible book value per share of the outstanding Common Shares. As a result, the Common Shares will be subject to immediate and substantial dilution. In addition, the Company has issued options and warrants and other securities convertible into or exercisable for Common Shares at prices significantly below the offering price of the Offered Shares. The Common Shares may be subject to additional dilution upon the exercise or conversion of options, warrants and other convertible securities, whether currently outstanding or subsequently granted. See "Dilution".

LEGAL PROCEEDINGS

The Company is not a party to any pending legal proceedings the outcome of which could have a material adverse effect on the Company.

LEGAL MATTERS

Legal matters in connection with the Offering will be passed upon, on behalf of OnX, by Cassels Brock & Blackwell LLP and, on behalf of the Underwriters, by Blake, Cassels & Graydon LLP.

MATERIAL CONTRACTS

The only material contracts entered into by OnX within the two years prior to the date hereof or which will be entered into prior to the Closing of the Offering, other than in the ordinary course of business, are as follows:

- (a) the Underwriting Agreement referred to under the heading "Plan of Distribution";
- (b) the Special Warrant Underwriting Agreement referred to under the heading "Private Placement";
- (c) the Special Warrant Indenture referred to under the heading "Private Placement";
- (d) the Purchase Warrant Indenture referred to under the heading "Private Placement";
- (e) the Bonus Warrant Indenture referred to under the heading "Private Placement";
- (f) the subscription agreements entered into among the Company, the Special Warrant Selling Shareholders and the purchasers of Special Warrants and Placement Units;
- (g) the Rights Plan Agreement referred to under the heading "Shareholder Rights Plan"; and
- (h) the Escrow Agreement referred to under the heading "Escrow Arrangements".

Copies of the foregoing agreements may be inspected at the head office of the Company during normal business hours during the period of distribution of the Common Shares offered by this prospectus and for a period of 30 days thereafter.

ELIGIBILITY FOR INVESTMENT

Eligibility of the Common Shares for investment by purchasers to whom any of the following statutes apply is, in certain cases, governed by criteria which such purchasers are required to establish as policies or guidelines pursuant to the applicable statute (and, where applicable, the regulations thereunder) and is subject to the prudent investment standards and general investment provisions provided therein:

| | |
|--|--|
| <i>Insurance Companies Act</i> (Canada) | <i>An Act respecting insurance</i> (Quebec) (in respect of insurers other than mutual associations, insurance funds, guarantee fund corporations and professional corporations governed by the Professional Code (Québec)) |
| <i>Trust and Loan Companies Act</i> (Canada) | |
| <i>Pension Benefits Standards Act, 1985</i> (Canada) | |
| <i>Financial Institutions Act</i> (British Columbia) | |
| <i>Loan and Trust Corporations Act</i> (Alberta) | |
| <i>The Pension Benefits Act, 1992</i> (Saskatchewan) | <i>Supplemental Pension Plans Act</i> (Quebec) |
| <i>The Trustee Act</i> (Manitoba) | <i>An Act respecting trust companies and savings companies</i> (Quebec) (for a trust company investing its own funds and deposits it receives and a savings company (as defined therein) investing its funds) |
| <i>The Insurance Act</i> (Manitoba) | |
| <i>Loan and Trust Corporations Act</i> (Ontario) | |
| <i>Pension Benefits Act</i> (Ontario) | |
| <i>Trustees Act</i> (New Brunswick) | |

In the opinion of Cassels Brock & Blackwell LLP, counsel to the Company, and Blake, Cassels & Graydon LLP, counsel to the Underwriters, the Offered Shares, if, as and when listed on a prescribed stock exchange within the meaning of the *Income Tax Act* (Canada) and the regulations thereunder (the “Act”), will be qualified investments under the Act for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans (collectively, “Deferred Income Plans”). In the opinion of such counsel, based in part on a certificate of the Company as to factual matters, the Offered Shares if issued on the date hereof will not constitute “foreign property” for the purposes of the tax imposed under Part XI of the Act on Deferred Income Plans, registered investments and other tax exempt entities, including most trusts governed by registered pension plans.

AUDITORS, TRANSFER AGENT AND REGISTRAR

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

The transfer agent and registrar for the Common Shares will be Montreal Trust at its principal offices in Toronto, Ontario.

PURCHASERS' STATUTORY RIGHTS

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



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AUDITORS' REPORT

To the Directors of OnX Incorporated

We have audited the consolidated balance sheets of OnX Incorporated (formerly ONYX Computers Incorporated) as at April 30, 1999 and 1998 and the consolidated statements of income, retained earnings 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

The statements of income, retained earnings and cash flows for the year ended April 30, 1997 were reported on by other auditors.

●
Chartered Accountants

Toronto, Canada
June 18, 1999, except
as for note 16 which is
as of ● , 2000

AUDITORS' REPORT

To the Directors of OnX Incorporated

We have audited the consolidated statements of income, retained earnings and cash flows of OnX Incorporated (formerly ONYX Computers Incorporated) for the year ended April 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our 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 results of its operations and its cash flows for the year ended April 30, 1997 in accordance with generally accepted accounting principles.

Toronto, Canada
June 20, 1997

Chartered Accountants

ONX INCORPORATED
(FORMERLY ONYX COMPUTERS INCORPORATED)
CONSOLIDATED BALANCE SHEETS

| | December 31, 1999 | April 30, | |
|--|----------------------|--------------|--------------|
| | (Unaudited) | 1999 | 1998 |
| ASSETS | | | |
| Current assets: | | | |
| Accounts receivable (notes 2 and 9) | \$24,989,711 | \$33,953,231 | \$30,230,140 |
| Advances to related parties (note 4) | 153,379 | 1,132,638 | 382,487 |
| Inventories | 7,825,573 | 8,386,921 | 8,769,501 |
| Prepaid expenses and other assets | 817,648 | 1,040,449 | 530,604 |
| | 33,786,311 | 44,513,239 | 39,912,732 |
| Capital assets (note 5) | 5,765,469 | 3,843,035 | 2,454,656 |
| Deferred development costs | 1,400,812 | — | — |
| Goodwill (note 6) | 2,840,624 | 1,502,288 | 1,747,708 |
| Investment and other (note 9) | 498,911 | 143,907 | — |
| Deferred income taxes | 648,867 | — | — |
| | \$44,940,994 | \$50,002,469 | \$44,115,096 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Bank indebtedness (note 7) | \$ 1,475,927 | \$10,565,077 | \$ 4,922,905 |
| Accounts payable and accrued liabilities | 16,697,793 | 21,892,386 | 22,502,109 |
| Payable to Docu.Max vendors (notes 3 and 8(e)) | 589,965 | 489,965 | 197,400 |
| Deferred revenue | 56,699 | 99,752 | 308,322 |
| Income taxes payable | 1,193,010 | 2,339,791 | 3,634,961 |
| Current portion of term loans (note 7) | 776,921 | 773,564 | 733,344 |
| | 20,790,315 | 36,160,535 | 32,299,041 |
| Term loans (note 7) | — | 519,096 | 1,442,764 |
| Convertible debentures (note 3(b)) | 754,000 | — | — |
| Deferred income taxes | — | 264,612 | 189,612 |
| Shareholders' equity: | | | |
| Capital stock (notes 8(a) and (b)) | 3,941,033 | 1,612,006 | 2,002 |
| Warrants (note 8(d)) | 17,775,761 | — | — |
| Share right options (note 8(e)) | — | — | 750,000 |
| Retained earnings | 1,679,885 | 11,446,220 | 9,431,677 |
| | 23,396,679 | 13,058,226 | 10,183,679 |
| Commitments and contingencies (notes 8(d), 11 and 12) | | | |
| Subsequent events (notes 8(c) and 16) | | | |
| | \$44,940,994 | \$50,002,469 | \$44,115,096 |

On behalf of the Board:

(Signed) SHELDON M. POLLACK
Director

(Signed) PHILLIP A. DELEON
Director

See accompanying notes to consolidated financial statements.

ONX INCORPORATED
(FORMERLY ONYX COMPUTERS INCORPORATED)
CONSOLIDATED STATEMENTS OF INCOME

| | Eight months ended December 31, | | Years ended April 30, | | |
|--------------------------------------|------------------------------------|---------------------|-----------------------|---------------------|---------------------|
| | 1999 | 1998 | 1999 | 1998 | 1997 |
| | (Unaudited) | | | | |
| Sales | \$70,839,374 | \$89,334,745 | \$149,076,770 | \$108,462,988 | \$101,239,492 |
| Cost of sales | 55,276,260 | 72,554,439 | 120,021,248 | 85,767,171 | 87,144,420 |
| | 15,563,114 | 16,780,306 | 29,055,522 | 22,695,817 | 14,095,072 |
| Expenses: | | | | | |
| Selling | 7,023,694 | 5,526,671 | 11,667,840 | 7,118,346 | 4,513,550 |
| Administrative | 5,049,126 | 4,566,399 | 6,714,126 | 6,160,945 | 4,187,538 |
| Amortization of capital assets . . | 724,386 | 623,610 | 758,765 | 455,504 | 277,545 |
| Amortization of goodwill | 223,490 | 20,451 | 245,420 | 126,437 | — |
| Interest on long-term debt | — | — | 177,249 | 124,333 | 22,562 |
| Other interest and bank charges | 608,401 | 757,640 | 969,518 | 881,739 | 544,539 |
| | 13,629,097 | 11,494,771 | 20,532,918 | 14,867,304 | 9,545,734 |
| Income before undernoted items . . | 1,934,017 | 5,285,535 | 8,522,604 | 7,828,513 | 4,549,338 |
| Loss on disposal of investment . . . | (102,280) | — | — | — | — |
| Income before income taxes | 1,831,737 | 5,285,535 | 8,522,604 | 7,828,513 | 4,549,338 |
| Income taxes (note 10): | | | | | |
| Current | 1,170,000 | 2,417,046 | 4,287,381 | 3,511,398 | 2,061,814 |
| Deferred | (171,929) | 78,719 | 75,000 | 89,612 | 100,000 |
| | 998,071 | 2,495,765 | 4,362,381 | 3,601,010 | 2,161,814 |
| Net income | <u>\$ 833,666</u> | <u>\$ 2,789,770</u> | <u>\$ 4,160,223</u> | <u>\$ 4,227,503</u> | <u>\$ 2,387,524</u> |
| Earnings per share (note 13) | | | | | |

See accompanying notes to consolidated financial statements.

ONX INCORPORATED
(FORMERLY ONYX COMPUTERS INCORPORATED)
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

| | Eight months ended December 31, | | Years ended April 30, | | |
|--|------------------------------------|---------------------|-----------------------|--------------------|--------------------|
| | 1999 | 1998 | 1999 | 1998 | 1997 |
| | (Unaudited) | | | | |
| Retained earnings, beginning of period . . . | \$11,446,220 | \$ 9,431,677 | \$ 9,431,677 | \$5,557,409 | \$3,169,885 |
| Net income | 833,666 | 2,789,770 | 4,160,223 | 4,227,503 | 2,387,524 |
| Dividends on Class B preference shares . . . | (263,020) | (263,020) | (263,020) | — | — |
| Dividends on Class C preference shares . . . | (1,346,980) | (1,346,980) | (1,346,980) | — | — |
| Dividends on Class D special shares | — | (91,200) | (91,200) | (138,000) | — |
| Dividends on Class E special shares | (140,014) | — | — | — | — |
| Dividends on Class F special shares | (112,700) | — | — | — | — |
| Dividends on common shares | (6,973,036) | — | — | — | — |
| Premium on redemption of Class A shares | — | — | — | (215,235) | — |
| Premium on acquisition of share right options (note 8(e)) | (100,000) | (444,480) | (444,480) | — | — |
| Payment for cancellation of share options (note 8(c)) | (771,375) | — | — | — | — |
| Stock dividend on common shares | (892,876) | — | — | — | — |
| Retained earnings, end of period | <u>\$ 1,679,885</u> | <u>\$10,075,767</u> | <u>\$11,446,220</u> | <u>\$9,431,677</u> | <u>\$5,557,409</u> |

See accompanying notes to consolidated financial statements.

ONX INCORPORATED
(FORMERLY ONYX COMPUTERS INCORPORATED)
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Eight months ended December 31, | | Years ended April 30, | | |
|--|------------------------------------|---------------------|-----------------------|---------------------|--------------------|
| | 1999 | 1998 | 1999 | 1998 | 1997 |
| | (Unaudited) | | | | |
| Cash provided by (used in): | | | | | |
| Operations: | | | | | |
| Net income | \$ 833,666 | \$ 2,789,770 | \$ 4,160,223 | \$ 4,227,503 | \$ 2,387,524 |
| Items not involving cash: | | | | | |
| Amortization | 947,876 | 644,061 | 1,004,185 | 581,941 | 277,545 |
| Deferred income taxes | (171,929) | 78,719 | 75,000 | 89,612 | 100,000 |
| Loss on disposal of investments | 102,280 | — | — | — | — |
| | <u>1,711,893</u> | <u>3,512,550</u> | <u>5,239,408</u> | <u>4,899,056</u> | <u>2,765,069</u> |
| Change in non-cash working capital (note 14(b)) | 2,831,198 | (9,278,724) | (5,963,819) | (2,225,419) | 521,423 |
| | <u>4,543,091</u> | <u>(5,766,174)</u> | <u>(724,411)</u> | <u>2,673,637</u> | <u>3,286,492</u> |
| Financing: | | | | | |
| Bank indebtedness | (8,182,232) | 9,200,806 | 5,464,495 | (818,620) | (3,638,831) |
| Term loan | — | — | — | 500,000 | 2,000,000 |
| Repayment of term loans | (515,739) | (625,603) | (883,448) | (323,892) | — |
| Repayment of Docu.Max long-term debt (note 3) | — | — | — | (125,119) | — |
| Repayment of Docu.Max convertible debentures (note 3) | — | — | — | (203,500) | — |
| Payable to Docu.Max vendors | — | (127,208) | — | — | — |
| Advances to related parties | (20,741) | (484,579) | (1,027,586) | (382,487) | (2,100,000) |
| Repayment of advances to related parties | 100,000 | — | 277,435 | — | — |
| Share right options | — | — | (457,435) | — | — |
| Premium on acquisition of share right options (note 8(e)) | — | — | (444,480) | — | — |
| Proceeds on issuance of Class F shares | — | 1,610,002 | 1,610,002 | — | — |
| Proceeds on issuance of placement units | 1,393,150 | — | — | — | — |
| Cancellation of option | (771,375) | — | — | — | — |
| Issuance of special warrants | 17,418,975 | — | — | — | — |
| Dividends paid | (7,912,125) | (1,701,200) | (1,701,200) | (138,000) | — |
| | <u>1,509,913</u> | <u>7,872,218</u> | <u>2,837,783</u> | <u>(1,491,618)</u> | <u>(3,738,831)</u> |
| Investments: | | | | | |
| Acquisition of business | (1,030,242) | — | — | (418,354) | — |
| Proceeds from sale of capital assets | 80,179 | — | 158,835 | — | — |
| Purchase of capital assets | (2,692,686) | (1,679,084) | (2,305,977) | (1,648,276) | (407,679) |
| Deferred development costs | (1,400,812) | — | — | — | — |
| Proceeds from sale of investments | 97,475 | — | — | — | — |
| Investments and other | (200,000) | (85,132) | (143,907) | — | — |
| | <u>(5,146,086)</u> | <u>(1,764,216)</u> | <u>(2,291,049)</u> | <u>(2,066,630)</u> | <u>(407,679)</u> |
| Increase (decrease) in cash | 906,918 | 341,828 | (177,677) | (884,611) | (860,018) |
| Cash and cash equivalents, beginning of period | (696,120) | (518,443) | (518,443) | 366,168 | 1,226,186 |
| Cash and cash equivalents, end of period | <u>\$ 210,798</u> | <u>\$ (176,615)</u> | <u>\$ (696,120)</u> | <u>\$ (518,443)</u> | <u>\$ 366,168</u> |

See accompanying notes to consolidated financial statements.

ONX INCORPORATED
(FORMERLY ONYX COMPUTERS INCORPORATED)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Eight months ended December 31, 1999 and 1998 and years ended April 30, 1999, 1998 and 1997
(Information as at and for the eight months ended December 31, 1999 and 1998 is unaudited)

OnX Incorporated (the "Company" or "OnX") was incorporated in Ontario and is engaged in the provision of end-to-end e-Business solutions.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and all amounts are in Canadian dollars unless otherwise stated.

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries, Docu.Max Enterprises Ltd. ("Docu.Max"), Global-X-Change Communications Inc., ("Global-X") and 1249713 Ontario Inc. All significant intercompany balances and transactions have been eliminated.

(b) Revenue recognition:

Revenue from the sale of products is recognized on shipment. Maintenance revenue is deferred and recognized over the terms of the maintenance agreements. Service and consulting revenue is recognized on a percentage-of-completion basis.

(c) Inventories:

Inventories consist of finished goods which are stated at the lower of cost and net realizable value, with cost being determined on a weighted average basis.

(d) Capital assets:

Capital assets are stated at cost with amortization provided at the following annual rates:

| <u>Asset</u> | <u>Basis</u> | <u>Rate</u> |
|----------------------------------|-------------------|--------------------|
| Computer hardware | Declining balance | 20% |
| Computer software | Declining balance | 30% |
| Office equipment | Declining balance | 20% |
| Leasehold improvements | Straight line | Over term of lease |

(e) Research and development:

Research costs are expensed as incurred. Deferred development costs are expensed as incurred unless a development project meets the criteria under generally accepted accounting principles for capitalization and amortization. Development costs relate to the Net Periscope project. Once the project is completed, costs will be amortized over the estimated useful life.

(f) Goodwill:

Goodwill arising on the acquisition of Global-X is amortized on a straight-line basis over 10 years. Goodwill arising on the acquisition of Docu.Max is amortized on a straight-line basis over seven years. The Company reviews the carrying value of goodwill to determine if an impairment has occurred. The Company measures potential impairment of goodwill by comparing the carrying value to the undiscounted future operating cash flows from the acquired business. Based on its review, the Company does not believe that any impairment of carrying value of goodwill has occurred.

(g) Foreign currency translation:

The Company records foreign currency transactions at the Canadian dollar equivalent at the date of the transaction and translates foreign currency monetary assets and liabilities at year-end exchange rates. Non-monetary assets and liabilities are recorded at the historical exchange rate at the time of the transaction. Exchange gains and losses are included in net income for the year.

(h) Financial instruments:

The carrying values of accounts receivable, advances to related parties, bank indebtedness, accounts payable and accrued liabilities and payable to Docu.Max vendors approximate their fair values due to the short term to maturity for these instruments.

ONX INCORPORATED
(FORMERLY ONYX COMPUTERS INCORPORATED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Eight months ended December 31, 1999 and 1998 and years ended April 30, 1999, 1998 and 1997
(Information as at and for the eight months ended December 31, 1999 and 1998 is unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The carrying values of the term loans and the convertible debentures approximate their fair values as the interest rates on these loans approximate the current market rates of interest available to the Company for the same or similar debt instruments.

Marketable securities included in investment and other are recorded at the lower of cost and market value with market value determined on the basis of the average trading price of the shares for the last five trading days of the fiscal year.

(i) Income taxes:

The Company accounts for income taxes on the deferral method. Deferred income taxes are provided for all significant timing differences and are included in the computation of net income.

(j) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of 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.

(k) Stock-based compensation:

The Company has stock-based compensation plans, which are described in note 8(c). No compensation expense is recognized for these plans when stock or stock options are issued to employees. For consideration paid to an employee for the repurchase of stock options, the excess of the consideration paid over the stock option price is charged to retained earnings.

2. CONCENTRATION OF CREDIT RISK

Accounts receivable subjects the Company to a concentration of credit risk. The Company performs periodic credit evaluations of the financial condition of its customers and typically does not require collateral from them. As at December 31, 1999, the Company has accounts receivable from one customer representing approximately 13% (April 30, 1999 — 17%; 1998 — 3%) of its total accounts receivable. Revenue from the same customer represented approximately 14% of revenue for the eight months ended December 31, 1999 (year ended April 30, 1999 — 24%; year ended April 30, 1998 — 5%).

3. BUSINESS ACQUISITIONS

(a) Docu.Max Enterprises Ltd.:

During fiscal 1998, the Company entered into an agreement (the "Purchase Agreement") to acquire, through a newly incorporated subsidiary (1249713 Ontario Inc.), all of the outstanding shares of Docu.Max, in exchange for cash, assumption of debt and First and Second Class A special shares of 1249713 Ontario Inc. OnX agreed to acquire all of the First Series Class A special shares of 1249713 Ontario Inc. for cash consideration of \$197,400 and this is reflected as payable to Docu.Max vendors in the table below. The Second Series Class A special shares were exchangeable for 2% of the capital stock of OnX and were recorded as share right options at fair value of \$750,000 (note 8(e)).

This acquisition has been accounted for using the purchase method and the results of Docu.Max have been included from the acquisition date of November 27, 1997.

ONX INCORPORATED
(FORMERLY ONYX COMPUTERS INCORPORATED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Eight months ended December 31, 1999 and 1998 and years ended April 30, 1999, 1998 and 1997
(Information as at and for the eight months ended December 31, 1999 and 1998 is unaudited)

3. BUSINESS ACQUISITIONS (Continued)

Details of the acquisition are as follows:

| | |
|---------------------------------------|--------------------|
| Assets acquired: | |
| Net working capital | \$ 223,482 |
| Capital assets | 297,327 |
| Goodwill | 1,874,145 |
| Indebtedness assumed: | |
| Deferred revenue | (246,621) |
| Convertible debentures | (203,500) |
| Long-term debt | (125,119) |
| | <u>\$1,819,714</u> |
| Consideration given: | |
| Cash | \$ 331,000 |
| Bank indebtedness assumed | 453,960 |
| Acquisition costs | 87,354 |
| Payable to Docu.Max vendors | 197,400 |
| Share right options | 750,000 |
| | <u>\$1,819,714</u> |

(b) Global-X-Change Communications Inc.:

On September 10, 1999, the Company acquired all of the issued and outstanding shares of Global-X. Total consideration paid in connection with this acquisition was satisfied as to \$950,000 in cash and \$950,000 in face value of non-interest bearing, convertible, unsecured debentures (the "Debentures"), discounted at the Company's incremental borrowing rate of approximately 8% for a net present value of \$754,000.

The Debentures mature on September 10, 2002 and are convertible upon the completion of an Initial Public Offering ("IPO") or Reverse Takeover Offering ("RTO") (collectively, the "Triggering Event") at the option of the holder into common shares of the Company on or before September 10, 2001 at a conversion price to be determined at the time of the Triggering Event, as follows:

In the case of an IPO, the conversion price will be 90% of the issue price per common share. In the case of an RTO, the conversion price will be the greater of 90% of:

- (i) the value ascribed to the common shares pursuant to the RTO; and
- (ii) the weighted average closing price per share of the public company's shares for the 10 consecutive trading days commencing on the date of completion of the RTO on which such shares are traded.

The Debentures may be repaid, at the Company's sole option, at any time after September 10, 2001, in accordance with the terms of the Debentures.

This acquisition has been accounted for using the purchase method and the results of Global-X have been included from the acquisition date of September 10, 1999.

ONX INCORPORATED
(FORMERLY ONYX COMPUTERS INCORPORATED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Eight months ended December 31, 1999 and 1998 and years ended April 30, 1999, 1998 and 1997
(Information as at and for the eight months ended December 31, 1999 and 1998 is unaudited)

3. BUSINESS ACQUISITIONS (Continued)

Details of the acquisition are as follows:

| | |
|--|--------------------|
| Assets acquired: | |
| Net working capital | \$ 384,004 |
| Capital assets | 98,369 |
| Goodwill | 1,561,826 |
| Indebtedness assumed: | |
| Bank indebtedness | (111,737) |
| Accounts payable and accrued liabilities | (148,220) |
| | <u>\$1,784,242</u> |
| Consideration given: | |
| Cash | \$ 950,000 |
| Convertible debentures | 754,000 |
| Acquisition costs | 80,242 |
| | <u>\$1,784,242</u> |

4. ADVANCES TO RELATED PARTIES

| | December 31, | April 30, | |
|--|---------------------|--------------------|------------------|
| | 1999 | 1999 | 1998 |
| | (Unaudited) | | |
| Advances to employee | \$ — | \$ — | \$277,435 |
| Advance to shareholders (note 8) | 153,379 | 1,032,638 | 105,052 |
| Advances to officers of Book4golf.com Corporation (note 8) | — | 100,000 | — |
| | <u>\$153,379</u> | <u>\$1,132,638</u> | <u>\$382,487</u> |

The advances to shareholders and to officers of Book4golf.com Corporation were non-interest bearing, unsecured and have no fixed repayment terms.

During the period ended December 31, 1999, \$900,000 of advances to shareholders were satisfied through set-off against dividends and an amount of \$20,741 was advanced to the shareholders.

ONX INCORPORATED
(FORMERLY ONYX COMPUTERS INCORPORATED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Eight months ended December 31, 1999 and 1998 and years ended April 30, 1999, 1998 and 1997
(Information as at and for the eight months ended December 31, 1999 and 1998 is unaudited)

5. CAPITAL ASSETS

| <u>December 31, 1999</u> | <u>Cost</u> | <u>Accumulated amortization</u> (Unaudited) | <u>Net book value</u> |
|--|--------------------|--|---------------------------|
| Computer hardware and software | \$6,149,716 | \$2,326,518 | \$3,823,198 |
| Office equipment | 1,449,661 | 550,988 | 898,673 |
| Leasehold improvements | 1,224,339 | 180,741 | 1,043,598 |
| | <u>\$8,823,716</u> | <u>\$3,058,247</u> | <u>\$5,765,469</u> |
| | | | |
| <u>April 30, 1999</u> | <u>Cost</u> | <u>Accumulated amortization</u> | <u>Net book value</u> |
| Computer hardware and software | \$4,377,981 | \$1,817,809 | \$2,560,172 |
| Office equipment | 957,413 | 366,287 | 591,126 |
| Leasehold improvements | 766,129 | 74,392 | 691,737 |
| | <u>\$6,101,523</u> | <u>\$2,258,488</u> | <u>\$3,843,035</u> |
| | | | |
| <u>April 30, 1998</u> | <u>Cost</u> | <u>Accumulated amortization</u> | <u>Net book value</u> |
| Computer hardware and software | \$2,555,574 | \$ 851,009 | \$1,704,565 |
| Office equipment | 804,789 | 207,243 | 597,546 |
| Leasehold improvements | 165,133 | 12,588 | 152,545 |
| | <u>\$3,525,496</u> | <u>\$1,070,840</u> | <u>\$2,454,656</u> |

6. GOODWILL

| | <u>December 31, 1999</u> (Unaudited) | <u>April 30, 1999</u> | <u>April 30, 1998</u> |
|---|---|---------------------------|---------------------------|
| Goodwill | \$3,435,971 | \$1,874,145 | \$1,874,145 |
| Less accumulated amortization | 595,347 | 371,857 | 126,437 |
| | <u>\$2,840,624</u> | <u>\$1,502,288</u> | <u>\$1,747,708</u> |

7. BANK INDEBTEDNESS

| | <u>December 31, 1999</u> (Unaudited) | <u>April 30, 1999</u> | <u>April 30, 1998</u> |
|--|---|---------------------------|---------------------------|
| Demand operating lines | \$1,475,927 | \$10,565,077 | \$4,922,905 |
| Term loan, bearing interest at prime plus 2%, repayable in monthly principal payments of \$55,556, due on demand | \$ 666,656 | \$ 1,111,120 | \$1,777,776 |
| Term loan, bearing interest at prime plus ¾%, repayable in monthly principal payments of \$8,909, due on demand | 110,265 | 181,540 | 398,332 |
| | <u>776,921</u> | <u>1,292,660</u> | <u>2,176,108</u> |
| Less current portion of term loans | 776,921 | 773,564 | 733,344 |
| Non-current portion of term loans | \$ — | \$ 519,096 | \$1,442,764 |

The Company's banking agreements provide for demand operating lines of credit of up to \$17,000,000, bearing interest at rates varying from prime plus ¾% to prime plus 1½%.

Security for the demand operating lines and term loans includes a general security agreement and a general assignment of accounts receivable, inventories and certain other assets.

ONX INCORPORATED
(FORMERLY ONYX COMPUTERS INCORPORATED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Eight months ended December 31, 1999 and 1998 and years ended April 30, 1999, 1998 and 1997
(Information as at and for the eight months ended December 31, 1999 and 1998 is unaudited)

8. CAPITAL STOCK:

(a) Authorized:

Unlimited common shares.

(b) Share transactions:

| | Class B preference shares | | Class C preference shares | | Class D special shares | | Class E preference shares | | Class F preference shares | | Common shares | |
|---|------------------------------|--------|------------------------------|----------|------------------------|-------------|------------------------------|-----------|------------------------------|-------------|---------------|-------------|
| | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount |
| Balance, April 30, 1998 | 2,000,000 | \$ 328 | 2,000,000 | \$ 1,672 | 10,000 | \$ 2 | — | \$ — | — | \$ — | — | \$ — |
| December 17, 1998 (note 8(b)(i)) . . . | — | — | — | — | — | — | — | — | 1,610,000 | 1,610,000 | — | — |
| December 18, 1998 (note 8(b)(ii)) . . . | — | — | — | — | (10,000) | (2) | 750,000 | 2 | — | — | 10,000 | 1 |
| January, 1999 (note 8(b)(iii)) | — | — | — | — | 10,000 | 2 | 750,000 | 2 | — | — | (10,000) | (1) |
| Balance, April 30, 1999 | 2,000,000 | 328 | 2,000,000 | 1,672 | 10,000 | 2 | 1,500,000 | 4 | 1,610,000 | 1,610,000 | — | — |
| Exercise of options (note 8(c)) | — | — | — | — | 714,058 | 1 | — | — | — | — | — | — |
| Stock dividend (note 8(b)(iv)) | — | — | — | — | — | — | 892,876 | 892,876 | — | — | — | — |
| Share reorganization (note 8(b)(iv)) . . . | (2,000,000) | (328) | (2,000,000) | (1,672) | 12,792,250 | 2,504,880 | (2,392,876) | (892,880) | (1,610,000) | (1,610,000) | — | — |
| Share consolidation (note 8(b)(iv)) . . . | — | — | — | — | (13,516,308) | (2,504,883) | — | — | — | — | 11,972,500 | 2,504,883 |
| Placement units (note 8(b)(v)) | — | — | — | — | — | — | — | — | — | — | 149,000 | 1,436,150 |
| Balance, December 31, 1999 (pre-subdivision) | — | \$ — | — | \$ — | — | \$ — | — | \$ — | — | \$ — | 12,121,500 | \$3,941,033 |
| Post-subdivision (note 16(d)) | — | \$ — | — | \$ — | — | \$ — | — | \$ — | — | \$ — | 20,000,475 | \$3,941,033 |

- (i) On December 17, 1998, the Company issued 1,610,000 Class F preference shares for \$1,610,000 cash.
- (ii) On December 18, 1998, all of the outstanding Class D special shares were purchased for cancellation in exchange for 750,000 Class E preference shares and 10,000 common shares.
- (iii) In January 1999, all of the outstanding 10,000 common shares were purchased for cancellation in exchange for 750,000 Class E preference shares and 10,000 Class D special shares.
- (iv) On December 8 and 9, 1999, the Company reorganized the authorized and issued capital and declared certain dividends.

Dividends were declared as follows:

| | |
|-------------------------------------|--------------------|
| Class B preference shares | \$ 263,020 |
| Class C preference shares | 1,346,980 |
| Class E preference shares | 140,014 |
| Class F preference shares | 112,700 |
| Common shares | <u>6,973,036</u> |
| | <u>\$8,835,750</u> |

The Company paid stock dividends of Class E preference shares with a value of \$892,876 on the common shares. The above dividends were paid in conjunction with the financing described in note 8(d).

The Company reorganized the authorized capital by cancelling the Class B preference shares, the Class C preference shares, the Class E preference shares, the Class F preference shares and the Class D special shares. The issued and outstanding Class D special shares were reclassified into common shares on the basis of 0.8857819 common shares for each Class D special share held.

- (v) On December 10, 1999, 149,000 common shares (245,850 post-subdivision note 16(d)) were issued as part of placement units issued for gross proceeds of \$10.00 each (note 8(d)).

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8. CAPITAL STOCK: (Continued)

(c) Share options:

During the period ended April 30, 1999, the Company granted a long-term employee options to acquire 807,196 Class D special shares for an aggregate of \$2. One of these options relating to 93,138 Class D special shares was cancelled in favour of a cash payment to the employee of \$771,375. This payment has been charged to retained earnings. In addition, the employee exercised the other option by purchasing 714,058 Class D special shares for \$1.

Effective December 10, 1999, the Company adopted a Share Option Plan and a directors and officers Alternate Compensation Plan. The options may be granted by the Board of Directors. The maximum number of shares available to any one person under the plan is 5% of the common shares outstanding at the date of grant. Options granted must be exercised within 10 years from the date of grant or a lesser period as determined by the Board of Directors. The Company has, on ●, 2000, granted options to purchase common shares (post-subdivision note 16(d)) as follows:

| | Number of common shares under option | Date of grant | Exercise price per share | Expiry |
|---------------------|--|-------------------|-----------------------------|-------------------|
| Officers | 540,375 | December 10, 1999 | \$6.06 | December 10, 2004 |
| Officers | ● | ●, 2000 | ● | ●, 2005 |
| Directors | ● | ●, 2000 | ● | ●, 2005 |
| Employees | 284,625 | December 10, 1999 | \$6.06 | December 10, 2004 |
| Others | ● | ●, 2000 | ● | ●, 2005 |
| | ● | | | |

Also effective December 10, 1999, the Company has implemented a Share Purchase Plan to provide an incentive to officers, directors and key employees. Each eligible person may purchase up to 10% of their annual salary at an exercise price determined by the Board of Directors, which may be established at market price at the date of grant less a discount of up to 10%. The Company may purchase shares in the market to satisfy the plan or issue shares from treasury.

A maximum of ● common shares (post-subdivision note 16(d)) are issuable under the Share Purchase Plan, the Share Option Plan and the Alternate Compensation Plan.

(d) Warrants:

| | December 31, 1999 | April 30, 1999 | April 30, 1998 |
|---|----------------------|-------------------|-------------------|
| | (Unaudited) | | |
| 310,750 share purchase warrants | \$ 23,625 | \$ — | \$ — |
| 1,878,500 treasury special warrants | 17,752,136 | — | — |
| | <u>\$17,775,761</u> | <u>\$ —</u> | <u>\$ —</u> |

On December 10, 1999, certain selling shareholders created and issued 472,500 special warrants (“Secondary Special Warrants”). Each Secondary Special Warrant entitles the holder to acquire, from the shareholder, one common share (1.65 common shares post-subdivision note 16(d)), one half of one Purchase Warrant and one Bonus Warrant. The common shares, if any, issuable on exercise of the Bonus Warrants from the Secondary Special Warrants shall be delivered by the shareholders. If the shareholders fail to deliver such shares, the Company has agreed to issue such shares on exercise. On December 10, 1999, preceding the Secondary Special Warrant transaction, the Company created and issued to the selling shareholders 236,250 Share Purchase Warrants at a price of \$0.10 each for aggregate consideration of \$23,625.

On December 10, 1999, the Company created and issued 1,878,500 special warrants (“Treasury Special Warrants”) at a price of \$10 per special warrant and 149,000 units (“Placement Units”) at a price of \$10 per Placement Unit.

Each Treasury Special Warrant entitles the holder to acquire one unit consisting of one common share (1.65 common shares post-subdivision note 16(d)), one half of one Purchase Warrant and one Bonus Warrant.

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8. CAPITAL STOCK: (Continued)

(d) Warrants (continued):

Each Secondary Special Warrant and each Treasury Special Warrant may be exercised up to a date which is the earlier of (a) the date which is five business days after the date on which a receipt has been issued for a final prospectus, and (b) the date which is 12 months after the special warrant closing date.

Each Placement Unit consists of one common share (1.65 common shares post-subdivision note 16(d)), one half of one Purchase Warrant and one Bonus Warrant.

Each whole Purchase Warrant will entitle the holder to purchase one common share (1.65 common shares post-subdivision note 16(d)) of the Company at an exercise price equal to the IPO price. In the event that an IPO is not completed within 12 months of the special warrant closing date, or in the event of an alternative transaction, the exercise price for the Purchase Warrant shall be \$10 per common share (\$6.06 per common share post-subdivision note 16(d)).

In the event that the IPO is completed within 24 months following the special warrant closing date at a price less than \$10 per share (\$6.06 per common share post-subdivision note 16(d)), each Bonus Warrant will be deemed to be exercised and will entitle the holder to acquire, based on a formula, up to 0.12 common shares (0.20 common shares post-subdivision) for each Bonus Warrant held, for no additional consideration. In the event that the IPO price is not less than \$10 per share (\$6.06 per common share post-subdivision note 16(d)), the Bonus Warrants will terminate. The Bonus Warrants are exercisable and will be automatically exercised on the earlier of five days after the closing of the IPO and 24 months after the special warrant closing date.

Pursuant to the underwriting agreement, the underwriter arranged for the purchase of the 2,500,000 special warrants at a price of \$10 each. Commissions to the underwriter were 6.5% and the issuance of a Special Warrant Underwriter's Warrant exercisable for two years providing the right to acquire a compensation warrant to acquire up to 250,000 Compensation Units for a price of \$10 each. Each Compensation Unit consists of one common share (1.65 common shares post-subdivision note 16(d)) and one half of one Purchase Warrant.

In the event that the Company is not able to obtain a receipt for a final prospectus qualifying the distribution of the above common shares, Purchase Warrants and Bonus Warrants underlying the Treasury Special Warrants and the Secondary Special Warrants on or before June 7, 2000, then each special warrant shall be exercisable for no additional consideration into 1.1 common shares (1.815 post-subdivision common shares note 16(d)), 0.55 Purchase Warrants and 1.1 Bonus Warrants.

(e) Share right options:

As part of the consideration given to the vendors of Docu.Max (note 3), the Company granted the vendors options to exchange the Second Class A Special shares of 1249713 Ontario Inc. into a 2% interest in the share capital of the Company for no additional consideration.

The share right options are exercisable on a pro rata basis, in certain circumstances including a sale of the Company or a portion of the shareholdings. The Company may be required, in certain circumstances, such as termination of employment, to purchase the share right options for a price equal to 2% of the fair value of the outstanding share capital of the Company at the time of the termination.

During the year ended April 30, 1999, 64.54% of the share right options were acquired by the Company for cash of \$624,480 and an offset to amounts previously advanced to the holder of the shares of \$150,000. In addition, the employment of the other option holder has been terminated and the Company has subsequently acquired the share right options for approximately \$520,000. This is included in amounts payable to Docu.Max vendors. These transactions have been recorded as a reduction of the share right options and as a charge to retained earnings for the excess of the purchase price over the stated capital.

9. RELATED PARTY TRANSACTIONS

During the 1999 fiscal year, the Company entered into a product support and management services agreement (the "Book 4 Agreement") with Book4golf.com Corporation ("Book 4"). Certain shareholders of the Company and/or companies controlled by them at December 31, 1999 own approximately 28% of Book 4 and are officers and directors of Book 4. Capital stock of Book 4 purchased by the shareholders was funded in part by advances of \$1,000,000 from the Company (note 4). These advances were repaid during the period ended December 31, 1999. Under the terms of the Book 4 Agreement, the Company shall design the Book 4 system and software including, but not limited to, coding, testing and customization. In addition, the Company has agreed to provide support and assistance

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9. RELATED PARTY TRANSACTIONS (Continued)

to Book 4 in connection with the management, administration and operation of its business. Book 4 has agreed to pay fees for such services, based on time and materials. The Book 4 Agreement expires on June 30, 2000. The total charges for services and reimbursable expenses under the Book 4 agreement for the eight months ended December 31, 1999 were \$6,522,827 (eight months ended December 31, 1999 — \$nil; year ended April 30, 1999 — \$1,451,922). The Company also sold computer equipment to Book 4 of \$625,878 during the eight months ended December 31, 1999 (eight months ended December 31, 1998 — \$nil; year ended April 30, 1999 — \$nil). Accounts receivable at December 31, 1999 includes \$2,840,719 (year ended April 30, 1999 — \$553,557, year ended April 30, 1998 — \$nil) of amounts due from Book 4 in connection with these services and which is subject to normal trade terms. These transactions were measured at the exchange amounts.

Investment and other includes \$98,911 of investments in shares of Book 4 (eight months ended December 31, 1998 — \$nil; year ended April 30, 1999 — \$nil; fair market value as at December 31, 1999 — \$ •).

10. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the effective income tax rates of 44.6% (1998 — 44.6%) to earnings before income taxes. The reason for the differences are as follows:

| | Eight months ended December 31, | | Years ended April 30, | | |
|-----------------------------------|------------------------------------|-------------|-----------------------|-------------|-------------|
| | 1999 | 1998 | 1999 | 1998 | 1997 |
| | (Unaudited) | | | | |
| Computed tax expense | | | | | |
| at 44.6% | \$816,954 | \$2,357,349 | \$3,801,081 | \$3,491,517 | \$2,029,005 |
| Non-deductible expenses | 153,069 | 151,164 | 227,000 | 135,347 | 132,809 |
| Other | 28,048 | (12,748) | 334,300 | (25,854) | — |
| | \$998,071 | \$2,495,765 | \$4,362,381 | \$3,601,010 | \$2,161,814 |

11. COMMITMENTS

Future minimum rental payments required under operating leases are as follows:

| | |
|-------------------------------|-------------|
| 2000 | \$ 629,709 |
| 2001 | 1,395,109 |
| 2002 | 1,473,395 |
| 2003 | 1,264,734 |
| 2004 and thereafter | 3,094,456 |
| | \$7,857,403 |

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

13. EARNINGS PER SHARE

Basic earnings per share, based on the weighted average number of common shares outstanding, has not been presented as the Company is owned by few shareholders and because of numerous changes to the share structure over the periods presented. However,

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13. EARNINGS PER SHARE (Continued)

had the common shares outstanding after the share reorganization been outstanding at the beginning of each of the periods presented earnings per share for common shares outstanding both pre and post-subdivision (note 16(d)) would have been as follows:

| | Pre-Subdivision | Post-Subdivision |
|--|------------------------|-------------------------|
| Eight months ended December 31, 1999 | \$0.07 | \$0.04 |
| Eight months ended December 31, 1998 | 0.23 | 0.14 |
| Year ended April 30, 1999 | 0.34 | 0.21 |
| Year ended April 30, 1998 | 0.35 | 0.21 |
| Year ended April 30, 1997 | 0.20 | 0.12 |

Fully diluted earnings per share information, computed on a similar basis, has not been provided as it is anti-dilutive.

14. SUPPLEMENTARY INFORMATION TO CASH FLOW STATEMENTS

(a) Statements of cash flows:

In 1999, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants on cash flow statements. The recommendations require the Company to provide information on the changes in cash and short-term investments during the year arising from operating, financing and investing activities. Cash flows from operating activities can be reported using either the direct or indirect method.

The Company has adopted the indirect method of reporting cash flows, under which the net cash flow from operating activities is reported by adjusting net earnings for the effects of non-cash items and net changes in non-cash working capital balances. Figures for prior years have been revised to make them consistent with this change.

Cash and cash equivalents consist of cash on hand and balances with banks and are included in bank indebtedness on the balance sheet.

(b) Change in non-cash working capital items is as follows:

| | December 31, 1999 | December 31, 1998 | April 30, 1999 | April 30, 1998 | April 30, 1997 |
|--|------------------------------|------------------------------|---------------------------|---------------------------|---------------------------|
| | (Unaudited) | | | | |
| Accounts receivable | \$ 8,585,589 | \$(7,513,524) | \$(3,723,091) | \$(10,819,506) | \$(3,046,517) |
| Inventories | 561,348 | (2,871,542) | 382,580 | 3,042,605 | (1,908,986) |
| Prepays | 216,908 | (546,176) | (509,845) | (45,909) | 192,182 |
| Accounts payable and accruals | (5,342,813) | 926,895 | (609,723) | 2,714,404 | 4,868,051 |
| Deferred revenue | (43,053) | (237,306) | (208,570) | 308,322 | — |
| Income taxes payable | (1,146,781) | 962,929 | (1,295,170) | 2,574,665 | 416,693 |
| | <u>\$ 2,831,198</u> | <u>\$(9,278,724)</u> | <u>\$(5,963,819)</u> | <u>\$ (2,225,419)</u> | <u>\$ 521,423</u> |

(c) Included in net income are the following cash items:

| | December 31, 1999 | December 31, 1998 | April 30, 1999 | April 30, 1998 | April 30, 1997 |
|-----------------------------|------------------------------|------------------------------|---------------------------|---------------------------|---------------------------|
| | (Unaudited) | | | | |
| Interest paid | \$ 589,144 | \$ 697,567 | \$1,088,483 | \$1,006,072 | \$ 565,559 |
| Income taxes paid | 2,399,547 | 1,475,000 | 5,877,462 | 1,095,225 | 1,660,198 |
| | <u>\$ 2,988,691</u> | <u>\$ 2,172,567</u> | <u>\$ 6,965,945</u> | <u>\$ 2,101,297</u> | <u>\$ 2,225,757</u> |

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15. SEGMENTED INFORMATION

(a) Business segments:

The Company has identified three separate business segments in which it operates: Information Technology Infrastructure (“IT Infrastructure”) providing reselling of computer hardware and software and integration of business applications, e-Business services (“e-Business Services”) providing electronic commerce and Web site design and development, and wholesale reselling of disk storage products (“Wholesale”). During the period ended December 31, 1999, the Company ceased wholesale disk storage sales. There were no intersegment sales.

| <u>Eight months ended December 31, 1999</u> | <u>IT Infrastructure</u> | <u>e-Business Services</u> | <u>Wholesale</u> | <u>Total</u> |
|--|------------------------------|--------------------------------|------------------|---------------|
| | | (Unaudited) | | |
| Sales | \$54,041,000 | \$16,798,374 | \$ — | \$70,839,374 |
| Cost of sales | 44,748,890 | 10,527,370 | — | 55,276,260 |
| Gross Margin | 9,292,110 | 6,271,004 | — | 15,563,114 |
| Earnings (loss) before amortization, interest and income taxes (“EBITDA”) | (1,702,192) | 5,192,486 | — | 3,490,294 |
| | | (Unaudited) | | |
| <u>Eight months ended December 31, 1998</u> | <u>IT Infrastructure</u> | <u>e-Business Services</u> | <u>Wholesale</u> | <u>Total</u> |
| Sales | \$73,467,176 | \$ 5,772,300 | \$10,095,269 | \$89,334,745 |
| Cost of sales | 58,656,337 | 4,255,066 | 9,643,036 | 72,544,439 |
| Gross Margin | 14,810,839 | 1,517,234 | 452,233 | 16,780,306 |
| EBITDA | 6,265,894 | 560,778 | (139,436) | 6,687,236 |
| | | (Unaudited) | | |
| <u>Year ended April 30, 1999</u> | <u>IT Infrastructure</u> | <u>e-Business Services</u> | <u>Wholesale</u> | <u>Total</u> |
| Sales | \$122,000,862 | \$15,787,692 | \$11,288,216 | \$149,076,770 |
| Cost of sales | 98,477,918 | 10,675,807 | 10,867,523 | 120,021,248 |
| Gross Margin | 23,522,944 | 5,111,885 | 420,693 | 29,055,522 |
| EBITDA | 7,601,485 | 3,499,584 | (427,513) | 10,673,556 |
| | | (Unaudited) | | |
| <u>Year ended April 30, 1998</u> | <u>IT Infrastructure</u> | <u>e-Business Services</u> | <u>Wholesale</u> | <u>Total</u> |
| Sales | \$92,202,301 | \$5,158,461 | \$11,102,226 | \$108,462,988 |
| Cost of sales | 72,242,699 | 2,986,205 | 10,538,267 | 85,767,171 |
| Gross Margin | 19,959,602 | 2,172,256 | 563,959 | 22,695,817 |
| EBITDA | 8,774,438 | 906,496 | (264,408) | 9,416,526 |
| | | (Unaudited) | | |
| <u>Year ended April 30, 1997</u> | <u>IT Infrastructure</u> | <u>e-Business Services</u> | <u>Wholesale</u> | <u>Total</u> |
| Sales | \$60,896,298 | \$ 676,206 | \$39,666,988 | \$101,239,492 |
| Cost of sales | 49,693,692 | Not available | 37,450,728 | 87,144,420 |
| Gross Margin | 11,202,606 | Not available | 2,216,260 | 14,095,072 |
| EBITDA | 3,444,524 | Not available | 1,273,254 | 5,393,984 |

Information on identifiable assets has not been provided as it is not readily available. In addition, cost of sales and EBITDA information for the year ended April 30, 1997 for e-Business Services has not been provided as this information was not readily available.

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15. SEGMENTED INFORMATION (Continued)

(b) Geographic segments:

The Company operates in Canada only. Export sales were as follows:

| | |
|---------------------------------|--------------|
| Eight months ended December 31: | |
| 1999 | \$ 1,237,028 |
| 1998 | 7,374,929 |
| Years ended April 30: | |
| 1999 | 8,411,144 |
| 1998 | 9,917,647 |
| 1997 | 33,868,324 |

16. SUBSEQUENT EVENTS

(a) Name change:

On February 7, 2000, the Company changed its name to OnX Incorporated.

(b) Public offering:

On ●, 2000, the Company entered into an underwriting agreement to complete a public offering of ● common shares for gross proceeds of \$ ● (net after selling and professional fees of \$ ●). Underwriters' commission of \$ ● was paid in cash. Net proceeds of the offering after commissions and expenses of issue are estimated to be \$ ●. The Company has granted the Underwriters an option for 60 days after closing of the offering to purchase up to ● common shares at the offering price to cover over-allotments. As additional compensation to the Underwriters, the Company will issue compensation options to purchase up to ● shares exercisable at the offering price for up to 24 months after the date of closing of the offering.

(c) Shareholder rights plan:

Effective ●, 2000, the Board of Directors and shareholders of the Company adopted a shareholder rights plan, whereby share purchase rights in respect of common shares were created and distributed at the rate of one right per outstanding common share. Rights will continue to be issued for each common share issued, including common shares issued upon exercise or conversion of warrants, options or convertible securities. The rights become exercisable eight (8) trading days after a person has acquired 20% or more of the issued shares of the Company or commences a takeover bid other than as permitted under the plan, at which time, the rights become a right to purchase the number of common shares computed at one share for each right held at an exercise price equal to five times the market price of the common shares of the Company. After a person has acquired 20% or more of the issued shares of the Company, each right will entitle the holder thereof (other than such person) to acquire one common share at an exercise price equal to one half of the market price of the common shares.

(d) Capital Stock:

On March ●, 2000, the Company subdivided its outstanding common shares on the basis of 1.65 post-subdivision common shares for each pre-subdivision common share and created a class of preferred shares, issuable in series and with attributes determined by the Board of Directors at the time of issue.

CERTIFICATE OF THE COMPANY

Dated: February 29, 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), by the *Securities Act* (Nova Scotia), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island) and by Part XIV of the *Securities Act, 1990* (Newfoundland), and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed hereunder within the meaning of the *Securities Act* (Quebec) and the regulation thereunder.

(Signed) SHELDON M. POLLACK
Chief Executive Officer

(Signed) KATHY GARDOS
Chief Financial Officer

On behalf of the Board of Directors

(Signed) PHILLIP A. DELEON
Director

(Signed) GARY STEINHART
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: February 29, 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), by the *Securities Act* (Nova Scotia), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island) and by Part XIV of the *Securities Act, 1990* (Newfoundland), and the respective regulations thereunder. To our knowledge, this prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed hereunder within the meaning of the *Securities Act* (Quebec) and the regulation thereunder.

YORKTON SECURITIES INC.

CIBC WORLD MARKETS INC.

By: (Signed) NELSON SMITH

By: (Signed) DANIEL J. DAVIAU

HSBC SECURITIES (CANADA) INC.

NATIONAL BANK FINANCIAL INC.

By: (Signed) DANIEL F. HACHEY

By: (Signed) G.F. KYM ANTHONY