

## PRELIMINARY PROSPECTUS DATED APRIL 14, 2000

*This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended. These securities are being issued to holders of Special Warrants in connection with the exercise of Special Warrants, and this prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities in the United States.*

### New Issue and Secondary Offering



### OnX INCORPORATED

**\$23,510,000**

**3,099,525 Common Shares and  
1,878,500 Common Share Purchase Warrants issuable  
upon the exercise of 1,878,500 Treasury Special Warrants**

**779,625 Common Shares and  
472,500 Common Share Purchase Warrants deliverable  
upon exercise of 472,500 Secondary Special Warrants**

This prospectus is being filed to qualify the distribution of (a) 3,099,525 Common Shares and 1,878,500 Common Share purchase warrants ("Purchase Warrants") of OnX Incorporated ("OnX" or the "Company") which will be issued, without additional consideration, upon the exercise of 1,878,500 previously issued special warrants (the "Treasury Special Warrants") of the Company and (b) 779,625 Common Shares and 472,500 Purchase Warrants which will be delivered, without additional consideration, upon the exercise of 472,500 previously issued special warrants (the "Secondary Special Warrants") of Sheldon M. Pollack, Phillip A. DeLeon, 1388617 Ontario Inc., 1388616 Ontario Inc., The Pollack Family Trust and The DeLeon Family Trust (collectively, the "Selling Shareholders"). The Treasury Special Warrants and the Secondary Special Warrants are referred to herein as the "Special Warrants". Each Special Warrant, upon exercise, will entitle the holder to receive one unit (a "Unit") consisting of 1.65 Common Shares (one pre-Subdivision Common Share), one-half of one Purchase Warrant and one bonus warrant (a "Bonus Warrant"), without further payment. Each whole Purchase Warrant will entitle the holder to purchase 1.65 Common Shares at a price of \$10.50 per 1.65 Common Shares at any time on or before 5:00 p.m. (Toronto time) on December 10, 2000. The Bonus Warrants will terminate upon the completion of the Initial Public Offering. See "Plan of Distribution".

The Special Warrants were issued and sold at a price of \$10.00 per Special Warrant by way of private placement (the "Offering") pursuant to an underwriting agreement (the "Underwriting Agreement") dated December 10, 1999 between the Company, the Selling Shareholders and Yorkton Securities Inc. (the "Underwriter"). The price of the Special Warrants was determined by negotiation between the Company, the Selling Shareholders and the Underwriter. See "Plan of Distribution".

The Toronto Stock Exchange has conditionally approved the listing of the Common Shares. Listing is subject to the Company fulfilling all of the requirements of such exchange on or before June 30, 2000, including the distribution of the Common Shares to a minimum number of public shareholders. **There is currently no market for the Special Warrants or the Purchase Warrants and none is expected to develop.**

	Price to the Public	Underwriter's Fee <sup>(1)(2)</sup>	Net Proceeds to the Company <sup>(3)</sup>	Net Proceeds to the Selling Shareholders <sup>(3)</sup>
Per Treasury Special Warrant . . . . .	\$ 10.00	\$ 0.65	\$ 9.35	—
Per Secondary Special Warrant . . . . .	\$ 10.00	\$ 0.65	—	\$ 9.35
Total Treasury Special Warrants . . . . .	\$18,785,000	\$1,221,025	\$17,563,975	—
Total Secondary Special Warrants . . . . .	\$ 4,725,000	\$ 307,125	—	\$4,417,875
Total Offering . . . . .	\$23,510,000	\$1,528,150	\$17,563,975	\$4,417,875

(1) No additional commission or fee will be payable to the Underwriter in connection with the issuance of the Common Shares and Purchase Warrants upon the exercise of the Special Warrants.

(2) As additional compensation in connection with the issue and sale of the Special Warrants, the Company issued to the Underwriter non-assignable special compensation warrants (the "Compensation Warrants") exercisable without payment of additional consideration into 250,000 warrants (the "Underwriter's Warrants") each entitling the holder to purchase one Unit consisting of 1.65 Common Shares and one-half of one Purchase Warrant on or before December 10, 2001, at a price of \$10.00 per Unit. This prospectus qualifies for distribution 125,000 Underwriter's Warrants issuable upon exercise of the Compensation Warrants.

This is a preliminary prospectus relating to these securities, a copy of which has been filed with the securities commission or other regulatory authority in each of the Provinces of Ontario, Quebec, British Columbia and Alberta, 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.

- (3) Before deducting the expenses of the Offering estimated at \$602,000 which, together with the Underwriter's fee, have been or will be, as the case may be, paid out of the proceeds of the Offering.

The Special Warrants are exercisable at any time on or before 5:00 p.m. (Toronto time) on the earlier of (the "Expiry Time"):  
(a) the date which is five business days following the date on which the last of the securities regulatory authorities in the provinces of Ontario, Quebec, Alberta and British Columbia issues a receipt for a (final) prospectus qualifying the Common Shares and Purchase Warrants to be issued or delivered upon exercise of the Special Warrants; and (b) December 10, 2000. Any Special Warrants not exercised by the Expiry Time will be deemed to be exercised on behalf of the holder thereof immediately prior thereto without any further action on the part of the holder. See "Plan of Distribution".

**Investment in the securities offered hereby should be considered to be speculative due to various factors, including the nature of the Company's business and its present stage of development. See "Risk Factors". Assuming the issuance of 3,099,525 Common Shares upon the exercise of the Treasury Special Warrants but before giving effect to the exercise of any of the Purchase Warrants, the effective price paid for each Common Share through the purchase of a Special Warrant exceeds the consolidated net tangible book value attributable to each Common Share as at December 31, 1999, by \$9.17, representing a dilution factor of 92%. See "Dilution".**

Definitive certificates evidencing the Common Shares and Purchase Warrants issuable or deliverable upon exercise of the Special Warrants will be available for delivery upon the exercise of the Special Warrants.

Certain legal matters relating to the distribution of the Common Shares and Purchase Warrants upon exercise of the Special Warrants will be passed upon by Cassels Brock & Blackwell LLP, Toronto, on behalf of the Company and by Blake, Cassels & Graydon LLP, Toronto, on behalf of the Underwriter.

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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") completed on April 5, 2000. Unless otherwise indicated, references to Common Shares of the Company are made without giving effect to the exercise of the IPO Over-Allotment Option, IPO Compensation Options, Purchase Warrants, Bonus Warrants, Special Warrant Underwriter's Warrants, employee stock options and the conversion of convertible debentures. See "Consolidated Capitalization". This prospectus assumes that the Initial Public Offering will be completed on April 17, 2000. See "Initial Public Offering".

## 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).

On April 4, 2000 OnX entered into an agreement to acquire Momentum Business Systems ("Momentum"), a Montreal-based provider of e-Business and groupware business solutions, e-Business and groupware corporate training and travel expense management software to companies and public sector organizations situated principally in eastern Canada. Momentum operates an e-Business professional services division and an e-Business software division from offices in Montreal, Quebec City and Toronto and has 128 employees. The purchase price for Momentum is up to \$30,000,000 which is comprised of a base purchase price of \$20,936,000 and a contingent purchase price of up to \$9,064,000 based on the achievement of certain revenue targets by Momentum. Of the base purchase price, \$13,085,000 is payable in cash and \$7,851,000 is payable by the issuance of 830,794 Common Shares (based on an issue price equal to 90% of the offering price of the Offered Shares). Of the contingent purchase price, up to \$5,665,000 is payable in cash and up to \$3,399,000 is payable by the issuance of 359,682 Common Shares (based on an issue price equal to 90% of the offering price of the Offered Shares). The net proceeds of the Offering will be used to pay the cash portion of the base purchase price. See "Acquisition of Momentum Business Systems — Acquisition Agreement" and "Use of Proceeds". See "Acquisition of Momentum Business Systems".

## OFFERING

- Issuer:** OnX Incorporated
- Offering:** 3,099,525 Common Shares and 1,878,500 Purchase Warrants issuable upon the exercise of 1,878,500 Treasury Special Warrants issued and sold by the Company and 779,625 Common Shares and 472,500 Purchase Warrants deliverable upon the exercise of 472,500 Secondary Special Warrants issued and sold by the Selling Shareholders (collectively, the “Offering”).
- Special Warrants:** 1,878,500 Treasury Special Warrants were issued and sold by the Company and 472,500 Secondary Special Warrants were issued and sold by the Selling Shareholders, in each case for consideration of \$10.00 per Special Warrant pursuant to a Special Warrant Indenture between the Company, the Selling Shareholders and Montreal Trust Company of Canada, as Special Warrant Trustee. Each Special Warrant, upon exercise, entitles the holder to receive one Unit consisting of 1.65 Common Shares, one-half of one Purchase Warrant and one Bonus Warrant, without further consideration, subject to adjustment as provided in the Special Warrant Indenture. The Special Warrants are exercisable at any time on or before 5:00 p.m. (Toronto time) on the earlier of (the “Expiry Time”): (i) the day which is five business days after a receipt is issued by the last of the securities regulatory authorities in the provinces of Ontario, Quebec, British Columbia and Alberta for a (final) prospectus qualifying the Common Shares and Purchase Warrants to be issued or delivered upon exercise of the Special Warrants; and (ii) December 10, 2000. Special Warrants which have not been exercised by the Expiry Time will be deemed to be exercised on behalf of the holders thereof immediately prior thereto without any further action on the part of the holders. If a receipt for a (final) prospectus qualifying the distribution of the Common Shares and Purchase Warrants comprising the Units issuable or deliverable upon exercise of the Special Warrants has not been issued by the securities regulatory authority in the province in which a purchaser resides by 5:00 p.m. (Toronto time) on June 7, 2000, Special Warrants exercised thereafter by the holder thereof (or all Special Warrants if a receipt for such prospectus has not been issued by the Ontario Securities Commission) shall entitle the holder thereof to receive 1.1 Units for each Special Warrant held, without additional payment. The Bonus Warrants will terminate on the completion of the Initial Public Offering. See “Plan of Distribution”.
- Purchase Warrants:** Each whole Purchase Warrant will entitle the holder thereof to purchase at any time on or before 5:00 p.m. (Toronto time) on December 10, 2000, 1.65 Common Shares at an exercise price of \$10.50 per 1.65 Common Shares. See “Plan of Distribution”.
- Use of Proceeds:** The aggregate net proceeds derived from the sale of the Treasury Special Warrants are estimated to be \$17.0 million, after deducting the Underwriter’s fee and estimated expenses of the Offering and have been or will be used by the Company: (i) as to approximately \$7.9 million to pay dividends to shareholders of the Company; (ii) as to approximately \$8.2 million to repay the Company’s line of credit; and (iii) as to the balance for working capital and general corporate purposes. See “Use of Proceeds”.
- 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 <sup>(1)</sup> :					
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)		
<b>Assets:</b>			
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>
<b>Liabilities and shareholders' equity:</b>			
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:

<b>application hosting:</b>	An outsourcing service that provides the necessary IT systems and services to operate and manage a client application.
<b>architecture:</b>	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.
<b>ASP:</b>	Application service provider.
<b>B2B:</b>	e-Business between businesses.
<b>B2C:</b>	e-Business between a business and consumers.
<b>customer relationship management (CRM):</b>	The ability to manage sales and marketing processes over the Internet.
<b>e-Business:</b>	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).
<b>e-Business security:</b>	Providing secure networks, procedures and technologies to ensure the integrity of information.
<b>e-Business solutions:</b>	e-Business services and IT infrastructure and integration solutions.
<b>e-Commerce:</b>	Commerce (the purchase and sale of products and services) transacted over the Internet via secure transaction processing.
<b>end-to-end:</b>	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.
<b>enterprise-class:</b>	An IT or e-Business solution that is designed to support highly available and reliable applications, sometimes referred to as mission-critical applications.
<b>enterprise storage management:</b>	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.
<b>Extranet:</b>	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.
<b>groupware:</b>	Software solutions which combine disparate desktop communications products such as e-mail, messaging, calendaring and group scheduling into a single collaborative suite.
<b>HTML:</b>	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.
<b>Hypertext:</b>	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.
<b>internal and external communication:</b>	Facilitating secure communication through the Internet, Intranets and Extranets.
<b>Internet:</b>	An open global network of interconnected commercial, educational and governmental computer networks that utilize a common communications protocol, TCP/IP.

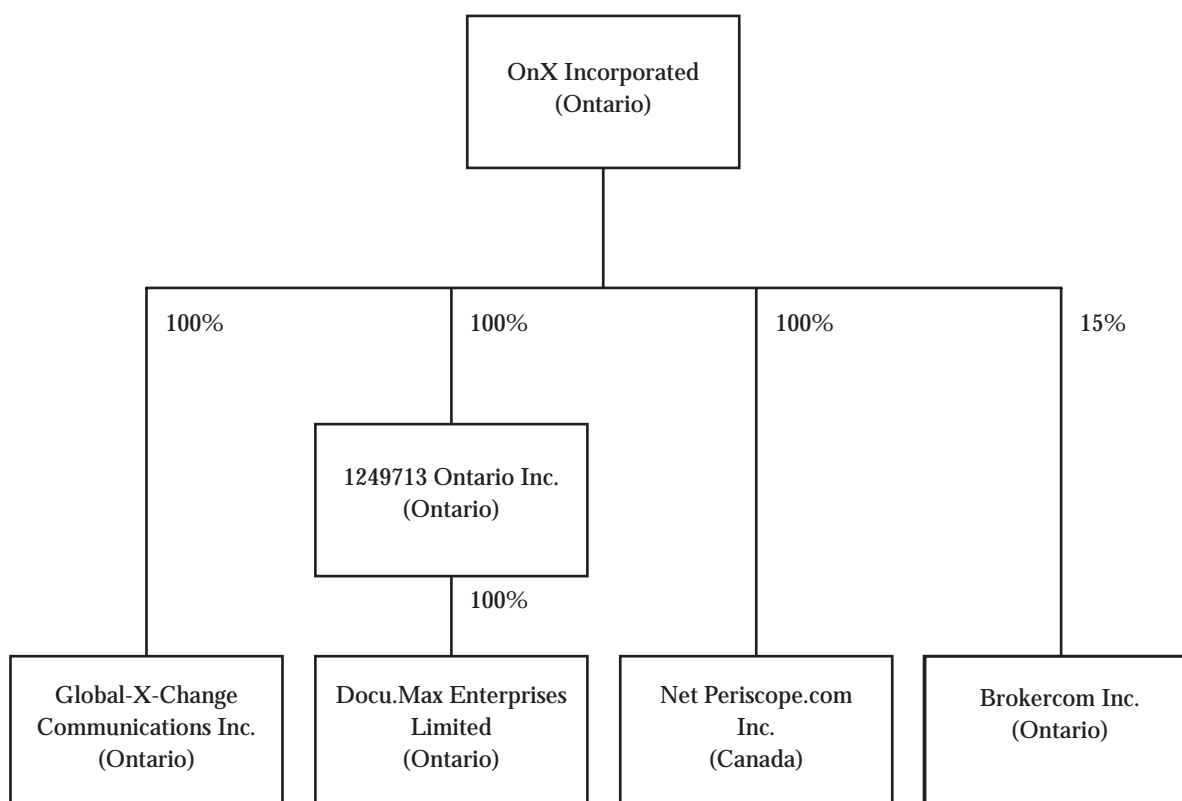
<b>Intranet:</b>	An organization's private network of its local area networks which utilizes Internet data formats and communications protocols, and which may use the Internet's facilities as the backbone for network communications.
<b>IT:</b>	Information technology.
<b>IT infrastructure:</b>	Hardware and software required to support both traditional IT applications and Internet-based applications.
<b>knowledge management:</b>	Storing, retrieving and managing documents, records and intellectual property.
<b>legacy IT products:</b>	IT products that were previously installed at a client location.
<b>Lotus Domino:</b>	Lotus Corporation's integral messaging and Web application software platform.
<b>Lotus Notes:</b>	Lotus Corporation's e-mail, calendaring, group scheduling, Web access and information management software application.
<b>Microsoft Exchange:</b>	A Microsoft Corporation server application which is a messaging platform that provides e-mail, scheduling, online forms, and the tools for custom collaboration and messaging-service applications.
<b>network:</b>	A collection of distributed computers which share data and information through inter-connected lines of communication.
<b>portal:</b>	A Web site where Internet users typically start browsing.
<b>Rational Unified Process:</b>	Rational Software Corporation's Web-enabled software engineering process which is designed to enhance team productivity and deliver software best practices to all team members.
<b>repeatable solutions:</b>	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.
<b>scaleable:</b>	In the context of IT systems, the ability to add the capacity to handle more data on an incremental basis as required.
<b>server:</b>	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.
<b>supply chain management:</b>	Streamlining processes between a company, its suppliers and its supplier's providers to realize efficiencies and improve profitability.
<b>systems integrator:</b>	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.
<b>Transmission Control Protocol/Internet Protocol (TCP/IP):</b>	A compilation of network-level and transport level protocols that allows communication between computers with different architectures and operating system software on the Internet.
<b>value-added reseller:</b>	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.
<b>Web boutiques:</b>	Internet application developers that typically do not offer a full offering of e-Business services, tending to focus on Web site design and development.
<b>Web site:</b>	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.
<b>World Wide Web (the "Web"):</b>	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.
<b>24 × 7:</b>	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. On April 5, 2000, the Company filed 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.

On April 4, 2000 OnX entered into an agreement to acquire Momentum Business Systems ("Momentum"), a Montreal-based provider of e-Business and groupware business solutions, e-Business and groupware corporate training and travel expense management software to companies and public sector organizations situated principally in eastern Canada. Momentum operates an e-Business professional services division and an e-Business software division from offices in Montreal, Quebec City and Toronto and has 128 employees. The

purchase price for Momentum is up to \$30,000,000 which is comprised of a base purchase price of \$20,936,000 and a contingent purchase price of up to \$9,064,000 based on the achievement of certain revenue targets by Momentum. Of the base purchase price, \$13,085,000 is payable in cash and \$7,851,000 is payable by the issuance of 830,794 Common Shares (based on an issue price equal to 90% of the offering price of the Offered Shares). Of the contingent purchase price, up to \$5,665,000 is payable in cash and up to \$3,399,000 is payable by the issuance of 359,682 Common Shares (based on an issue price equal to 90% of the offering price of the Offered Shares). The net proceeds of the Offering will be used to pay the cash portion at the base purchase price. See “Acquisition of Momentum Business Systems — Acquisition Agreement” and “Use of Proceeds”. See “Acquisition of Momentum Business Systems”.

## e-Business Solutions Industry

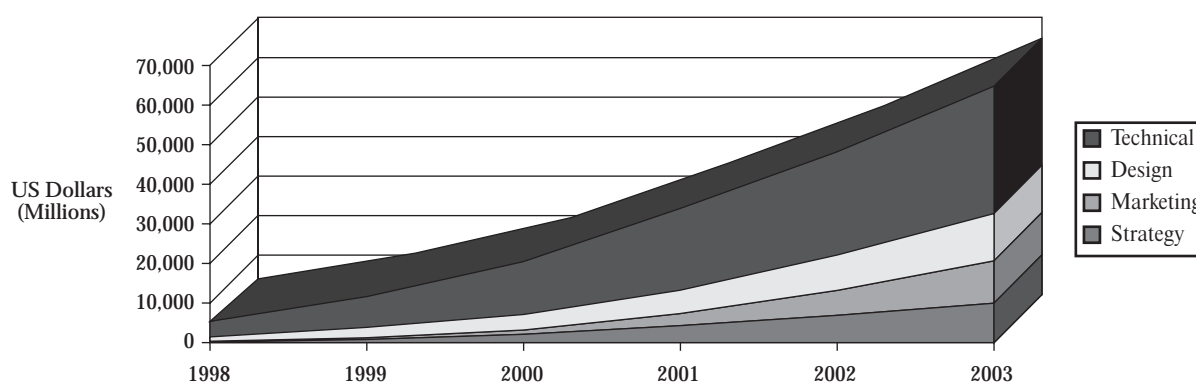
### General

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 <sup>(1)</sup>
	(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, Global-X-Change in 1999 and has entered into a definitive agreement to acquire Momentum Business Systems. See "Business of the Company — General" and "Acquisition of Momentum Business Systems".

#### *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 15 percent interest in Brokercom and less than one percent of Book4golf.com. Net Periscope is currently in discussions relating to the sale of treasury securities of Net Periscope.

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 scaleable 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-useable 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>
<b>e-Business Services</b>	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
<b>IT Infrastructure and Integration</b>	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 Group Inc.	Bell Nexxia
Cosette Communication Group Inc.	Sierra Systems 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, \$1,400,000 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.

## **ACQUISITION OF MOMENTUM BUSINESS SYSTEMS**

### **Acquisition Agreement**

Pursuant to an agreement (the "Momentum Acquisition Agreement") dated April 4, 2000 between OnX and Lorne Schwartz, Domenic Durante, Durante Holdings Inc., Lorne Schwartz Investments Ltd., Domenic Durante Family Trust, Lorne Schwartz Family Trust, James David and Claude Remillard, OnX has agreed to acquire, directly and indirectly, all of the outstanding shares of 2960451 Canada Inc. ("Momentum"), which carries on business under the name Momentum Business Systems, for a purchase price of up to \$30,000,000 (the "Acquisition"). The purchase price is comprised of a base purchase price of \$20,936,000 and a contingent purchase price of up to \$9,064,000 based on the achievement of certain revenue targets or other milestones by Momentum. A portion of the contingent purchase price will be earned if Momentum's revenues in its second quarter ending March 31, 2000 exceed \$2,306,000, with the maximum purchase price being earned if Momentum's revenues for the second quarter are not less than \$3,304,000. Of the base purchase price, \$13,085,000 is payable in cash and \$7,851,000 is payable by the issuance of 830,794 Common Shares (based on an issue price equal to 90% of the offering price of the Offered Shares). Of the contingent purchase price, \$5,665,000 is payable in cash and \$3,399,000 is payable by the issuance of 359,682 Common Shares (based on an issue price equal to 90% of the offering price of the Offered Shares). The net proceeds of the Offering will be

used to pay the cash portion of the base purchase price. See “Use of Proceeds”. The completion of the Acquisition is conditional upon the completion of the Offering and other customary closing conditions.

## **Business of Momentum**

### *Overview*

Momentum is a provider of e-Business and groupware business solutions, e-Business and groupware corporate training and travel expense management software to companies and public sector organizations situated principally in eastern Canada. Momentum operates an e-Business professional services division and an e-Business software division from offices in Montreal, Quebec City and Toronto and has 128 employees.

Momentum’s e-Business professional services division provides clients with custom developed e-Business solutions. Services offered include: (i) e-Business strategy consulting; (ii) software application design, development and deployment, (iii) e-Business infrastructure planning, design and implementation; (iv) repeatable solutions; (v) third party solutions deployment; and (vi) e-Business and groupware training.

Within its e-Business professional services division, Momentum offers a full suite of training solutions. The service mix includes certified instructor-led courses in Internet technologies using curricula of Lotus Domino, Lotus Notes, Microsoft and HyCurve products. In order to provide a complete service offering to its clients, Momentum’s training unit also delivers end-user courses, one-on-one sessions, train the trainer courses and customized training sessions tailored to the client’s needs.

Momentum’s e-Business software division was formed in 1997 with a specific mandate to develop a travel expense management solution for companies seeking to control and manage travel-related expenses. The division’s flagship product, Boomerang, is a Lotus Domino-enabled expense reporting solution that helps companies manage and process expense reports.

### *History*

Momentum was founded in 1993 by Lorne Schwartz and Domenic Durante to provide groupware and accounting software consulting services. Between 1993 and 1996, Momentum focused on assisting clients in selecting and deploying accounting software, and developing and deploying groupware applications and e-mail. At the end of 1996, Momentum re-focused its entire effort towards groupware services in order to exploit the increasing demand for such services.

Since 1996, Momentum’s business has included e-Business and groupware solutions development and deployment, e-Business and groupware training services, and developing customized distance education solutions using the Internet as a delivery platform. In 1997, Momentum established a software division with a mandate to develop and market business applications based on groupware and Internet technologies.

In July 1999, Momentum acquired Toronto-based Acceleron Solutions Inc. (“Acceleron”), a company that focused on delivering groupware and e-Business services. The acquisition of Acceleron provided Momentum with additional skilled employees and helped to establish Momentum’s presence in Ontario.

### *Management*

The senior officers of Momentum are Lorne Schwartz, President of Momentum, and Domenic Durante, Vice-President, Professional Services and Secretary-Treasurer of Momentum. Each of Messrs. Schwartz and Durante have held such positions since Momentum’s inception and co-founded the business of Momentum in 1993. The completion of the Acquisition is conditional upon each of Messrs. Schwartz and Durante entering into employment agreements with OnX pursuant to which they will undertake not to compete with OnX and not to disclose any confidential or proprietary information during the term of their employment and for a period of 24 months thereafter.

### *Employees*

Momentum currently has a total of 128 employees, including 33 employees in administration and sales, 64 in professional services, 12 in software development and 19 in supervisory or management positions. None of the employees are subject to a collective bargaining agreement or are represented by a union. Momentum 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 <sup>(1)(2)</sup> . . . . . Toronto, Ontario	Co-Chairman, Chief Executive Officer and Director	Same
Phillip A. DeLeon <sup>(1)(2)(3)</sup> . . . . . Toronto, Ontario	Co-Chairman and Director	President of Book4golf.com
Todd Finch <sup>(4)</sup> . . . . . Mississauga, Ontario	Director	President of Sun-Netscape Alliance Canada
Burton G. Napier <sup>(4)</sup> . . . . . Oakville, Ontario	Director	President and Chief Executive Officer of Napier & Assoc. Consulting Inc.
Colin D. Watson . . . . . Toronto, Ontario	Director	Vice-Chairman and Chief Executive Officer of Spar Aerospace Limited
Gary Steinhart <sup>(4)</sup> . . . . . Toronto, Ontario	Director	Partner, Cassels Brock & Blackwell LLP
David Andrews . . . . . 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 . . . . . Richmond Hill, Ontario	Vice President, Finance	Same
Ronald Guest . . . . . Oakville, Ontario	Vice President, Human Resources	Same
Paul M. Stein . . . . . Toronto, Ontario	Secretary	Partner, Cassels Brock & Blackwell LLP

- (1) Member of the Audit Committee. The Audit Committee will be re-constituted prior to the completion of the Initial Public Offering upon the appointment of Messrs. Finch, Napier and Watson to the board of directors.
- (2) Member of the Compensation Committee. The Compensation Committee will be re-constituted prior to the completion of the Initial Public Offering upon the appointment of Messrs. Finch, Napier and Watson 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, Napier and Watson will be appointed to the board of directors of the Company prior to the completion of the Initial Public Offering. The Company also intends to appoint additional directors to the board of directors either prior to or following the completion of the Initial Public Offering. Upon the appointment of any such additional director, Mr. Steinhart will resign as a director of the Company.

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, 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' was appointed Chief Financial Officer 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.** 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.

**Paul M. Stein, Secretary.** Mr. Stein is a partner of Cassels Brock & Blackwell LLP.

#### **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 Initial Public 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.

**Colin D. Watson, Director.** Mr. Watson is the Vice-Chairman and Chief Executive Officer of Spar Aerospace Limited. From 1996 to 1999, Mr. Watson was President and Chief Executive Officer of Spar Aerospace. From 1976 to 1996, Mr. Watson held various positions with Rogers Cablesystems Limited and Rogers Communications Inc. including President and Chief Executive Officer of Rogers Cablesystems from 1986 to 1996. Mr. Watson currently serves on the board of directors of Call-Net Enterprises Inc., Cancom Inc., Cygnal Technologies Corp., Kasten Chase Applied Research Limited, Nelvana Limited and Permorex Inc. Mr. Watson also serves on the Business Council in National Issues.

The Company also intends to appoint additional directors to the board of directors either prior to or following the completion of the Initial Public Offering. Upon the appointment of any 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 <sup>(1)</sup> (\$)	Securities Under Options and SARs Granted	
Sheldon M. Pollack <sup>(2)</sup> Co-Chairman and Chief Executive Officer	1999	450,000	—	—	—	—
	1998	447,461	20,000	—	—	—
	1997	332,800	80,000	—	—	—
Phillip A. DeLeon <sup>(3)</sup> 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 Initial Public 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

The Company has 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 is paid by the Company. All directors and officers of the Company are insured under the policy.

## 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 March 31, 2000 the aggregate indebtedness of all officers, directors, employees and former officers, directors and employees of the Company was \$146,887. 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 March 31, 2000</u>	<u>Security for Indebtedness</u>
Sheldon M. Pollack <sup>(1)</sup> . . . . . Chief Executive Officer and Co-Chairman	Lender	\$523,146	\$62,188	None
Phillip A. DeLeon <sup>(2)</sup> . . . . . Co-Chairman	Lender	\$502,526	\$84,699	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 Initial Public 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 4,230,000 Common Shares (approximately 15% of the number of Common Shares outstanding upon completion of the Offering and the Acquisition 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 1,918,000 Common Shares pursuant to the Share Option Plan at an exercise price of \$10.50 upon the completion of the Initial Public Offering. The details of the options outstanding upon completion of the Initial Public Offering are set forth in the following table:

Class of Optionee	Number of Common Shares Under Option	Date of Grant	Exercise Price	Expiry Date
13 Executive Officers as a group . . . . .	540,375 426,875	December 10, 1999 April 17, 2000	\$ 6.06 \$10.50	December 10, 2004 April 17, 2005
3 Directors who are not also Executive Officers as a group	90,000	April 17, 2000	\$10.50	April 17, 2005
Employees as a group . . . . .	284,625 1,401,125	December 10, 1999 April 17, 2000	\$ 6.06 \$10.50	December 10, 2004 April 17, 2005

### 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 Initial Public 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 60<sup>th</sup> 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 April 3, 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 60<sup>th</sup> 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 exercise of the Special Warrants, the Initial Public Offering and the Acquisition.

Name and Address	Prior to the Exercise of the Special Warrants		After the Exercise of the Special Warrants <sup>(1)</sup>	
	Number of Common Shares	Percentage of Class	Number of Common Shares	Percentage of Class
Sheldon M. Pollack <sup>(2)</sup> . . . . . Toronto, Ontario	9,355,501	46.8%	8,965,688	32.3%
Phillip A. DeLeon <sup>(3)</sup> . . . . . Toronto, Ontario	9,355,500	46.8%	8,965,688	32.3%

- (1) Assumes the issuance of 3,099,525 Common Shares upon the exercise of 1,878,500 Treasury Special Warrants, the delivery of 779,625 Common Shares upon the exercise of the Secondary Special Warrants, the issuance of 3,810,000 Common Shares pursuant to the Initial Public Offering and the issuance of 830,794 Common Shares pursuant to the Acquisition. See "Private Placement" and "Acquisition of Momentum Business Systems".
- (2) 100% of Mr. Pollack's holdings are held beneficially through 1328133 Ontario Inc., 1388617 Ontario Inc., and The Pollack Family Trust each of which is controlled by him.
- (3) 100% of Mr. DeLeon's holdings are held beneficially through 1328132 Ontario Inc., 1388616 Ontario Inc., and The DeLeon Family Trust each of which is controlled by him.

As at April 14, 2000, the directors and executive officers of the Company, as a group, beneficially owned, directly or indirectly, 18,711,001 Common Shares, representing 93.6% of the total number of Common Shares outstanding before giving effect to the exercise of the Special Warrants, the Initial Public Offering and the Acquisition (17,931,376 Common Shares representing 64.6% of the total number of Common Shares outstanding after giving effect to the exercise of the Special Warrants, the Initial Public Offering and the Acquisition).

## USE OF PROCEEDS

The net proceeds to the Company from the Offering were approximately \$17.0 million, after deduction of the Underwriters' fee of approximately \$1.2 million and the estimated expenses of the Offering of approximately \$602,000. The Company has used or intends to use the net proceeds of this Offering as follows: (i) approximately \$7.9 million to pay dividends to shareholders of the Company; (ii) approximately \$8.2 million to repay the Company's line of credit; and (iii) the balance of approximately \$0.9 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.

## CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company as at the dates indicated and after giving effect to the Initial Public Offering, the Acquisition 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 (unaudited)	As at March 31, 2000 (unaudited)	As at March 31, 2000 after giving effect to the Exercise of the Special Warrants, the Initial Public Offering and the Acquisition <sup>(1)</sup> (unaudited)
Bank indebtedness <sup>(2)</sup> . . . . .	\$17,000,000	\$ 1,475,927	\$ 8,462,186	\$ 8,462,186
Term loans <sup>(2)</sup> . . . . .	—	\$ 776,921	\$ 499,988	\$ 499,988
Convertible debentures <sup>(3)</sup> . . . . .	—	\$ 754,000	\$ 754,000	\$ 754,000
Shareholders' equity				
Common Shares <sup>(4)</sup> . . . . .	Unlimited	\$ 3,941,033 (20,000,475 shares)	\$ 3,941,033 (20,000,475 shares)	\$67,548,844 (27,740,794 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 <sup>(5)</sup> . . . . .	—	\$ 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, the issuance of 3,810,000 Common Shares pursuant to the Initial Public Offering and the issuance of 830,794 Common Shares pursuant to the Acquisition. See "Initial Public Offering" and "Acquisition of Momentum Business Systems".

(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) 571,500 Common Shares upon exercise of the IPO Over-Allotment Option. See "Initial Public Offering";

(b) 381,000 Common Shares upon the exercise of the IPO Compensation Options. See "Initial Public Offering";

(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 "Plan of Distribution";

(d) 412,500 Common Shares upon exercise of 250,000 Underwriter's Warrants. See "Plan of Distribution";

(e) 206,250 Common Shares upon the exercise of Purchase Warrants issuable upon the exercise of 250,000 Underwriter's Warrants. See "Plan of Distribution";

(f) 100,529 Common Shares upon the exercise of outstanding convertible debentures; and

(g) 2,743,000 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 (unaudited)	1998 (unaudited)	1999	1998	1997
	(in thousands of dollars, except per share data)				
<b>Sales:</b>					
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
<b>Gross Margin:</b>					
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>
<b>Expenses:</b>					
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>
<b>Earnings per share<sup>(1)</sup>:</b>					
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)		
<b>Assets:</b>			
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	—	—
<b>Total assets . . . . .</b>	<u>44,941</u>	<u>50,002</u>	<u>44,115</u>
<b>Liabilities and shareholders equity:</b>			
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>
<b>Total liabilities and shareholders' equity . . . . .</b>	<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 66 in April 1998 to 108 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 approximately \$18.8 million. See "Plan of Distribution". 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**

The authorized share capital of the Company consists 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 Initial Public Offering and the Acquisition, 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 "Plan of Distribution".

#### **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 Acquisition, the Subdivision and the exercise of 1,878,500 Treasury Special Warrants, the effective price paid for each Common Share issuable or deliverable upon exercise of a Special Warrant exceeds, as at December 31, 1999, the consolidated net tangible book value thereof by \$9.17, representing a dilution factor of 92%. The following table presents the dilution per Common Share:

Offering price	\$10.00
Consolidated net tangible book value as at December 31, 1999 before the Offering	\$0.07
Increase in net tangible book value attributable to the Offering <sup>(1)</sup>	\$0.76
Consolidated net tangible book value after the Offering	\$ 0.83
Dilution to purchasers	\$ 9.17
Percentage of dilution in relation to the Offering price	92%

(1) After deducting the expenses of the Offering estimated at approximately \$602,000 and fees of approximately \$1,221,025 paid to the Underwriter by the Company.

## PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated December 10, 1999 (the "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 "Selling Shareholders") and Yorkton Securities Inc. (the "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 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 \$10.50 per 1.65 Common 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 Initial Public 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 Selling Shareholders. The Common Shares, if any, issuable upon the exercise of Secondary Bonus Warrants issued by the Selling Shareholders shall be delivered by the Selling Shareholders. If the 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 Selling Shareholders. An aggregate commission of \$1,625,000 was paid to the Underwriter in connection with such private placement, of which \$1,317,875 was paid by the Company and \$307,125 was paid by the Selling Shareholders. No additional fee has been or will be paid to the Underwriter in connection with the issuance or delivery of the Units upon exercise of the Special Warrants.

As additional consideration for the Underwriter's services under the Underwriting Agreement, the Company issued to the Underwriter non-assignable special compensation warrants exercisable, without payment of additional consideration, into warrants (the "Underwriter's Warrants") entitling the 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.

Pursuant to the Underwriting Agreement, the Company has agreed, among other things, to prepare and file a preliminary prospectus, to use its reasonable best efforts to resolve any regulatory matters and satisfy any regulatory deficiencies in respect of the preliminary prospectus and, as soon as reasonably practicable after such comments or deficiencies have been resolved or satisfied, to use its commercially reasonable efforts to obtain a receipt for a (final) prospectus qualifying the Common Shares and Purchase Warrants issuable or deliverable upon the exercise of the Special Warrants under the laws of the Provinces of Ontario, Quebec, Alberta and British Columbia.

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 Selling Shareholders and Montreal Trust. The Special Warrant Indenture provides that, should a receipt for a (final) prospectus qualifying the distribution of the Units issuable or deliverable upon exercise of the Special Warrants 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 Selling Shareholders and Montreal Trust.

The Company has agreed in favour of the Underwriter that, during the period ending 120 days after the date (the "Qualification Date") on which a receipt is issued for a (final) prospectus qualifying the distribution of the Units issuable or deliverable upon exercise of the Special Warrants, 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 Underwriter, 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., 1388617 Ontario Inc. and Larry Schecter have agreed in favour of the Underwriter that, during the period ending 120 days after the Qualification 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 Underwriter.

The Special Warrants were issued pursuant to exemptions from the prospectus requirements of the *Securities Act* (Ontario), the *Securities Act* (Quebec), the *Securities Act* (Alberta) and the *Securities Act* (British Columbia).

### INITIAL PUBLIC OFFERING

Under an agreement dated April 6, 2000 (the "IPO Underwriting Agreement") between the Company and Yorkton Securities Inc., CIBC World Markets Inc., HSBC Securities (Canada) Inc. and National Bank Financial Inc. (collectively, the "IPO Underwriters"), the Company has agreed to issue and sell the 3,810,000 Common Shares (the "IPO Shares") and the IPO Underwriters have severally agreed to purchase, subject to the conditions set out in the IPO Underwriting Agreement, on April 17, 2000, or such other date not later than May 18, 2000 as may be agreed upon, all but not less than all of the IPO Shares at the price of \$10.50 per IPO Share payable in cash against delivery of the certificates representing the IPO Shares. The offering price of the IPO Shares was determined by negotiation between the Company and the IPO Underwriters. The IPO Underwriting Agreement provides for the payment to the Underwriters, for their services in connection with the Initial Public Offering, of a fee in the amount of \$0.6825 per IPO Share sold.

In addition, the Company has granted to the IPO Underwriters an option (the "IPO Over-Allotment Option") to purchase up to 571,500 additional Common Shares at the price of \$10.50 per Common Share payable in cash against delivery of such additional Common Shares. The IPO Over-Allotment Option is exercisable from time to time in whole or in part for a period of 60 days from the closing date of the IPO for the purpose of covering over-allotments, if any, and for market stabilization purposes. The IPO Underwriting Agreement provides for the payment by the Company to the IPO Underwriters of a fee in the amount of \$0.6825 per Common Share sold pursuant to the IPO Over-Allotment Option for their services in that regard.

Pursuant to the terms of the IPO Underwriting Agreement, the Company will issue to the IPO Underwriters compensation options (the "IPO Compensation Options") to purchase 381,000 Common Shares at a price of \$10.50 at any time prior to the date which is two years from the closing date of the IPO.

## 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:

Date of Issuance	Type of Security	Number of Securities	Price Per Security
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	19,754,625	— (3)
December 10, 1999 . . . . .	Purchase Warrants <sup>(4)</sup>	236,250	\$ 0.10
December 10, 1999 . . . . .	Special Warrants <sup>(5)</sup>	1,878,500	\$10.00
December 10, 1999 . . . . .	Placement Units <sup>(5)</sup>	149,000	\$10.00
December 10, 1999 . . . . .	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%. The holders of the convertible debentures have agreed to convert the convertible debentures into an aggregate of 100,529 Common Shares upon completion of the Initial Public Offering.
- (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 Selling Shareholders. See "Plan of Distribution".
- (5) See "Plan of Distribution".

## 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. As of April 4, 2000, Sheldon M. Pollack and Phillip A. DeLeon own, directly and indirectly, approximately 22 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 exercise of the Special Warrants, the Initial Public Offering and the Acquisition, 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 64.6 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 Initial Public 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 Initial Public Offering or that the market price of the Common Shares will not decline below the offering price of the Special Warrants. There is currently no market for the Special Warrants or the Purchase Warrants underlying the Special Warrants and none is expected to develop. The offering price of the Special Warrants was determined by negotiation between the Underwriter 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 effective price of each Common Shares issuable or deliverable upon exercise of the Special Warrants 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 effective price of the Common Shares issuable or deliverable upon exercise of the Special Warrants. 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 Underwriter, 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 in connection with the Offering, other than in the ordinary course of business, are as follows:

- (a) the Momentum Acquisition Agreement referred to under the heading “Acquisition of Momentum Business Systems”;
- (b) the Underwriting Agreement referred to under the heading “Plan of Distribution”;
- (c) the Special Warrant Indenture referred to under the heading “Plan of Distribution”;
- (d) the Purchase Warrant Indenture referred to under the heading “Plan of Distribution”;
- (e) the Bonus Warrant Indenture referred to under the heading “Plan of Distribution”;
- (f) the subscription agreements entered into among the Company, the Selling Shareholders and the purchasers of Special Warrants and Placement Units;
- (g) the IPO Underwriting Agreement referred to under the heading “Initial Public Offering”; and
- (h) the Rights Plan Agreement referred to under the heading “Shareholder Rights Plan”.

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 securities offered by this prospectus and for a period of 30 days thereafter.

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Cassels Brock & Blackwell LLP, counsel to the Company, and Blake, Cassels & Graydon LLP, counsel to the Underwriter, the following summary fairly describes the principal Canadian federal income tax considerations generally applicable to original holders of Special Warrants who acquire Common Shares and Purchase Warrants pursuant to this prospectus. This summary applies to holders who, for the purposes of the Income Tax Act (Canada) (the “Tax Act”): (i) are resident in Canada; (ii) deal at arm’s length and are not affiliated with the Company; (iii) are not “financial institutions” for purposes of the mark-to-market rules or “specified financial institutions” as defined in the Tax Act; and (iv) hold their Special Warrants, Common Shares and Purchase Warrants as capital property. Such securities will generally be “capital property” to a holder unless they are held in the course of carrying on a business of trading or dealing in securities or have been acquired in a transaction or transactions considered to be an adventure in the nature of trade. Certain holders who might not otherwise be considered to hold Common Shares as capital property may in certain circumstances be entitled to have such shares and all other “Canadian securities” (as defined in the Tax Act) owned in the relevant year and any subsequent year treated as capital property by making the election permitted by subsection 39(u) of the Tax Act. This summary assumes that the Common Shares will, as of their issuance, be listed on The Toronto Stock Exchange.

This summary is based on the current provisions of the Tax Act and the regulations thereunder (the “Regulations”), all specific proposals (the “Proposed Amendments”) to amend the Tax Act or the Regulations publicly announced by the Ministry of Finance prior to the date hereof, and the published administrative practice of the Canada Customs and Revenue Agency (“Revenue Canada”). No assurance can be given that the Proposed Amendments will be enacted in the currently proposed form or at all. Except for the foregoing, this summary does not take into account or anticipate any other changes in law, whether by legislative, governmental or judicial decision or action or changes in administrative policies or assessing practices of Revenue Canada, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations.

This summary is of a general nature only, is not exhaustive of all Canadian federal income tax considerations and is not intended to be, nor should it be construed to be, legal or tax advice to any particular investor. Therefore, investors should consult their own tax advisers with respect to their particular circumstances.

### *Exercise of Special Warrants*

Holders of Special Warrants will realize no gain or loss on the exercise thereof. The cost to a holder of a Special Warrant must be allocated on a reasonable basis between the 1.65 Common Shares and the one-half of one Purchase Warrant issued or delivered on exercise of a Special Warrant to determine the cost of each for purposes of the Tax Act. For their purposes, the Company and the Selling Shareholders intend to allocate \$9.95 of issue price of each Special Warrant as consideration for the issue of 1.65 Common Shares and \$0.05 of the issue price of each Special Warrant for the issue of each one-half of one Purchase Warrant. Although the Company believes that its allocation is reasonable, such allocation is not binding on Revenue Canada.

### *Exercise or Expiry of Purchase Warrants*

No gain or loss will be realized by a holder upon the exercise of a Purchase Warrant to acquire a Common Share. When a Purchase Warrant is exercised, the holder’s cost of the Common Share acquired thereby will be the aggregate of the holder’s adjusted cost base of such Purchase Warrant and the exercise price paid for the Common Share. The holder’s adjusted cost base of the Common Share so acquired will be determined by averaging such cost with the adjusted cost base to the holder of all identical shares owned by the holder immediately prior to such acquisition. In the event of the expiry of an unexercised Purchase Warrant, the holder will realize a capital loss equal to the holder’s adjusted cost base of such Purchase Warrant.

### *Dividends*

Dividends received (or deemed to be received) on the Common Shares will be included in computing the holder’s income. In the case of an individual holder such dividends will generally be subject to the gross-up and

dividend tax credit rules normally applicable in respect of taxable dividends paid by taxable Canadian corporations.

A dividend received (or deemed to be received) by a corporate shareholder will generally be deductible in computing a corporation's taxable income. Private corporations, as defined in the Tax Act, and certain other corporations controlled by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) will generally be subject to a refundable tax pursuant to Part IV of the Tax Act at a rate of 33 $\frac{1}{3}$ % on the dividend, to the extent such dividend is deductible in computing taxable income.

#### *Capital Gains and Capital Losses*

Upon a disposition (or a deemed disposition) of a Common Share or Purchase Warrant (other than on the exercise thereof), a holder generally will realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of such security, as applicable, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such security, as applicable, to the holder. Under the Proposed Amendments, two-thirds of any capital gain will be included in income as a taxable capital gain and two-thirds of a capital loss may normally be deducted against taxable capital gains realized in the year of disposition, the three preceding taxation years or any subsequent taxation year, subject to the provisions of the Tax Act and the Proposed Amendments in that regard.

The amount of any capital loss realized on the disposition of Common Shares by a holder that is a corporation may be reduced by the amount of dividends received or deemed to have been received by it on such shares or shares substituted for such shares to the extent and in the circumstance prescribed by the Tax Act. Similar rules may apply where a holder that is a corporation is a member of a partnership or beneficiary of a trust that owns such shares or that is itself a partnership or a trust which is a member of a partnership or a beneficiary of a trust that owns such shares. Shareholders to whom this may apply should consult their own advisors.

A holder that is throughout the relevant taxation year a "Canadian-controlled private corporation" (as defined in the Tax Act) also may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on its "aggregate investment income" for the year which will include an amount in respect of taxable capital gains.

#### *Qualified Investments and Foreign Property*

If, as and when listed on a prescribed stock exchange (which includes The Toronto Stock Exchange): (1) the Common Shares and Purchase Warrants will be a qualified investments under the Tax Act for trusts governed by registered retirement savings plans, deferred profit sharing plans and registered retirement income funds and will not be foreign property to such plans under the Tax Act; and (2) the Common Shares, and under the Proposed Amendments the Purchase Warrants, will be qualified investments for trusts governed by registered education savings 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 is Montreal Trust at its principal offices in Toronto, Ontario.

#### **CONTRACTUAL RIGHT OF ACTION FOR RESCISSION**

In the event that a holder of a Special Warrant who acquires Common Shares and Purchase Warrants of the Company upon the exercise of a Special Warrant, as provided for in this prospectus, is or becomes entitled under applicable securities legislation to the remedy of rescission by reason of this prospectus or any amendment thereto containing a misrepresentation, such holder shall be entitled to rescission not only of the holder's exercise of its Special Warrants, but also of the private placement transaction pursuant to which the Special Warrants were initially acquired, and shall be entitled in connection with such rescission to a full refund of all consideration paid to the Company or the Selling Shareholders on the acquisition of the Special Warrants. In the event such holder is a permitted assignee of the interest of the original Special Warrant subscriber, such permitted assignee shall be entitled to exercise the rights of rescission and refund granted hereunder as if such permitted assignee was the original subscriber. The foregoing are in addition to any other right or remedy available to a holder of Special Warrants under section 130 of the *Securities Act* (Ontario) or, the corresponding provisions of other securities legislation or otherwise at law and are subject to the defences, limitations and other provisions of such legislation.

## **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
<b>ASSETS</b>			
<b>Current assets:</b>			
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
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
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
<b>Shareholders' equity:</b>			
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.*

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**(FORMERLY ONYX COMPUTERS INCORPORATED)**  
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**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.

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**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.

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**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. Subsequent to December 31, 1999, Debenture holders have elected to convert to common shares (note 16(f)).

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.

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**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**

	<b>December 31,</b>	<b>April 30,</b>	
	<b>1999</b>	<b>1999</b>	<b>1998</b>
	(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.

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**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.

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**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 granted or agreed to grant 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 . . . . .	426,875	April 17, 2000	10.50	April 17, 2005
Directors . . . . .	90,000	April 17, 2000	10.50	April 17, 2005
Employees . . . . .	284,625	December 10, 1999	\$ 6.06	December 10, 2004
Employees . . . . .	1,401,125	April 17, 2000	10.50	April 17, 2005
	<u>2,743,000</u>			

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 4,230,000 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 which is \$10.50 per share.

In the event that the IPO is completed the Bonus Warrants will terminate.

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 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

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**9. RELATED PARTY TRANSACTIONS (Continued)**

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 — \$132,000).

**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)	—
	<u>\$998,071</u>	<u>\$2,495,765</u>	<u>\$4,362,381</u>	<u>\$3,601,010</u>	<u>\$2,161,814</u>

**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
	<u>\$7,857,403</u>

**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,

**ONX INCORPORATED**  
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**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)**

**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
	\$ 2,831,198	\$(9,278,724)	\$(5,963,819)	\$ (2,225,419)	\$ 521,423

(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
	\$ 2,988,691	\$ 2,172,567	\$6,965,945	\$2,101,297	\$2,225,757

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**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)**

**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
<u>Eight months ended December 31, 1998</u>	<u>IT Infrastructure</u>	<u>e-Business Services</u>	<u>Wholesale</u>	<u>Total</u>
		(Unaudited)		
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
<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
<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
<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.

**ONX INCORPORATED**  
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**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)**

**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 April 6, 2000, the Company entered into an underwriting agreement to complete a public offering of 3,810,000 common shares for gross proceeds of \$40,005,000 (net after selling and professional fees and related income tax benefits, \$38,004,675). The Company has granted the Underwriters an option for 60 days after closing of the offering to purchase up to 571,500 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 381,000 shares exercisable at the offering price for up to 24 months after the date of closing of the offering.

(c) Shareholder rights plan:

Effective April 3, 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 April 5, 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.

(e) Acquisition:

On April 4, 2000, the Company entered into an agreement to acquire all of the issued and outstanding shares of 2960451 Canada Inc., doing business as Momentum Business Systems, a provider of computer consulting services, software and training. Consideration to be paid in connection with this acquisition will be approximately \$21.0 million in cash and shares. The number of common shares issued will be determined at 90% of the initial public offering price (note 16(b)).

The acquisition will be accounted for by the purchase method with the results of operations of the acquired entity included in the financial statements of the Company from the date of acquisition.

**ONX INCORPORATED**  
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**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)**

**16. SUBSEQUENT EVENTS (Continued)**

Had the transaction occurred at September 30, 1999, the purchase price allocation would have been approximately as follows:

Assets acquired:	
Current assets . . . . .	\$ 3,586,968
Capital assets . . . . .	691,434
Goodwill . . . . .	20,006,968
Indebtedness assumed:	
Bank indebtedness . . . . .	(512,511)
Accounts payable and accrued liabilities . . . . .	(711,997)
Long term debt and obligations . . . . .	(2,024,862)
	<u>\$21,036,000</u>
Consideration given:	
Cash . . . . .	\$13,085,000
Common shares . . . . .	7,851,000
Acquisition costs . . . . .	100,000
	<u>\$21,036,000</u>

The terms of the purchase agreement provide for contingent consideration of up to \$9,064,000 payable as to 5/8ths in cash and 3/8ths in common shares of the Company if certain sales levels are achieved in the three month period ended March 31, 2000, as defined in the agreement. The amount of this contingent consideration is not readily determinable at this time. Such amounts as may become payable will be recorded as goodwill.

The final purchase price allocation will be substantially different than the above amounts depending on subsequent results and adjustments. Completion of this transaction is subject to closing conditions, finalizing of the agreement with certain minority shareholders of 2960451 Canada Inc. and regulatory approval.

(f) Convertible Debentures:

The holders of outstanding Debentures of the Company have agreed to convert such Debentures into an aggregate of 100,529 common shares upon completion of the public offering.

## AUDITORS' REPORT

To the Directors of  
**2960451 Canada Inc.**  
(operating as Momentum Business Systems)

We have audited the consolidated balance sheets of **2960451 Canada Inc. (operating as Momentum Business Systems)** as at September 30, 1999 and 1998, and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

Montreal, March 22, 2000  
(except for note 18(c) which is as of • , 2000)

Chartered Accountants

## AUDITORS' REPORT

To the Directors of  
**2960451 Canada Inc.**  
(operating as Momentum Business Systems)

We have audited the statement of earnings, retained earnings and cash flows of **2960451 Canada Inc.** (operating as Momentum Business Systems) for the year ended September 30, 1997. These statements are the responsibility of the company's management. Our responsibility is to express an opinion on these statements based on our audits.

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

In our opinion, these statements present fairly, in all material respects, the results of its operations and the cash flows for the year then ended September 30, 1997 in accordance with generally accepted accounting principles.

Montreal, November 21, 1997

Chartered Accountants

**2960451 CANADA INC.**  
**(operating as Momentum Business Systems)**  
**BALANCE SHEETS**

	December 31, 1999 (Consolidated) (Unaudited) \$	September 30, 1999 (Consolidated) \$	1998 \$
<b>ASSETS</b>			
<b>Current</b>			
Cash .....	—	—	239,420
Accounts receivable (note 3) .....	2,169,179	2,323,551	1,009,685
Prepays .....	26,620	29,100	4,526
Investment tax credits receivable .....	1,027,038	780,851	616,998
Loans receivable .....	584,677	445,466	10,000
	3,807,514	3,578,968	1,880,629
<b>Capital assets (note 4) .....</b>	<b>249,716</b>	<b>227,815</b>	<b>297,836</b>
<b>Assets under capital lease (note 5) .....</b>	<b>446,028</b>	<b>463,619</b>	<b>212,595</b>
<b>Goodwill (note 6) .....</b>	<b>304,598</b>	<b>273,357</b>	<b>—</b>
<b>Loans receivable (note 7) .....</b>	<b>8,000</b>	<b>8,000</b>	<b>19,320</b>
	4,815,856	4,551,759	2,410,380
<b>LIABILITIES AND SHAREHOLDERS' INTERESTS</b>			
<b>Current</b>			
Bank indebtedness (note 8) .....	1,053,935	512,511	—
Accounts payable .....	533,035	711,089	818,459
Income taxes payable .....	—	908	63,748
Dividend payable .....	1,200,000	—	—
Current portion of long-term debt .....	558,672	533,670	66,672
Current portion of obligations under capital lease .....	196,992	153,062	55,134
	3,542,634	1,911,240	1,004,013
<b>Long-term debt (note 9) .....</b>	<b>436,096</b>	<b>477,766</b>	<b>94,436</b>
<b>Obligations under capital lease (note 10) .....</b>	<b>352,359</b>	<b>385,218</b>	<b>168,378</b>
<b>Shareholders' interests (note 11) .....</b>	<b>481,357</b>	<b>475,146</b>	<b>—</b>
	4,812,446	3,249,370	1,266,827
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (note 12) .....	192	192	192
Retained earnings .....	3,218	1,302,197	1,143,361
	3,410	1,302,389	1,143,553
	4,815,856	4,551,759	2,410,380

On behalf of the board

(Signed) LORNE SCHWARTZ  
Director

(Signed) DOMENIC DURANTE  
Director

*See notes to financial statements*

**2960451 CANADA INC.**  
**(operating as Momentum Business Systems)**  
**STATEMENTS OF EARNINGS AND RETAINED EARNINGS**

	Eight months ended December 31,	Three months ended December 31,		Years ended September 30,		
	1999	1999	1998	1999	1998	1997
	(Consolidated) (Unaudited) \$	(Consolidated) (Unaudited) \$	(Unaudited) \$	\$	\$	\$
<b>Revenue</b> . . . . .	6,300,190	2,263,977	1,279,346	7,409,791	4,488,837	3,618,750
<b>Cost of sales</b> . . . . .	2,710,308	1,087,403	544,397	2,956,897	1,523,397	1,477,951
<b>Gross margin</b> . . . . .	3,589,882	1,176,574	734,949	4,452,894	2,965,440	2,140,799
<b>Expenses</b>						
Selling . . . . .	1,622,228	687,642	324,209	1,878,169	944,484	517,810
Administrative . . . . .	1,408,865	496,328	409,007	2,006,597	1,305,900	1,033,091
Amortization of capital assets	144,112	60,037	65,292	247,647	191,421	104,997
Amortization of goodwill . . .	8,034	8,034	—	—	—	—
Interest on long-term debt . .	74,772	32,345	9,252	67,991	21,770	2,168
Other interest . . . . .	48,821	19,084	5,068	58,660	21,483	6,209
	3,306,832	1,303,470	812,828	4,259,064	2,485,058	1,664,275
<b>Earnings (loss) before income taxes</b> . . . . .	283,050	(126,896)	(77,879)	193,830	480,382	476,524
<b>Income taxes (recovered)</b> . . .	42,000	(27,917)	(19,053)	34,994	77,881	61,823
<b>Net earnings (loss)</b> . . . . .	241,050	(98,979)	(58,826)	158,836	402,501	414,701
<b>Retained earnings, beginning of period</b> . . . . .	962,168	1,302,197	1,143,361	1,143,361	916,280	501,579
<b>Dividends</b> . . . . .	(1,200,000)	(1,200,000)	—	—	(175,420)	—
<b>Retained earnings, end of period</b> . . . . .	3,218	3,218	1,084,535	1,302,197	1,143,361	916,280

*See notes to financial statements*

**2960451 CANADA INC.**  
**(operating as Momentum Business Systems)**  
**STATEMENTS OF CASH FLOWS**

	Three months ended December 31,		Years ended September 30,		
	1999 (Consolidated) (Unaudited) \$	1998 (Unaudited) \$	1999 (Consolidated) \$	1998 \$	1997 \$
<b>Cash flows from (used in) operating activities</b>					
Net earnings (loss) . . . . .	(98,979)	(58,826)	158,836	402,501	414,701
Items not affecting cash:					
Amortization . . . . .	68,071	65,292	247,647	191,421	104,997
Writedown of leasehold improvements . . . . .	—	—	—	—	32,093
Loss (gain) on disposal of capital assets . . . . .	—	—	—	1,860	3,633
	<u>(30,908)</u>	<u>6,466</u>	<u>406,483</u>	<u>595,782</u>	<u>555,424</u>
Changes in non-cash working capital components relating to operations (note 17) . . . . .	(268,297)	(569,308)	(1,470,714)	(641,474)	87,880
	<u>(299,205)</u>	<u>(562,842)</u>	<u>(1,064,231)</u>	<u>(45,692)</u>	<u>643,304</u>
<b>Financing activities</b>					
Loans receivable — corporate shareholders . . . . .	(139,211)	(49,832)	(434,146)	250,000	(250,000)
Loan receivable — director . . . . .	—	—	10,000	10,000	12,000
Repayment of long-term debt . . . . .	(16,668)	(16,668)	(66,672)	(48,892)	(80,000)
Assumption of long-term debt . . . . .	—	—	917,000	200,000	—
Repayment of obligations under capital lease . . . . .	(14,467)	(13,384)	(55,134)	(22,989)	—
Dividends . . . . .	—	—	—	(175,420)	—
	<u>(170,346)</u>	<u>(79,884)</u>	<u>371,048</u>	<u>212,699</u>	<u>(318,000)</u>
<b>Investing activities</b>					
Acquisition of capital assets . . . . .	(38,809)	(19,655)	(58,748)	(149,576)	(313,565)
Disposal of capital assets . . . . .	—	—	—	2,500	12,843
Acquisition of goodwill . . . . .	(33,064)	—	—	—	—
	<u>(71,873)</u>	<u>(19,655)</u>	<u>(58,748)</u>	<u>(147,076)</u>	<u>(300,722)</u>
<b>Decrease in cash position . . . . .</b>	<b>(541,424)</b>	<b>(662,381)</b>	<b>(751,931)</b>	<b>19,931</b>	<b>24,582</b>
<b>Cash and cash equivalents, beginning . . . . .</b>	<b>(512,511)</b>	<b>239,420</b>	<b>239,420</b>	<b>219,489</b>	<b>194,907</b>
<b>Cash and cash equivalents, ending . . . . .</b>	<b><u>(1,053,935)</u></b>	<b><u>(422,961)</u></b>	<b><u>(512,511)</u></b>	<b><u>239,420</u></b>	<b><u>219,489</u></b>

*See notes to financial statements*

**2960451 CANADA INC.**  
**(operating as Momentum Business Systems)**  
**NOTES TO FINANCIAL STATEMENTS**

**1. NATURE OF OPERATIONS**

The company provides computer consulting services, software and training to a diverse clientele across North America.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**a) Amortization**

Amortization is calculated on the declining balance basis at the following annual rates:

Office equipment . . . . .	20% declining balance basis
Furniture and fixtures . . . . .	20% declining balance basis
Computer equipment . . . . .	3 years straight line basis
Leasehold improvements . . . . .	5 years straight line basis

**b) Principles of Consolidation**

The consolidated September 30, 1999 financial statements include the accounts of the company and its wholly owned subsidiary Acceleron Solutions Inc. "Acceleron".

**c) Revenue recognition**

Revenue from the sale of products is recognized on shipment. Service and consulting revenue is recognized on a percentage-of-completion basis using staff hours as a computation basis.

**d) Research and development costs**

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. No development costs have been deferred by the company.

**e) Goodwill**

Goodwill arising on the acquisition of Acceleron is amortized on a straight-line basis over 10 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.

**f) Government assistance**

The company makes periodic applications for financial assistance under available government incentive programs. Government assistance relating to expenses is recorded against the related expenses when the assistance is approved.

**g) Foreign currency translation**

Accounts in foreign currencies have been translated into Canadian dollars as follows:

Monetary items . . . . .	at exchange rates in effect as at the balance sheet date;
Non-monetary items . . . . .	at exchange rates in effect on the dates of the transactions;
Revenue and expenses . . . . .	at the average rates prevailing during the year;

Gains and losses arising from foreign currency translation are included in income.

**h) 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.

**2960451 CANADA INC.**  
**(operating as Momentum Business Systems)**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

i) **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.

j) **Share-based compensation**

No compensation expense is recognized for these plans when shares or share-based options are issued to employees.

k) **Financial instruments**

The carrying values of accounts receivable, investment tax credit receivable, loan receivable, bank indebtedness, accounts payable and dividend payable approximate their fair values due to the short term maturity of these instruments.

**3. 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 23% (September 30, 1999 — 37%; 1998 — 0%) of its total accounts receivable. Revenue from the same customer represented approximately 28% of revenue for the three months ended December 31, 1999 (year ended September 30, 1999 — 11%; year ended September 30, 1998 — 0%).

**4. CAPITAL ASSETS**

	Cost \$	Accumulated Amortization \$	Net September 30,		Net December 31, 1999
			1999 \$	1998 \$	1999 \$
			(Consolidated)		(Consolidated) (Unaudited)
Office equipment . . . . .	67,670	30,787	36,883	31,460	35,038
Furniture and fixtures . . . . .	132,587	58,338	74,249	86,440	76,142
Computer equipment . . . . .	394,202	362,887	31,315	75,685	55,534
Leasehold improvements . . . . .	122,988	37,620	85,368	104,251	83,002
	<u>717,447</u>	<u>489,632</u>	<u>227,815</u>	<u>297,836</u>	<u>249,716</u>

**5. ASSETS UNDER CAPITAL LEASE**

	Cost \$	Accumulated Amortization \$	Net September 30,		Net December 31, 1999
			1999 \$	1998 \$	1999 \$
			(Consolidated)		(Consolidated) (Unaudited)
Furniture and fixtures . . . . .	210,593	44,098	166,495	109,962	162,805
Computer equipment . . . . .	405,812	108,688	297,124	102,633	283,223
	<u>616,405</u>	<u>152,786</u>	<u>463,619</u>	<u>212,595</u>	<u>446,028</u>

**2960451 CANADA INC.**  
**(operating as Momentum Business Systems)**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**6. GOODWILL**

Cost \$	Accumulated Amortization \$	Net September 30,		Net December 31, 1999 \$
		1999 \$	1998 \$	
		(Consolidated)		(Consolidated) (Unaudited)
<u>273,357</u>	<u>—</u>	<u>273,357</u>	<u>—</u>	<u>304,598</u>

During the three month period ended December 31, 1999, the company increased goodwill for an adjustment made to the stated capital of the issued Class C preferred shares as described in note 11 and an additional adjustment which was made to the purchase price of the acquisition of Acceleron. Both these adjustments were made pursuant to contingent consideration paid subsequent to acquisition.

**7. LOANS RECEIVABLE**

	December 31, 1999 \$	September 30,	
	(Consolidated) (Unaudited)	1999 \$	1998 \$
a) <b>Director</b>			
This unsecured, non-interest bearing loan maturing April 2001, represents the amount authorized by the directors by virtue of employment, for the purpose of acquiring a home and is repayable in annual installments of \$10,000 . . . . .	18,000	18,000	28,000
b) <b>Corporate Shareholders</b>			
These loans are unsecured, non-interest bearing, have no specific terms of repayment and \$481,357 will be repaid pursuant to the transaction described in note 18(a) and the remaining is expected to be repaid prior to October 1, 2000 . . . . .	<u>574,677</u>	<u>435,466</u>	<u>1,320</u>
	592,677	453,466	29,320
Less: current portion	<u>(584,677)</u>	<u>(445,466)</u>	<u>(10,000)</u>
	<u>8,000</u>	<u>8,000</u>	<u>19,320</u>

**8. BANK INDEBTEDNESS**

The company has access to a credit facility in the amount of \$1,000,000 subject to certain margin requirements concerning accounts receivable. This credit facility bears interest at the company's bank prime rate plus 1% per annum and is secured by a movable hypothec on accounts receivable. The banking agreement also contains requirements for minimum working capital, debt to equity and tangible net worth. The company is in compliance with these covenants with the exception of the minimum tangible net worth. As at September 30, 1999, the company had received a waiver from its bank concerning this covenant.

**2960451 CANADA INC.**  
**(operating as Momentum Business Systems)**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**9. LONG-TERM DEBT**

	December 31, 1999 \$ <u>(Consolidated)</u> <u>(Unaudited)</u>	<u>September 30,</u> 1999 \$ <u>(Consolidated)</u>		1998 \$ <u>(Consolidated)</u>
a) This bank loan matures once the company receives its 1999 research and development tax credit, bears interest at the company's bank prime rate plus 1% per annum and is secured by the company's investment tax credits receivable . . . . .	417,000	417,000		—
b) This bank loan matures February 2001, bears interest at the company's bank prime rate plus 2.25% per annum and is secured by computer equipment, furniture and fixtures and office equipment having a carrying value of approximately \$126,000. It is repayable in monthly installments of \$5,556 plus interest . . . . .	77,768	94,436		161,108
c) This bank loan matures March 2004, bears interest at the company's bank prime plus 3% per annum and is secured by the intellectual property of the "In Motion" and "Boomerang" software. It is repayable in monthly installments of \$8,333 plus interest beginning in April 2000 . .	500,000	500,000		—
	<u>994,768</u>	<u>1,011,436</u>		<u>161,108</u>
Less: current portion . . . . .	(558,672)	(533,670)		(66,672)
	<u>436,096</u>	<u>477,766</u>		<u>94,436</u>

The aggregate capital repayments in subsequent years of long-term debt will be:

Fiscal year ending:	\$
2000 . . . . .	533,670
2001 . . . . .	127,760
2002 . . . . .	99,996
2003 . . . . .	99,996
2004 . . . . .	99,996
2005 . . . . .	50,018
	<u>1,011,436</u>

**2960451 CANADA INC.**  
**(operating as Momentum Business Systems)**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**10. OBLIGATIONS UNDER CAPITAL LEASE**

	December 31, 1999 \$ <u>(Consolidated)</u> (Unaudited)	<u>September 30,</u> 1999      1998 \$            \$ <u>(Consolidated)</u> <u>(Consolidated)</u>	
a) This loan matures in May 2001, bears interest at 7.81% per annum and is secured by furniture and fixtures and computer equipment, having a carrying value of approximately \$109,000. It is repayable in monthly installments of \$5,545 combining capital and interest . . . . .	101,369	115,836	170,971
b) This loan matures in February 2003, bears interest at 8.92% per annum and is secured by furniture and fixtures and computer equipment, having a carrying value of approximately \$336,000. It is repayable in monthly installments of \$12,936 combining capital and interest . . . . .	447,982	422,444	52,541
	<u>549,351</u>	<u>538,280</u>	<u>223,512</u>
Less: current portion . . . . .	<u>(196,992)</u>	<u>(153,062)</u>	<u>(55,134)</u>
	<u>352,359</u>	<u>385,218</u>	<u>168,378</u>

The aggregate repayments in subsequent years of the minimum lease payments under the capital leases will be:

Fiscal year ending:	\$
2000 . . . . .	195,905
2001 . . . . .	199,916
2002 . . . . .	155,561
2003 . . . . .	<u>64,805</u>
Total minimum lease payments . . . . .	616,187
Less: interest . . . . .	<u>(77,907)</u>
	<u>538,280</u>

**11. SHAREHOLDERS' INTERESTS**

The company's issued capital includes 2 Class C preferred shares having the characteristics described in note 12 below.

These shares were issued on July 1, 1999, in consideration of the purchase of the issued share capital of Acceleron as described in note 14. During the three month period ended December 31, 1999, the stated capital of the shares was increased by \$6,211 on the settlement of contingent consideration for this purchase.

These shares have been recorded at their aggregate redemption amount.

**12. SHARE CAPITAL**

The company is incorporated under the Canada Business Corporations Act.

**2960451 CANADA INC.**  
**(operating as Momentum Business Systems)**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**12. SHARE CAPITAL (Continued)**

**Authorized**

An unlimited number of shares without par value classified as follows:

- Class A preferred, voting, non-cumulative dividend of 1% — 15% per annum on the amount of issued consideration, non-participating, redeemable and retractable at the amount of issued consideration
- Class B preferred, non-voting, non-cumulative dividend of 1% — 15% per annum on the amount of issued consideration, non-participating, redeemable and retractable at the amount of issued consideration
- Class C preferred, non-voting, non-cumulative dividend of 1% — 15% per annum on the amount of issued consideration, non-participating, retractable at the amount of issued consideration
- Class D preferred, voting, non-cumulative dividend of 1% — 15% per annum on the amount of issued consideration, non-participating, redeemable at the amount of issued consideration
- Class A common, voting
- Class B common, non-voting

	December 31, 1999 \$	September 30,	
	(Consolidated) (Unaudited)	1999 \$	1998 \$
<b>Issued</b>			
15,000,000 Class A common shares . . . . .	192	192	192

- a) On September 29, 1999, the company exchanged the 192 issued class A common shares for 15,000,000 class B common shares.
- b) On September 30, 1999, the company exchanged the 15,000,000 issued class B common shares for 15,000,000 class A common shares.
- c) As at December 31, 1999 the company has the following commitments for the issuance of shares:
  - (i) On October 30, 1998, the company granted to two employees options to acquire a total of 21.3333 Class A common shares for an aggregate exercise price of \$300,000. This represented a 10% ownership in the company. Following the transactions referred to in (b) and (c) above, the number of shares under the agreement became 1,666,666.
  - (ii) On September 30, 1999, the company adopted a Stock Option Plan (the "1999 SOP") which is administered by the Board of Directors. The maximum number of shares available under this plan shall not exceed 15% of the issued and outstanding participating shares of the company. The options would allow an employee to share in the company's value based on his length of experience and job classification. The exercise price for the options is based on an employee's length of experience with the company and the value of the company at the time the options are granted to the employee.

As a result of the 1999 SOP the following options are outstanding:

As of	Cumulative Exercise price \$	Cumulative Number of Options
September 30, 1999 . . . . .	291,550	861,000
December 31, 1999 . . . . .	328,350	921,000
March, 22, 2000 . . . . .	697,993	1,449,275

**2960451 CANADA INC.**  
**(operating as Momentum Business Systems)**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**13. RESEARCH AND DEVELOPMENT COSTS**

During the periods, the company incurred scientific research and experimental development costs net of tax credits which were charged to operations. The net scientific research and experimental development costs are as follows:

	December 31,		September 30,	
	1999 \$	1998 \$	1999 \$	1998 \$
	(Consolidated) (Unaudited)	(Unaudited)	(Consolidated)	
Scientific research and experimental development costs . . .	324,000	162,000	982,000	616,000
Tax credits . . . . .	217,000	140,000	781,000	528,000
Net expenditures . . . . .	107,000	22,000	201,000	88,000

**14. BUSINESS COMBINATION**

a) On July 1, 1999, the company acquired all of the outstanding shares of Acceleron. Acceleron provides computer consulting services across Canada. The acquisition was accounted for using the purchase method and the purchase price was allocated in the following manner:

	\$
Total identifiable assets . . . . .	350,396
Goodwill . . . . .	273,357
Total liabilities . . . . .	(148,607)
	475,146

b) On October 1, 1999, the company wound-up Acceleron. The following net assets were recorded upon wind-up:

	\$
Total identifiable assets . . . . .	306,340
Goodwill . . . . .	273,357
Total liabilities . . . . .	(113,310)
Absorption of deficit . . . . .	8,759
	475,146

As a result of the above distribution of net assets, the company removed its investment in Acceleron, recorded goodwill of \$273,357 and absorbed a cumulative deficiency since acquisition of \$8,759.

**15. GOVERNMENT ASSISTANCE**

During the periods, the company received government assistance towards the hiring and training of new employees, which has been recorded as a reduction of cost of sales. These amounts are contingently repayable should the company not comply with certain terms and conditions as defined in the related agreements. The amounts recorded are as follows:

	\$
December 31, 1999 . . . . .	77,000
December 31, 1998 . . . . .	15,000
September 30, 1999 . . . . .	245,000
September 30, 1998 . . . . .	340,000

**2960451 CANADA INC.**  
**(operating as Momentum Business Systems)**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**16. COMMITMENT**

The minimum annual rent payable under long-term operating leases, exclusive of certain operating costs for which the company is responsible, is approximately as follows:

Fiscal year ending September 30:	\$
2001 .....	348,000
2002 .....	341,000
2003 .....	305,000
2004 .....	263,000
2005 .....	87,000
	<u>1,344,000</u>

**17. SUPPLEMENTARY INFORMATION TO CASH FLOW STATEMENT**

a) **Statements of cash flows**

The company has adopted the new recommendations of the Canadian Institute of Chartered Accountants on statements of cash flows. The recommendations require the company to provide information on the changes in cash and short-term investment 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) **Changes in non-cash working capital items are as follows:**

	December 31, 1999 \$	December 31, 1998 \$	September 30, 1999 \$	September 30, 1998 \$	September 30, 1997 \$
	(Consolidated) (Unaudited)	(Unaudited)	(Consolidated)		
Accounts receivable .....	154,372	(261,053)	(1,313,866)	(439,282)	39,220
Prepays .....	2,480	—	(24,574)	10,673	10,233
Accounts payable .....	(178,054)	(190,738)	(107,370)	32,869	445,943
Investment tax credit receivable .....	(246,187)	(95,009)	(163,853)	(326,482)	(290,516)
Income taxes payable .....	(908)	(22,508)	(62,840)	80,748	(117,000)
Increase in working capital due to subsidiary acquisition (note 14(a)) .	—	—	201,789	—	—
	<u>(268,297)</u>	<u>(569,308)</u>	<u>(1,470,714)</u>	<u>(641,474)</u>	<u>87,880</u>

c) **Included in cash flows provided by operating activities are the following items:**

	December 31, 1999 \$	December 31, 1998 \$	September 30, 1999 \$	September 30, 1998 \$	September 30, 1997 \$
	(Consolidated) (Unaudited)	(Unaudited)	(Consolidated)		
Interest paid .....	51,429	14,320	126,651	43,253	8,377
Income taxes paid .....	908	63,748	97,834	2,867	(178,823)
	<u>52,337</u>	<u>78,068</u>	<u>224,485</u>	<u>46,120</u>	<u>(170,446)</u>

**2960451 CANADA INC.**  
**(operating as Momentum Business Systems)**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**17. SUPPLEMENTARY INFORMATION TO CASH FLOW STATEMENT (Continued)**

d) **Acquisition of capital assets**

	December 31, 1999 \$	December 31, 1998 \$	September 30, 1999 \$	September 30, 1998 \$	September 30, 1997 \$
	(Consolidated) (Unaudited)	(Unaudited)	(Consolidated)		
Cost of capital assets . . . . .	64,347	192,466	428,650	396,078	313,565
Capital leases assumed . . . . .	(25,538)	(172,811)	(369,902)	(246,502)	—
	38,809	19,655	58,748	149,576	313,565

**18. SUBSEQUENT EVENTS**

- a) On February 17, 2000, the company repurchased for cancellation, the 2 issued Class C preferred shares for a total consideration of \$481,357. This liability was settled through a reduction in the loans receivable from the corporate shareholders.
- b) On December 20, 1999, the company obtained a new lease credit facility in the amount of \$150,000 for the purchase of furniture and fixtures and computer equipment that will serve as security for this loan. This facility was subsequently increased to \$225,000 on March 17, 2000. The leasing application expiry date is March 31, 2000 at which time, the final repayment terms will be determined. As at March 22, 2000, approximately \$170,000 has been disbursed. Until the expiry date this facility bears interest at 8.3% per annum.
- c) On April 4, 2000, the shareholders of the company signed an agreement authorizing an "en bloc" sale of its shares to a third party.

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



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## **COMPILATION REPORT**

To the Directors of OnX Incorporated

We have reviewed, as to compilation only, the accompanying pro forma consolidated balance sheet of OnX Incorporated as at December 31, 1999 and the pro forma consolidated statement of income for the eight-month period ended December 31, 1999 and for the year ended April 30, 1999 which have been prepared for inclusion in the prospectus of OnX Incorporated relating to issue and sale of 3,810,000 common shares. In our opinion, the pro forma consolidated balance sheet and the pro forma consolidated statements of operations have been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

Chartered Accountants

Toronto, Canada  
April 6, 2000

**ONX INCORPORATED**  
**PRO FORMA CONSOLIDATED BALANCE SHEET**

**December 31, 1999**  
**(unaudited)**

	ONYX Computers Incorporated December 31, 1999	2960451 Canada Inc. December 31, 1999	Pro forma adjustments	Pro forma December 31, 1999
	(Unaudited)	(Unaudited)	(note 3)	(Unaudited)
<b>Assets</b>				
<b>Current assets:</b>				
Cash . . . . .	\$ —	\$ —	\$(13,085,000) (a) 35,723,318 (b)	\$20,108,456
Accounts receivable . . . . .	24,989,711	2,169,179		27,158,890
Advances to related parties . . . . .	153,379	—		153,379
Investment tax credits receivable . . . . .	—	1,027,038		1,027,038
Inventories . . . . .	7,825,573	—		7,825,573
Prepaid expenses and other assets . . . . .	817,648	26,620		844,268
Loans receivable . . . . .	—	592,677		592,677
	33,786,311	3,815,514	22,638,318	57,710,281
Capital assets . . . . .	5,765,469	695,744		6,461,213
Deferred development costs . . . . .	1,400,812	—		1,400,812
Goodwill, net of accumulated amortization . . . . .	2,840,624	304,598	21,032,590 (a)	24,177,812
Investment and other . . . . .	498,911	—		498,911
Deferred income taxes . . . . .	648,867	—	1,600,000 (b)	2,248,867
	\$44,940,994	\$4,815,856	\$ 45,270,908	\$92,497,896
<b>Liabilities and Shareholders' Equity</b>				
<b>Current liabilities:</b>				
Bank indebtedness . . . . .	\$ 1,475,927	\$1,053,935		\$ —
Accounts payable and accrued liabilities . . . . .	16,697,793	533,035	100,000 (a) 1,000,000 (b)	18,330,828
Payable to Docu.Max vendors . . . . .	589,965	—		589,965
Deferred revenue . . . . .	56,699	—		56,699
Income taxes payable . . . . .	1,193,010	—		1,193,010
Dividend payable . . . . .	—	1,200,000	(1,200,000) (b)	—
Current portion of term loans/long-term debt . . . . .	776,921	558,672		1,335,593
Current portion of obligation under capital lease . . . . .	—	196,992		196,992
	20,790,315	3,542,634	(100,000)	21,703,087
Term loans . . . . .	—	436,096		436,096
Convertible debentures . . . . .	754,000	—		754,000
Obligations under capital lease . . . . .	—	352,359		352,359
Redeemable preferred shares . . . . .	—	481,357	(481,357) (b)	—
<b>Shareholders' equity:</b>				
Capital stock . . . . .	3,941,033	192	7,851,000 (a) (192) (a) 36,404,675 (b) 1,600,000 (b)	49,796,708
Warrants . . . . .	17,775,761	—		17,775,761
Retained earnings . . . . .	1,679,885	3,218	(3,218) (a)	1,679,885
	23,396,679	3,410	45,852,265	69,252,354
	\$44,940,994	\$4,815,856	\$ 45,270,908	\$92,497,896

*See accompanying notes to pro forma consolidated financial statements.*

**ONX INCORPORATED**  
**PRO FORMA CONSOLIDATED STATEMENT OF INCOME**  
**Eight-month period ended December 31, 1999**  
**(Unaudited)**

	<u>ONYX Computers Incorporated December 31, 1999</u>	<u>2960451 Canada Inc. December 31, 1999</u>	<u>Pro forma adjustments (note 3)</u>	<u>Pro forma December 31, 1999</u>
	(Unaudited)	(Unaudited)		(Unaudited)
Revenue . . . . .	\$70,839,374	\$6,300,190	\$	\$77,139,564
Cost of sales . . . . .	55,276,260	2,710,308		57,986,568
	15,563,114	3,589,882		19,152,996
Expenses:				
Selling . . . . .	7,023,694	1,622,228		8,645,922
Administrative . . . . .	5,049,126	1,408,865		6,457,991
Amortization of capital assets . . . . .	724,386	144,112		868,498
Amortization of goodwill . . . . .	223,490	8,034	2,003,000(a)	2,234,524
Interest on long-term debt . . . . .	—	74,772		74,772
Other interest and bank charges . . . . .	608,401	48,821		657,222
	<u>13,629,097</u>	<u>3,306,832</u>	<u>2,003,000</u>	<u>18,938,929</u>
Income before the undernoted . . . . .	1,934,017	283,050	(2,003,000)	214,067
Loss on disposal of investments . . . . .	(102,280)	—		(102,280)
Income before income taxes . . . . .	1,831,737	283,050	(2,003,000)	111,787
Income taxes:				
Current . . . . .	1,170,000	42,000		1,212,000
Deferred . . . . .	(171,929)	—		(171,929)
	<u>998,071</u>	<u>42,000</u>		<u>1,040,071</u>
Net income (loss) . . . . .	<u>\$ 833,666</u>	<u>\$ 241,050</u>	<u>\$(2,003,000)</u>	<u>\$ (928,284)</u>

*See accompanying notes to pro forma consolidated financial statements.*

**ONX INCORPORATED**  
**PRO FORMA CONSOLIDATED STATEMENT OF INCOME**  
**Year ended April 30, 1999**  
**(Unaudited)**

	ONX Incorporated, April 30, 1999 <small>(Audited)</small>	2960451 Canada Inc., September 30, 1999 <small>(Audited)</small>	Pro forma adjustments <small>(note 3)</small>	Pro forma, April 30, 1999 <small>(Unaudited)</small>
Revenue . . . . .	\$149,076,770	\$7,409,791	\$	\$156,486,561
Cost of sales . . . . .	120,021,248	2,956,897		122,978,145
	29,055,522	4,452,894		33,508,416
Expenses:				
Selling . . . . .	11,667,840	1,878,169		13,546,009
Administrative . . . . .	6,714,126	2,006,597		8,720,723
Amortization of capital assets . . . . .	758,765	247,647		1,006,412
Amortization of goodwill . . . . .	245,420	—	3,005,000(a)	3,250,420
Interest of term loans . . . . .	177,249	67,991		245,240
Other interest and bank charges . . . . .	969,518	58,660		1,028,178
	20,532,918	4,259,064	3,005,000	27,796,982
Income before income taxes . . . . .	8,522,604	193,830	(3,005,000)	5,711,434
Income taxes:				
Current . . . . .	4,287,381	34,994		4,322,375
Deferred . . . . .	75,000	—		75,000
	4,362,381	34,994		4,397,375
Net income . . . . .	<u>\$ 4,160,223</u>	<u>\$ 158,836</u>	<u>\$(3,005,000)</u>	<u>\$ 1,314,059</u>

*See accompanying notes to pro forma consolidated financial statements.*

**ONX INCORPORATED**  
**NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**  
**Eight-month period ended December 31, 1999**  
**(Unaudited)**

**1. Basis of presentation:**

These pro forma consolidated financial statements have been prepared by management of OnX Incorporated ("OnX") to give effect to the following

- (a) the proposed acquisition by OnX of 100% of the issued and outstanding shares of 2960451 Canada Inc.
- (b) the public offering of 3,810,000 common shares of OnX on April 6, 2000 at a price of \$10.50 per common share, net of underwriters commission of \$2,600,325 and estimated professional fees of approximately \$1,000,000 for estimated total net proceeds of \$36,404,695.

Completion of these transactions is subject to regulatory approval, closing conditions and finalizing the agreement with the minority shareholders.

The pro forma consolidated financial statements as at and for the eight-month period ended December 31, 1999 are based on the unaudited consolidated balance sheet and consolidated statement of income of OnX as at December 31, 1999 and the unaudited consolidated balance sheet and consolidated statement of earnings of 2960451 Canada Inc. as at and for the eight-month period ended December 31, 1999. The pro forma consolidated statement of earnings for the year ended April 30, 1999 is based on the audited consolidated statement of income of OnX as at April 30, 1999 and the audited consolidated statement of earnings of 2960451 Canada Inc. as at and for the year ended September 30, 1999. The above financial statements should be read in conjunction with such statements which are set out separately in the prospectus.

The transaction between 2960451 Canada Inc. and OnX is accounted for under the purchase method of accounting. The purchase consideration reflected in the accompanying pro forma consolidated financial statements is preliminary. The final allocation of the aggregate purchase consideration may differ from the preliminary allocation included herein which may result in significant differences in certain pro forma adjustments.

The pro forma consolidated balance sheet gives effect to the transactions as at December 31, 1999 and the pro forma consolidated statement of income for the eight-month period ended December 31, 1999 and for the year ended April 30, 1999 gives effect to the transactions as if they had taken place at the beginning of each period. The pro forma consolidated financial statements are not necessarily indicative of the actual results that would have occurred had the proposed transactions occurred on the dates indicated and not necessarily indicative of future earnings or financial position.

**2. Pro forma assumptions and adjustments:**

The pro forma consolidated financial statements have been prepared to give effect to the following transactions:

- (a) On April 4, 2000, the Company entered into an agreement to acquire all of the issued and outstanding shares of 2960451 Canada Inc. doing business as Momentum Business Systems, a provider of computer consulting services, software and training. Consideration to be paid in connection with this acquisition will be approximately \$21.0 million in cash and shares. The number of common shares issued will be determined based on 90% of the initial public offering price.

The acquisition will be accounted for by the purchase method with the results of operations of the acquired entity included in the financial statements of the Company from the date of acquisition. For purposes of the pro forma consolidated balance sheet and statements of operation, the purchase price has been allocated to the assets acquired and liabilities assumed using estimates of their fair values as at December 31, 1999 as follows:

Assets acquired:	
Net working capital . . . . .	\$ 3,815,514
Capital assets . . . . .	695,744
Goodwill . . . . .	21,337,188
Indebtedness assumed:	
Bank indebtedness . . . . .	(1,053,935)
Accounts payable and accrued liabilities . . . . .	(533,035)
Dividends payable . . . . .	(1,200,000)
Other long term debt . . . . .	(2,025,476)
	<u>\$21,036,000</u>
Consideration given:	
Cash . . . . .	\$13,085,000
Common shares . . . . .	7,851,000
Estimated acquisition costs . . . . .	100,000
	<u>\$21,036,000</u>

For purposes of the pro forma financial information, goodwill is being amortized on a straight-line basis over 7 years.

**ONX INCORPORATED**  
**NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**Eight-month period ended December 31, 1999**  
**(Unaudited)**

**2. Pro forma assumptions and adjustments: (Continued)**

- (b) On April 6, 2000, the Company agreed to issue 3,810,000 common shares for net proceeds of \$36,404,675 after commissions and estimated costs of issue.

**3. Pro forma adjustments:**

- (a) To give effect to the acquisition of 2960451 Canada Inc., including:

- (i) the payment of the consideration detailed in note 2(a);
- (ii) the elimination of the share capital and retained earnings of 2960451 Canada Inc.;
- (iii) the allocation of the excess of consideration over the fair value of the net assets acquired to goodwill; and
- (iv) amortization expense on goodwill arising on the acquisition being amortized over seven years in the statements of income.

- (b) To give effect to:

- (i) the issuance of 3,810,000 common shares for net proceeds of \$36,404,675;
- (ii) the repayment of dividends payable and redemption of redeemable preferred shares totalling \$1,691,357; and
- (iii) the income tax benefit of share issue costs in the amount of \$1,600,000.

**CERTIFICATE OF THE COMPANY**

Dated: April 14, 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), and by Part XV of the *Securities Act* (Ontario), 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) DAVID ANDREWS  
Chief Financial Officer

On behalf of the Board of Directors

(Signed) PHILLIP A. DELEON  
Director

(Signed) GARY STEINHART  
Director

## CERTIFICATE OF THE UNDERWRITER

Dated: April 14, 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), and by Part XV of the *Securities Act* (Ontario), and the respective regulations thereunder. To our knowledge, this prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed hereunder within the meaning of the *Securities Act* (Quebec) and the regulation thereunder.

YORKTON SECURITIES INC.

By: (Signed) NELSON SMITH

*On*  *.COM*